

I. MULTIPLE CHOICE: Select the best answer. (45)

- 1) A corporation reported 19X net income of \$156,000. On January 1, 19X, 60,000 shares of common stock were outstanding. An additional 10,000 shares were sold and issued on April 1 and, on October 1, 5,000 shares were purchased as treasury stock. Earnings per share (rounded to the nearest cent) is:
- \$2.32
 - \$2.35
 - \$2.40
 - \$2.60
 - None of the above
- 2) Extraordinary items:
- Are defined as those items which are either unusual in nature or infrequent in occurrence.
 - Are not included in net income.
 - May include prior period adjustments.
 - All of the above.
 - None of the above.
- 3) At the end of its first year of operations, and before the adjusting entries at December 31, 19C, a company had a balance in accounts receivable of \$125,000. The 19C adjustments included a \$1,000 writeoff of an uncollectible account and recording bad debt expense of \$1,750. What should the company report on its statement of financial position at December 31, 19C, as net accounts receivable?
- \$124,000
 - \$128,000
 - \$124,250
 - \$123,250
 - None of the above
- 4) On January 1, 19A an operational asset was purchased that had a list price of \$35,000 (estimated useful life 5 years, residual value \$5000), terms 3/10, n/60. Freight and installation costs paid were \$2,550. The invoice was paid on January 5, 19A. The machine will be depreciated on the SYD basis; therefore, the depreciation expense for 19B should be:
- \$8,000
 - \$8,680
 - \$10,500
 - \$8,400
 - None of the above
- 5) A small corporation reported revenues of \$28,000 using a cash basis accounting system. Total customer payments received but not earned were \$2,100. Services performed but not yet collected amounted to \$3,400. Expenses incurred but not yet paid totaled \$400. Expenses paid but not yet incurred totaled \$125. What total revenue amount should the company report under the accrual system?
- \$29,825
 - \$29,550
 - \$29,250
 - \$29,300
 - None of the above
- 6) Inventory items purchased on credit that are correctly debited to 19B purchases, but not properly included in the 19B ending inventory cause:
- 19B assets to be understated and 19B pretax income to be overstated.
 - Both 19B pretax income and 19B assets to be understated.
 - Both 19B assets and pretax income to be overstated.
 - Both accounts payable for 19B and 19B pretax income to be overstated.
 - None of the above.
- 7) The percentage-of-completion and completed contract methods of accounting for long-term construction contracts differ in the following ways except:
- One requires estimates of completion during the construction period and the other does not.
 - One records income(loss) each period during the construction period and the other one does not.
 - They report different inventory amounts during the construction period.
 - They cause a different cash inflow during the construction period.
 - All of the above are differences.
- 8) The following data are available for 19A (in 000's):
- | | |
|---|------|
| Retained earnings, January 1, 19A..... | \$54 |
| Prior period adjustment (a debit, pretax and subject to tax) .. | 15 |
| Net income (after tax)..... | 25 |
| Dividends declared (cash)..... | 11 |
- The income tax rate is 40%.
- The balance of retained earnings at December 31, 19A, was:
- \$59
 - \$77
 - \$79
 - \$83
 - None of the above
- 9) In evaluating a company's ability to repay a 60-day loan, a creditor would probably be most interested in which of the following ratios?
- The debt ratio
 - The price-earnings ratio
 - The quick ratio
 - The number of times interest earned

A company began business on January 1, 19A. Information about its ending inventories under various valuation methods is given below. Using this information you are to choose the best answer to each of the following three questions.

	Ending Inventory			
	LIFO Cost	FIFO Cost	Market	Lower-of Cost-or-Market
December 31, 19A	\$10,200	\$10,000	\$ 9,600	\$ 8,900
December 31, 19B	9,100	9,000	8,800	8,500
December 31, 19C	10,300	11,000	12,000	10,900

- 10) The inventory basis which would show the highest income for 19A is:
 a. LIFO cost b. FIFO cost
 c. Market d. Lower-of-cost-or-market
- 11) The inventory basis which would show the highest income for 19B is:
 a. LIFO cost b. FIFO cost
 c. Market d. Lower-of-cost-or-market
- 12) For the year 19B, how much higher or lower would income be on the FIFO cost basis than on the lower-of-cost-or-market basis?
 a. \$400 higher b. \$400 lower
 c. \$600 higher d. \$600 lower
- 13) Under a job-order system of cost accounting, the dollar amount of the journal entry for transferring inventory from work-in-process to finished goods is the sum of the costs charged to all jobs
 a. started in process during the period.
 b. in process during the period.
 c. completed and sold during the period.
 d. completed during the period.
- 14) A company had income of \$50,000 using variable costing for a given period. Beginning and ending inventories for that period were 13,000 units and 18,000 units, respectively. Ignoring income taxes, if the budgeted fixed overhead rate was \$2.00 per unit, what was the operating income using absorption costing?
 a. \$40,000 b. \$50,000
 c. \$60,000 d. None of the above
- 15) In a JIT costing system, factory overhead applied is charged directly to:
 a. raw and in-process inventories
 b. cost of goods sold
 c. finished goods inventory
 d. work in process

