

I. Select the best answer (60%)

Using the following information to answer questions from 1 to 2

Consider the following information:

The general ledger controlling account for Accounts Receivable shows a debit balance of \$50,000. The Allowance for Uncollectible Accounts has a credit balance of \$3,000. Net sales for the year were \$500,000. In the past, 3 percent of sales has proved uncollectible, and an aging of Accounts Receivable resulted in an estimate of \$20,000 of uncollectible accounts receivable.

Use the above information to answer the following question:

1. Using the percentage of net sales method, Uncollectible Accounts Expense would be debited for
 - a. \$15,000.
 - b. \$12,000.
 - c. \$18,000.
 - d. \$20,000.

Use the above information to answer the following question:

2. Using the accounts receivable aging method, the Uncollectible Accounts Expense would be debited for
 - a. \$20,000.
 - b. \$17,000.
 - c. \$23,000.
 - d. \$21,500.

Using the following information to answer questions from 3 to 4

Consider the following information:

A \$40,000, 12 percent, 90-day note dated June 1 is discounted at the bank on July 1 at a discount rate of 15 percent.

Use the above information to answer the following question:

3. The discount amount on the note is
 - a. \$1,200.
 - b. \$1,030.
 - c. \$515.
 - d. \$970.

Use the above information to answer the following question:

4. The amount to be recorded as interest income when the note is discounted is
 - a. \$1,200.
 - b. \$685.
 - c. \$170.
 - d. \$330.

5. Interest on a \$5,000, 90-day, 10 percent note is
- \$1,250.
 - \$125.
 - \$500.
 - \$144.

Using the following information to answer questions from 6 to 7
Consider the following inventory information for the month of June:

June 1	Beginning inventory	10 units @ \$30
5	Purchases	60 units @ \$28
14	Sales	40 units
21	Purchases	30 units @ \$29
30	Sales	28 units

Use the above information to answer the following question:

6. Assuming that a PERIODIC inventory system is used, what is cost of goods sold on a LIFO basis?
- \$916
 - \$926
 - \$1,924
 - \$1,934

Use the above information to answer the following question:

7. Assuming that a PERPETUAL inventory system is used, what is ending inventory on a FIFO basis?
- \$916
 - \$926
 - \$1,924
 - \$1,934
8. A company has a cost of goods available for sale of \$500,000, sales of \$600,000, and a gross profit percentage of 30 percent. Using the gross profit method, what is the ending inventory?
- \$80,000
 - \$320,000
 - \$420,000
 - \$350,000
9. A retail company has beginning inventory of \$15,000, purchases of \$110,000, sales of \$100,000, and a normal gross profit percentage of 25 percent. What is estimated inventory based on these facts and the gross profit method?
- \$25,000
 - \$50,000
 - \$75,000
 - \$100,000
10. A liability is recognized when
- it is paid for.
 - the exact amount of the liability is known.
 - the exact due date is known.
 - an obligation has arisen.

11. The FASB is most concerned about which accounting principle, relative to off-balance-sheet liabilities?
 - a. Matching
 - b. Consistency
 - c. Materiality
 - d. Full disclosure
12. During July, Edtronics sold 100 radios for \$50 each. Each radio had cost Edtronics \$30 to purchase, and carried a two-year warranty. If 5 percent typically need to be replaced over the warranty period and one is actually replaced during July, for what amount in July would Edtronics debit Product Warranty Expense?
 - a. \$150
 - b. \$120
 - c. \$50
 - d. \$30
13. Land and a building on the land are purchased for \$210,000. The appraised values of the land and building are \$30,000 and \$150,000, respectively. The cost allocated to the building should be
 - a. \$35,000.
 - b. \$105,000.
 - c. \$150,000.
 - d. \$175,000.
14. Which of the following methods will result in the highest depreciation in the first year?
 - a. Production
 - b. Sum-of-the-years'-digits
 - c. Double-declining-balance
 - d. More information is needed
15. If an asset cost \$25,000 and has a residual value of \$5,000 and a useful life of five years, the depreciation in the second year, using the sum-of-the-years'-digits method, would be
 - a. \$10,000.
 - b. \$4,000.
 - c. \$7,500.
 - d. \$6,000.
16. If an asset cost \$50,000 and has a residual value of \$5,000 and a useful life of five years, the depreciation in the second year, using the double-declining-balance method, would be
 - a. \$20,000.
 - b. \$18,000.
 - c. \$10,800.
 - d. \$12,000.
17. Which of the following would be considered a revenue expenditure?
 - a. Installation of a heating system
 - b. Addition of a building wing
 - c. Purchase of a microcomputer
 - d. Replacement of a truck's battery

