



THE ANSWERS MUST BE ATTEMPTED ON THE ANSWER SHEET PROVIDED

Q.1. Answer the following short questions.

(6x5=30)

1. In general terms, what are revenues and expenses? How are they related in the determination of an enterprise's net income or net loss?
2. What is the basic accounting equation? Briefly define the three primary elements in the equation.
3. Discuss the relationship among the income statement, the statement of retained earnings, and the balance sheet.
4. Do adjusting entries affect income statement accounts, balance sheet accounts, or both? Explain.
5. Briefly explain the concept of *materiality*. If an item is not material, how is the item treated for financial reporting purposes?
6. Discuss the relationship among the income statement, the statement of retained earnings, and the balance sheet.

Answer the following long questions.

(2x15=30)

Question NO. 2

(15 Marks)

The cash transactions and cash balances of Dodge, Inc., for November were as follows:

1. The ledger account for Cash showed a balance at November 30 of \$6,750.
2. The November bank statement showed a closing balance of \$4,710.
3. The cash received on November 30 amounted to \$3,850. It was left at the bank in the night depository chute after banking hours on November 30 and therefore was not recorded by the bank on the November statement.
4. Also included with the November bank statement was a debit memorandum from the bank for \$15 representing service charges for November.
5. A credit memorandum enclosed with the November bank statement indicated that a noninterest-bearing note receivable for \$4,000 from Wright Sisters, left with the bank for collection, had been collected and the proceeds credited to the account of Dodge, Inc.
6. Comparison of the paid checks returned by the bank with the entries in the accounting records revealed that check no. 810 for \$430, issued November 15 in payment for computer equipment, had been erroneously entered in Dodge's records as \$340.
7. Examination of the paid checks also revealed that three checks, all issued in November, had not yet been paid by the bank: no. 814 for \$115; no. 816 for \$170; no. 830 for \$530.
8. Included with the November bank statement was a \$2,900 check drawn by Steve Dial, a customer of Dodge, Inc. This check was marked "NSF." It had been included in the deposit of November 27 but had been charged back against the company's account on November 30.

Instructions

- a. Prepare a bank reconciliation for Dodge, Inc., at November 30.

Question NO. 3**(15 Marks)**

Mystic Masters, Inc., provides fortune-telling services over the Internet. In recent years the company has experienced severe financial difficulty. Its accountant prepares adjusting entries on a *monthly* basis, and closing entries on an *annual* basis, at December 31. An *adjusted* trial balance dated December 31, 2011, follows.

	<u>Debits</u>	<u>Credits</u>
Cash	\$ 960	
Accounts receivable	300	
Unexpired insurance	2,000	
Prepaid rent	1,500	
Supplies	200	
Furniture and fixtures	8,400	
Accumulated depreciation: furniture and fixtures		\$ 5,200
Accounts payable		6,540
Notes payable		24,000
Salaries payable		1,700
Interest payable		360
Unearned client revenue		200
Capital stock		4,000
Retained earnings		2,600
Client revenue earned		52,000
Insurance expense	6,000	
Office rent expense	9,000	
Supplies expense	440	
Salary expense	48,000	
Depreciation expense: furniture and fixtures	1,400	
Office and telephone expense	3,000	
Internet service expense	4,900	
Legal expense	1,500	
Interest expense	4,000	
Miscellaneous expense	5,000	
	<u>\$96,600</u>	<u>\$96,600</u>

Instructions

- a. Prepare an income statement and statement of retained earnings for the year ended December 31, 2011. Also prepare the company's balance sheet dated December 31, 2011. (Hint: The company incurred no income taxes expense in 2011.)