*Mohamed Khidher University Branch: business Finance*

*Faculty of economics, Commercial and Management Sciences*

*Academic year 2019/2020*

***Exercises series N° 05***

***Exercise 1***

Choose the correct answer for each of the following questions:

1. Under the accrual basis of accounting, revenues are reported in the accounting period when the
2. Service Or Goods Have Been Delivered)
3. Cash Is Received Service Or Goods Have Been Delivered)
4. Revenues minus expenses equals profit
5. Obligations (amounts owed) are reported on the balance sheet and are referred to as liabilities
6. Accounting entries involve a minimum of how many accounts?
7. One **b)** Two **c)** Three
8. When cash is received, the account Cash will be

**a)** Debited **b)** Credited

Use the following information for questions 6 through 9 :  
A company using the accrual method of accounting performed services on account in June. The services were for $3,000 and the company gave the customer credit terms that state the amount is to be paid to the company in July.

1. What will be the account **debited** for $3,000 in **June**?
2. Cash **b)** Accounts Receivable **c)** Service Revenue
3. Which account should the company **credit** for $3,000 in **June**?
4. Cash **b)** Accounts Receivable **c)** Service Revenue
5. In **July** when the company receives the $3,000 from the customer, which account should the company **debit**?
   1. Cash **b)** Accounts Receivable **c)** Service Revenue
6. In **July** when the company receives the $3,000 from the customer, which account should the company **credit**?
   1. Cash **b)** Accounts Receivable **c)** Service Revenue
7. To **increase** the balance in the following accounts, would you debit the account or would you credit the account?

Accounts Payable **a)** Debit **b)** Credit

Cash **a)** Debit **b)** Credit

Land **a)** Debit **b)** Credit

Notes Payable **a)** Debit **b)** Credit

Accounts Receivable **a)** Debit **b)** Credit

Mary Smith, Capital **a)** Debit **b)** Credit

Supplies **a)** Debit **b)** Credit

Supplies Expense **a)** Debit **b)** Credit

Prepaid Insurance **a)** Debit **b)** Credit

Service Revenue **a)** Debit **b)** Credit

Mary Smith, Drawing **a)** Debit **b)** Credit

Equipment **a)** Debit **b)** Credit

Unearned Revenue **a)** Debit **b)** Credit

1. Client Mary Smith pays ABC Co. $2,000 in October for ABC to perform services for Mary Smith in 35 days. ABC uses the accrual basis of accounting. In October ABC will debit Cash for $2,000. What will be the other account involved in the October accounting entry prepared by ABC (and what type of account is it)?
   1. Accounts Receivable **b)** Prepaid Services **c)** Service Revenues **d)**Unearned Revenues

ABC Co. performed services for Client Jay in September and billed Jay $5,000 with terms of net 30 days. ABC follows the accrual basis of accounting. In October ABC received the $5,000 from Jay. In October ABC will debit Cash, since cash was received. What account should ABC credit in the October entry?

1. Accounts Receivable **b)** Service Revenue **c)** Deffered revenued
2. On December 1 a company borrowed $100,000 at 12% per year. The interest will be paid quarterly, with the first payment due on March 1. What should the company report on its income statement for December?
3. Nothing **b)** Interest Expense Of $1,000 **c)** Interest expense of $300

1. A total of expenses and net profit is equal to:
2. Net loss b) revenue **c)** net profit **d)** gross profit
3. Excess of expenditure over income is:
4. Net loss **b)** revenue **c)** net profit **d)** gross profit
5. Creditors means
6. Who has to pay the amount **b)** who purchases good on credit

**c)** who sells goods on credit **d)** owner of business

***exercise 2***

Use the informations in the table below to prepare an income statement and balance sheet for the company « X ».

|  |  |
| --- | --- |
| **Account** | **Amount ( $ )** |
| Cash at bank | 90 000 |
| Account payable | 50 000 |
| Account receivable | 74 000 |
| Accrued wages | 80 000 |
| Inventory | 90 000 |
| Prepaid insurance | 8 000 |
| Loan | 180 000 |
| Machinery | 210 000 |
| Land | 150 000 |
| Rent expense | 40 000 |
| Share capital | 144 000 |
| Accumulated depreciation | 80 000 |
| Goodwill | 15 000 |
| Bonds payable | 78 000 |
| Depreciation expense | 18 000 |
| Sales | 1 900 000 |
| Selling expenses | 180 000 |
| Wage paid | 600 000 |
| Interest expense | 42 000 |
| Cost of good sold | 1000 000 |
| Income tax expenses | 18 000 |
| General and administrative expenses | 62 000 |
| General reserve | 50 000 |
| Retained earning | 35000 |

1. Income statement of the company “X”
2. Balance sheet
3. **Income statement of the company A**

|  |  |
| --- | --- |
| account | Amount $ |
| Sales | 1 900 000 |
| Cost of good sold | 1000 000 |
| Gross profit | **900 000** |
| Selling expenses | 180 000 |
| Deprecia expense-equipment | 18 000 |
| Wage paid | 600 000 |
| Genneral and administration expenses | 62 000 |
| Operationg profit | **40 000** |
| Interest expense | 42 000 |
| Rent expense | 40 000 |
| Non operating profit | **-42 000** |
| Income tax expense | 18 000 |
| Net Loss | **60 000** |

1. **Balance sheet of the company A**

|  |  |
| --- | --- |
| Assets | Liabilities |
| **Current assets**  Cash 90 000  Account receivable 74000  Inventory 90 000  Prepaid insurance 8 000  **Total current asset 262 000**  **Property, plant and equipment**  Land 150 000  Machinery 210 000  Accum depreciation (80 000)  **Net PP&E 280 000**  **Goodwill 15 000**  **Total assets 557 000** | **Current liabilities**  Account payable 50 000  Wage payable 80 000  **Total current liabilities 130 000**  **Long term liabilities**  Loan 180 000  Bond payable 78 000  **Total long term liabilities 258 000**  **Total liabilities 388 000**  **Stock holders’equity**  Share capital 144 000  Retained earning 3 5000  General reserve 50 000  **Total stockholders’equity 229000**  **loss 60 000**  **Total liabilities 557 000** |