



Arab Open University

Faculty of Business Studies

B124: Fundamentals of Accounting

Summer 2018-2019

Mid-term Exam – V.1 MG

Tuesday 07/09/2019

Number of Exam Pages: 7	Time Allowed: Two Hours
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(including this cover sheet)

Instructions:

- This examination contains **Four** compulsory questions. All questions in total are marked out of 100 and are worth 30% of the overall assessment component.
- Use the Answer Booklet provided to you to answer the questions, and do not forget to write your name, your ID number, and section number in the specified space on the cover of the Answer Booklet.
- Read each question carefully and make sure that you understand it before you begin answering.
- In questions that require calculations, credit will be given for showing your detailed workings.
- Programmable calculators are not permitted or to share, or to pass them between each other in an examination. Also, you are not permitted to use calculators with word processing capabilities.
- Keep in mind that any form of cheating will not be tolerated and will subject you to AOU Cheating Policy.

Question 1 (20 marks)

A-What is the basic accounting equation? Define its elements (Components). Give two examples for each element (5 marks)

Answer

Assets = liabilities + capital (owner's equity) (.5 Mark)

Assets: the economic resources belonging to a business. (What the business owns). Examples include: Cash, receivables, property, fixtures and furniture, equipment, motor vehicles, inventory of goods for resale...etc. (1.5 Marks: .5 mark for definition and .5 mark for each example)

Liabilities: the debts owed by the business. (What the business owes) Examples include: Payables, bank overdrafts, bank loans...etc. (1.5 Marks: .5 mark for definition and .5 mark for each example)

Capital: is the value of the investment in the business by the owner(s).It is that part of the business that belongs to the owner; hence it is often described as the owner's equity. (The monetary value of the owner's investment in the business).Examples include: money or assets Introduced by the owner plus profits earned (revenues- expenses), less money taken out of the business (known as drawings). (1.5 Marks: .5 mark for definition and .5 mark for each example)

B- Give an example of a business transaction that would:

- 1- Cause both total assets and total liabilities to decrease with no effect on owners' equity
- 2- Cause both total assets and total liabilities to increase with no effect on owners' equity
- 3- Cause both total assets and owners' equity to decrease with no effect on total liabilities
- 4- Cause both total assets and owners' equity to increase with no effect on total liabilities

(8 Marks)

Answer

1-	Paying a liability in cash / Repaying a loan
2-	Buying an asset on account
3-	Cash expenses / cash withdrawals
4-	Cash Revenues

C- Complete the following table for each element: (7 Marks) (.25 mark for each item) (.25 × 28 items)

	Asset(A) /Liability (L) /Equity (E)	Normal Balance Dr/Cr	When increased Dr/Cr	When Decreased Dr/Cr
Drawings	E	Dr.	Dr.	Cr.
Inventory	A	Dr.	Dr.	Cr.

Capital	E	Cr.	Cr.	Dr.
Accounts payable	L	Cr.	Cr.	Dr.
Supplies Expense	E	Dr.	Dr.	Cr.
Service Revenue	E	Cr.	Cr.	Dr.
Supplies	A	Dr.	Dr.	Cr.

Question 2 (27 marks)

Ahmad practices medicine under the business title Ahmad, M.D. During July 2018, the medical practice completed the following transactions:

- Jul. 1 Ahmad contributed \$60,000 cash to the business.
- 5 Paid monthly rent on medical equipment, \$3,500 and electricity bill \$1,500.
- 10 Purchased land for \$26,000 and building for \$14,000 paying \$15,000 cash and the remaining amount will be paid after 10 days.
- 19 Borrowed \$10,000 from the bank for business use.
- 22 Paid the amount due to creditors
- 28 Revenues earned during the month included \$6,000 cash and \$6,000 on account.
- 31 Ahmad paid \$7,000 tuition fees of his son from the medical practice bank account.

Required:

1. Make the required journal entries for the previous transactions. **(18 marks)**
2. Post the Jul. transactions and balance off:
 - a- The Cash ledger account
 - b- The Accounts payable ledger account **(9 marks)**

Answer

√ .5 mark each. $36 \times .5 = 18$ marks

Date	Accounts and Explanation	Debit	Credit
July 1	Cash√ Capital√	60,000√	60,000√
5	Rent Expense√ Electricity Expense√ Cash√	3,500√ 1,500√	5,000√
10	Land√ Building√ Cash√ Accounts Payable√	26,000√ 14,000√	15,000√ 25,000√

19	Cash✓ Notes Payable✓	10,000✓	10,000✓
22	Accounts Payable✓ Cash✓	25,000✓	25,000✓
28	Cash✓ Accounts Receivable✓ Service Revenue✓	6,000✓ 6,000✓	12,000✓
31	Withdrawals✓ Cash✓	7,000✓	7,000✓