18. Which of the following would be considered a capital expenditure?
- Cost to lubricate a machine
 - Cost to paint the factory wall
 - Cost to acquire a printing press
 - Cost to replace some light bulbs
19. In oil and gas accounting, the successful efforts method
- expenses the cost of dry wells immediately.
 - expenses the cost of successful explorations immediately.
 - is prohibited by the FASB.
 - capitalizes both the cost of successful explorations and the cost of dry wells.
20. The exclusive right to sell a product within a certain geographic area is called a
- copyright.
 - patent.
 - franchise.
 - leasehold.

Using the following information to answer questions from 21 to 22

Consider the following information:

Partners Allen, Smith, and Jones have capital balances in a partnership of \$15,000, \$10,000, and \$20,000, respectively. The losses for the year are \$33,000.

Use the above information to answer the following question:

21. What will the capital balance for Smith be if the three partners share profits and losses at a 4:3:3 ratio?
- \$100 credit balance
 - \$1,000 debit balance
 - \$9,900 debit balance
 - \$1,000 credit balance

Use the above information to answer the following question:

22. What will Smith's capital balance be if Allen gets an \$18,000 salary, Smith gets a \$7,000 salary, and Jones gets a 10 percent interest on his beginning balance with the remainder being divided at a 2:2:1 ratio?
- \$17,000 debit balance
 - \$3,200 debit balance
 - \$7,000 debit balance
 - \$12,800 debit balance

23. Roger invests \$10,000 for a one-third interest in a partnership in which the other partners have capital totaling \$26,000 before admitting Roger. After distribution of the bonus, what is Roger's capital?
- \$5,333
 - \$8,667
 - \$10,000
 - \$12,000
24. When a partner withdraws from a partnership taking assets that represent less than his or her capital balance,
- no bonus results.
 - the withdrawing partner receives a bonus.
 - the remaining partners receive a bonus.
 - the remaining partners owe the withdrawing partner the difference.
25. A disadvantage of the corporate form of business is
- professional management.
 - tax treatment.
 - ease of transfer of ownership.
 - lack of mutual agency.

26. An advantage of the corporate form of business is
- government regulation.
 - tax treatment.
 - lack of mutual agency.
 - possible lack of control by owners.
27. The contributed capital of a corporation does not include
- retained earnings.
 - the stated value of common stock issued.
 - paid-in capital in excess of par value.
 - subscribed shares of stock.
28. The board of directors of Middlesex Corporation declared a cash dividend on January 18, 19x8, to be paid on February 18, 19x8, to shareholders holding the stock on February 2, 19x8. Given these facts, the date February 3, 19x8, is referred to as the
- date of declaration.
 - date of record.
 - payment date.
 - ex-dividend date.

Using the following information to answer questions from 29 to 33

Consider the following information:

Elkins Corporation has 3,000 shares of \$100 par value, 7 percent cumulative preferred stock, and 10,000 shares of \$10 par value common stock outstanding in its first five years of operation. Elkins Corporation paid cash dividends as follows: 19x1, \$14,000; 19x2, \$0; 19x3, \$65,000; 19x4, \$30,000; 19x5, \$15,000.

Use the above information to answer the following question:

29. The amount of dividends the common stockholders received during 19x1 was
- \$0.
 - \$7,000.
 - \$14,000.
 - \$21,000.

Use the above information to answer the following question:

30. The amount of dividends in arrears at the end of 19x2 was
- \$0.
 - \$7,000.
 - \$21,000.
 - \$28,000.

Use the above information to answer the following question:

31. The amount of dividends received by the preferred stockholders during 19x3 was
- \$65,000.
 - \$49,000.
 - \$28,000.
 - \$21,000.

- Use the above information to answer the following question:
32. The amount of dividends received by the common stockholders during 19x4 was
- \$30,000.
 - \$21,000.
 - \$9,000.
 - \$0.

- Use the above information to answer the following question:
33. The amount of dividends received by the preferred stockholders during 19x5 was
- \$21,000.
 - \$15,000.
 - \$6,000.
 - \$0.