II. (14)

Hartman Editorial Services has entered into the following two transactions involving trade-ins of plant assets:
 (A) A truck which had cost \$12,000 was traded-in on a new truck with a list price of \$16,800. The trade-in allowance on the old truck was \$4,500, and the remaining \$12,300 was paid in cash. At the date of the trade-in, the old truck had been fully depreciated to its estimated residual value of \$2,000.
 (B) A word processor with a cost of \$6,700 was traded-in on a new word processor with a list price of \$7,900. The trade-in allowance was \$500, with the remaining \$7,400 cost being paid in cash. At the date of this transaction, the accumulated depreciation on the old word processor amounted to \$3,200.

- (1) Prepare journal entries to record each of these exchange transactions. Assume all dollar amounts are material. (The asset accounts used for trucks and for word processors are entitled Vehicles and Office Equipment, respectively.)
 (2) Compute the depreciation expense that Hartman Editorial Services will recognize for financial statement purposes on each of the newly acquired assets in the year of acquisition. Assume that each asset will be depreciated over five years using the straight-line method, with an estimated residual value of \$2,000.

III. (12)

The financial statement of Forsby Corporation provides the following information for the current year:

	Dec. 31	Jan. 1
Accounts receivable	\$35,000	\$41,000
Inventory	41,000	46,000
Prepaid expenses	2,500	1,000
Accounts payable (for merchandise)	23,000	26,000
Accrued liabilities	4,000	2,000
Net sales	350,000	
Cost of goods sold	180,000	
Operating expenses (including depreciation of \$15,000)	120,000	

Using this information, compute for the current year:

- (1) Cash received from customers
- (2) Cash payments for purchases of merchandise
- (3) Cash payments for operating expenses
- (4) Net cash flow from operating activities

IV. (183)

Goldman Company has two products, a standard (M) and a deluxe (N) version of a luggage carrier. The income budget follows.

	M	N	TOTAL
Sales in units	150,000	50,000	200,000
Sales @ \$20 and \$30	\$3,000,000	\$1,500,000	\$4,500,000
Variable expenses @ \$14 and \$18	2,100,000	900,000	3,000,000
Contribution margins @ \$6 and \$12	\$ 900,000	\$ 600,000	\$1,500,000
Fixed expenses			1,200,000
Net income			\$ 300,000

- (1) Compute the breakeven point in units, assuming that the planned sales mix is maintained.
- (2) Compute the breakeven point in units if (a) only M were sold and (b) if only N were sold.
- (3) Suppose 200,000 units were sold, but only 20,000 were N. Compute the net income. Compute the breakeven point if these relationships persisted in the next period. Compare your answers with the original plans and the answer in requirement 1. That is, what is the major lesson of this problem?

V. (111)

The following information pertains to Graham Company. The June 30, 1991, bank reconciliation follows:

	Cash Account	Bank Statement
Balance on June 30	\$25,524.48	\$24,859.08
Add: Deposit not credited by bank		1,256.80
Total		\$26,115.88
Deduct: Outstanding checks:		
No. 724	\$ 24.60	
No. 888	20.00	
No. 898	191.40	
No. 897	250.20	
No. 898	105.20	
		591.40
Adjusted cash balance, June 30	\$25,524.48	\$25,524.48

The July bank statement appears below:

Balance on July 1	\$24,859.08	
Deposits during July	7,255.92	\$32,115.00
Canceled checks returned:		
No. 724	\$ 24.60	
No. 896	191.40	
No. 897	250.20	
No. 898	105.20	
No. 899	25.14	
No. 900	1,799.40	
No. 902	1,262.56	
No. 904	58.68	
	\$ 3,717.18	
NSF check of Manley Company	186.64	3,903.82
Bank statement balance, July 31		\$26,211.18

The cash receipts deposited in July, including receipts of July 31, amounted to \$6,904.40. Checks written in July are listed below:

No. 899	\$ 25.14
No. 900	1,799.40
No. 901	37.00
No. 902	1,262.56
No. 903	79.60
No. 904	58.68
No. 905	1,458.00
No. 906	20.00

The cash balance per the ledger on July 31, 1991, was \$27,688.50.

Prepare a bank reconciliation as of July 31, 1991, and any necessary journal entry or entries to correct the accounts.