



Arab Open University

Faculty of Business Studies

B124: Fundamentals of Accounting

Summer 2018-2019

Mid-term Exam – (Makeup) MG

Tuesday xx/xx/2019

Number of Exam Pages: 8

(including this cover sheet)

Time Allowed: Two Hours

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 (17 marks)

A- 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
Withdrawals	E	Dr.	Dr.	Cr.
Equipment	A	Dr.	Dr.	Cr.
Capital	E	Cr.	Cr.	Dr.
Bank Loan	L	Cr.	Cr.	Dr.
Supplies Expense	E	Dr.	Dr.	Cr.
Service Revenue	E	Cr.	Cr.	Dr.
Supplies	A	Dr.	Dr.	Cr.

B- Choose the correct answer for the following items. (10 marks, 1 mark each)

1) Which of the following users would rely on managerial accounting information for decision-making purposes?

- A) company managers
- B) creditors
- C) customers
- D) potential investors

2) Which of the following statements is true of a corporation?

- A) Corporations pay the same variety of taxes as other forms of business.
- B) Although a corporation is a separate legal entity, it cannot be sued.
- C) Any stockholder of a corporation can commit the corporation to a binding contract.
- D) The owners of a corporation are called stockholders.

3) As per the _____, the entity will remain in operation for the foreseeable future.

- A) economic entity concept
- B) monetary unit assumption
- C) going concern assumption
- D) cost principle

4) The equity of Autumn Company is \$160,000 and the total liabilities are \$50,000. The total assets are _____.

- A) \$320,000
- B) \$210,000
- C) \$110,000
- D) \$100,000

5) Accord Corporation purchased land for \$50,000 by making a cash payment of \$15,000 and promising to pay the remaining amount in a later accounting period. What is the net effect of this transaction on Accord's accounting equation?

- A) assets increase by \$50,000 and liabilities decrease by \$15,000
- B) assets increase by \$50,000 and liabilities decrease by \$35,000
- C) assets and equity increase by \$35,000

- D) assets and liabilities increase by \$35,000
- 6) Which of the following is an external user of a business's financial information?
 A) customers
 B) cost accountant
 C) company manager
 D) the board of directors
- 7) GAAP refer to guidelines for accounting information in the United States. The acronym GAAP in this statement refers to _____.
 A) Globally Accepted and Accurate Policies
 B) Global Accommodation Accounting Principles
 C) Generally Accredited Accounting Policies
 D) Generally Accepted Accounting Principles
- 8) Which one of the following account groups normally has a credit balance?
 A) assets and expenses
 B) revenues and expenses
 C) liabilities and revenues
 D) assets and liabilities
- 9) Transactions are first recorded in a _____.
 A) journal
 B) trial balance
 C) chart of accounts
 D) ledger
- 10) Which of the following is the record holding all the accounts and their balances?
 A) Source document
 B) Journal
 C) Ledger
 D) Trial balance

Answer:

1	2	3	4	5	6	7	8	9	10
A	D	C	B	D	A	D	C	A	D

(10 Marks)

Question 2 (29 marks)

The transactions for Jenny Hotpoint's business for May 2017 are shown below.

- 1 May Started a business with £140,000, which has been paid into a business bank account
- 2 May Bought hairdryers and other equipment for £90,000
- 3 May Bought furniture for the hairdressing salon for £40,000
- 6 May Bought some hairdressing supplies (inventory) on credit from Salon Supplies for £6,000
- 10 May Returned some faulty furniture and received a refund of £3,000
- 11 May Took some money out of the business bank account for own use £500
- 20 May Received 10,000 for services provided to customers
- 28 May Paid £3,000 for rent of the salon

Required:

- 1. Make the required journal entries for the previous transactions. (20 marks)
- 2. Post the May transactions and balance off:
 - a- The Bank ledger account
 - b- The Furniture ledger account (9 marks)

Answer

√ 1.25 mark each. 16 × 1.25 = 20 marks

Date	Explanation	Dr.	Cr.
May 1	Bank (Cash)√	140,000	
			Capital√
			140,000
May 2	Equipment√	90,000	
			Bank√
			90,000
May 3	Furniture√	40,000	
			Bank√
			40,000
May 6	Inventory√	6,000	
			Payables√
			6,000
May 10	Bank√	3,000	
			Furniture√
			3,000
May 11	Drawings√	500	
			Bank√
			500
May 20	Bank√	10,000	
			Service revenues√
			10,000
May 28	Rent Expense√	3,000	
			Bank√
			3,000