✓ .5 mark each. $12 \times .75 = 9$ marks

Cash

	Debit		Credit
Jul. 1	60,000✓	Jul. 2	5,000✓
Jul. 19	10,000 ✓	Jul. 10	15,000✓
Jul. 28	6,000 ✓	Jul. 22	20,000✓
		Jul. 28	7,000✓
		Jul. 31	Balance c/d
	<u>76,000✓</u>		<u>29,000✓</u>
Aug. 1	Balance b/d		<u>76,000</u>
	29,000✓		

Accounts payable

	Debit		Credit
Jul. 22	<u>25,000✓</u>	Jul. 10	<u>25,000✓</u>
	<u>25,000</u>		<u>25,000</u>

Question 3 (26 marks)

A- The following information pertains to Farah Company for July 2019:

Cash \$50,000 – Service revenues \$25,000 – Salaries expense \$18,000 – utilities expense \$3,000 – rent expense \$2,000 – Drawings \$3,000.

Required: Calculate the net income for Farah Company for July 2019. (7 marks)

Answer

✓ 1.mark each. (7 × 1) = 7 marks

**Farah Company
Income Statement
For the month ended July 31, 2019**

Revenues		
Service revenue		\$25,000 ✓
Expenses		
Salaries Expense	\$18,000 ✓	
Utilities Expense	3,000 ✓	
Rent Expense	<u>2,000</u> ✓	
Total expenses		(23,000) ✓
Net Income		\$2,000 ✓✓

The student can answer the question using the equation format;

$$\text{Net income} = \text{Revenues} - \text{Expenses}$$

B- The adjusted trial balance of Nour’ Training Center at Dec.31, 2018 follows:

Nour’ Training Center
Adjusted Trial Balance
December 31, 2018

	Debit	Credit
Cash	\$ 12,000	
Accounts Receivable	\$ 11,500	
Supplies	500	
Building	90,000	
Computer	20,000	
Land	242,000	
Accounts Payable		70,000
Notes Payable		35,000
Bank Loan		6,000
Drawings	2,000	
Capital		264,000
Net profit		<u>3,000</u>
Totals	<u>\$378,000</u>	<u>\$378,000</u>

Required:

Prepare Classified Balance Sheet as at 31, Dec.2018. (19 Marks)

Answer:

✓ 1 mark each. (1 × 19) = 19 marks

**Nour' Training Center
Balance sheet
as at 31 December 2018 ✓**

	\$	\$
Non-current assets		
Land	242,000 ✓	
Building	90,000 ✓	
Equipment (Computer)	20,000 ✓	
		352,000 ✓
Current assets		
Supplies	500 ✓	
Accounts Receivable	11,500 ✓	
Cash	<u>12,000 ✓</u>	
		<u>24,000 ✓</u>
Total assets		<u>376,000 ✓</u>
Capital		
Opening balance	264,000 ✓	
Add: Capital introduced	---	
Add: Net profit	3,000 ✓	
Less: Drawings	<u>(2,000) ✓</u>	
Closing balance		265,000 ✓
Non-current liabilities		
Bank loan		6,000 ✓
Current liabilities		
Accounts Payable	70,000 ✓	
Notes Payable	35,000 ✓	
		105,000 ✓
Total capital and liabilities		<u>376,000 ✓</u>

Question 4 (27 marks)

Al-Maraii Company, maintains milk inventory by the gallon. The first month's milk purchases and sales are as follow:

Nov. 2	Purchased 11 gallons @ \$2.00 each
6	Purchased 2 gallons @ \$2.65 each
8	Sold 3 gallons of milk to a customer
13	Purchased 2 gallons @ \$2.70 each
14	Sold 3 gallons of milk to a customer

Requirements

- Calculate the cost of closing inventory and cost of goods sold using AVCO inventory costing method. (24 marks)

Answer

AVCO inventory costing method.

Date	Purchases			Cost of Goods Sold			Inventory on Hand		
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Nov.2	11✓	2✓	22✓				11✓	2✓	22✓
6	2✓	2.65✓	5.30✓				13✓✓	2.1✓✓	27.30✓✓
8				3✓	2.1✓	6.3✓	10✓	2.1✓	21✓
13	2✓	2.70✓	5.40✓				12✓✓	2.2✓✓	26.40✓✓
14				3✓	2.2✓	6.6✓	9✓	2.2✓	19.8✓
				Cost of goods sold		\$12.9✓✓	Cost of ending inventory		\$19.8✓✓

✓ .6 mark each. (.6 × 40) = 24 marks

- Calculate the gross profit under this method. The sales price per gallon is \$3.20 (3 marks)

	AVCO	
Sale [6×3.20]	✓ 19.20	1.25 marks
(-) C.O.G.S	✓ 12.90	.5 marks
Gross Profit	✓ 6.3	1.25 marks

[END OF MG]