√ .6 mark each. 15 × .6 = 9 marks

Bank

	Debit		Credit
2017	£	2017	£
May 1	140,000√	May 2	90,000√
May 10	3,000√	May 3	40,000√
May 20	10,000√	May 11	500√
		May 28	3,000√
		May 31	Balance c/d
			<u>19,500√</u>
			<u>153,000√</u>
June 1	Balance b/d		
	19,500√		

Furniture

	Debit		Credit
2017	£	2017	£
May 3	40,000√	May 10	3,000√
		May 31	Balance c/d
			<u>37,000√</u>
			<u>40,000√</u>
June 1	Balance b/d		
	37,000√		

Question 3 (30 marks)

A- Habiba prepares her business accounts for the year ending 31 March each year. At 31 March 2019 the following general ledger balances were available:

Trial balance	Debit	Credit
Equipment	30,000	
Motor vehicle	68,000	
Inventory at 31 March 2019	32,000	
Receivables	9,200	
Bank	48,200	
payables		7,400
Bank loan		26,000
Capital balance at 1 April 2018		65,200
Capital introduced		10,000
Drawings	2,400	
Net profit		81,200
	<u>189,800</u>	<u>189,800</u>

Required: Prepare a classified balance sheet for Habiba as at 31 March 2019. (17 Marks)

√ 1 mark each. 17 × 1 = 17 marks

Habiba Company
Balance sheet as at 31 March 2019 ✓

	£	£
Non-current assets		
Equipment	30,000 ✓	
Motor vehicles	<u>68,000</u> ✓	
		98,000 ✓
Current assets		
Inventory	32,000 ✓	
Receivables	9,200 ✓	
Bank	<u>48,200</u> ✓	
		<u>89,400</u> ✓
Total assets		<u>187,400</u> ✓
Capital		
Opening balance		65,200 ✓
Add: Capital introduced		10,000 ✓
Net profit		<u>81,200</u> ✓
		156,400
Less: Drawings		<u>(2,400)</u> ✓
		154,000 ✓
Non-current liabilities		
Bank loan		26,000 ✓
Current liabilities		
Payables		7,400 ✓
Total capital and liabilities		<u>187,400</u> ✓

B- Nour prepares her business accounts for the year ending 31 March each year. At 31 March 2018 the following general ledger balances were available:

Building 190,000 - Furniture 78,800- Supplies 12,000 - Cash 20,200 – Notes payable 12,000 Capital ??? - Drawings 1,000 - Revenues 20,000 - Salaries expense 8,000 - Rent expense 2,000

Required: Prepare a trial balance at March 31, 2018, and calculate the balance of Capital (13 Marks)

Answer

√ 1 mark each

**Nour Company
Trial Balance at March 31, 2018**

Account Name	Debit	Credit
Building	190,000√	
Furniture	78,800√	
Supplies	12,000√	
Cash	20,200√	
Notes payable		12,000√
Capital		280,000√√
Drawings	1,000√	
Revenues		20,000√
Salaries Expense	8,000√	
Rent Expense	2,000√	
	312,000√	312,000√

Capital = 312,000 – (12,000 + 20,000) = 280,000

Question 4 (24 marks)

(A) Calculate the cost of closing inventory and cost of goods sold from the following figures using: AVCO method. (21 marks)

2017	Purchases	2017	Sales (At Selling Price)
April	60 at £15 each	July	76 at £31 each
June	36 at £17 each	December	50 at £33 each
November	68 at £19 each		

AVCO inventory costing method

√ .7 marks each. 30 × .7 = 21 marks

Date	Purchases			Costs of goods sold			Inventory on hand		
	Quantity	Cost/Unit	Total Cost	Quantity	Cost/Unit	Total Cost	Quantity	Average cost	Total Cost

April	60✓	\$15	\$900✓				60✓	\$15	\$900✓
June	36✓	\$17	\$612✓				60✓ 36✓ 96	\$15.75✓ ✓	\$900✓ \$612✓ \$1512
July				76✓	\$15.75	\$1197 ✓	20✓	\$15.75	\$315✓
November	68✓	\$19	\$1292 ✓				20✓ 68✓ 88	\$18.26✓	\$315✓ \$ 1292✓ \$1607
December				50✓	\$18.26	\$913✓	38✓	\$18.26	\$694✓
Balance				Cost of goods sold✓ 2,110			Cost of ending inventory✓ 694		

(B) Calculate the gross profit under this method. (3 marks)

	AVCO	
Sale [76×31] + [50×33]	✓ 4,006	1.25 marks
(-) C.O.G.S	✓ 2,110	.5 marks
Gross Profit	✓ 1896	1.25 marks

[END OF MG]