34. Which of the following would NOT affect the balance of the Retained Earnings account?
- Prior period adjustment
 - Stock dividend
 - Stock split
 - Gains and losses of a company
35. Which of the following is considered a prior period adjustment?
- Loss on discontinued operations
 - Correction of an error in the financial statement of a prior year
 - Declaration of preferred stock dividend to cover dividend in arrears
 - Loss from flood damage

Using the following information to answer questions from 36 to 37

consider the following information:

Dreyer Corporation has 60,000 shares of \$10 par value common stock outstanding. The following transactions occurred during the year:

March 17 Declared a 10% stock dividend to stockholders of record on March 20. Market value of the stock was \$13 on March 17.

March 30 Distributed the stock dividend.

Use the above information to answer the following question:

36. The entry to record the transaction of March 17 would include
- a credit to Retained Earnings for \$18,000.
 - a credit to Cash for \$78,000.
 - a credit to Common Stock Distributable for \$60,000.
 - a debit to Common Stock Distributable for \$60,000.

Use the above information to answer the following question:

37. The entry to record the transaction of March 30 would include
- a credit to Cash for \$60,000.
 - a debit to Common Stock Distributable for \$60,000.
 - a credit to Paid-in Capital in Excess of Par Value, Common for \$18,000.
 - a debit to Retained Earnings for \$18,000.

Using the following information to answer questions from 38 to 39

Consider the following information:

On January 1, 19x4, Martin Corporation had 40,000 shares of \$10 par value common stock issued and outstanding. All 40,000 shares had been issued in a prior period at \$17 per share. On February 1, 19x4, Martin purchased 1,000 shares of treasury stock for \$19 per share and later sold the treasury shares for \$26 a share on March 2, 19x4.

Use the above information to answer the following question:

38. What amount of gain due to these treasury stock transactions should be reported in the income statement for the year ending December 31, 19x4?
- \$0
 - \$2,000
 - \$7,000
 - \$9,000

Use the above information to answer the following question:

39. The journal entry to record the sale of the treasury shares on March 2, 19x4, would include a
- credit to Retained Earnings for \$7,000.
 - debit to Retained Earnings for \$2,000.
 - credit to a contributed capital account for \$7,000.
 - credit to a gain account for \$9,000.
40. When there is a difference in the timing of revenues and expenses for accounting versus income tax purposes, it is usually necessary to
- adjust accounting income.
 - perform income tax allocation procedures.
 - adjust taxable income.
 - do nothing because such differences are a result of two different sets of rules.

(10%) 2. The following information relates to Hobson Company for 19x7 and 19x8.

Hobson Company Balance Sheet 19x7 and 19x8			
	19x8	19x7	Change
Cash	\$ 31,000	\$ 54,000	\$ (23,000)
Accounts Receivable, Net	411,000	480,000	(69,000)
Inventory	320,000	340,000	(20,000)
Prepaid Expenses	17,000	15,000	2,000
Investments	80,000	80,000	0
Land	350,000	300,000	50,000
Building, Net	680,000	700,000	(20,000)
Equipment, Net	520,000	340,000	180,000
Total Assets	\$2,409,000	\$2,309,000	\$ 100,000
Accounts Payable	\$ 322,000	\$ 335,000	\$ (13,000)
Accrued Liabilities	177,000	170,000	7,000
Income Taxes Payable	22,000	34,000	(12,000)
Bonds Payable	410,000	700,000	290,000
Long-Term Note Payable	140,000	0	140,000
Total Liabilities	\$1,071,000	\$1,239,000	\$ (168,000)
Common Stock	\$ 800,000	\$ 600,000	\$ 200,000
Paid-in Capital in Excess of Par Value	152,000	152,000	0
Retained Earnings	386,000	318,000	68,000
Total Stockholders' Equity	\$1,338,000	\$1,070,000	\$ 268,000
Total Liabilities and Stockholders' Equity	\$2,409,000	\$2,309,000	\$ 100,000

Additional information:

Net income for 19x8 was \$128,000.

Issued a long-term note payable in exchange for computer equipment for \$140,000.

Purchased computer terminals for \$80,000.

Depreciation on equipment for 19x8 was \$40,000.

Depreciation on building for 19x8 was \$20,000.

Reacquired bonds payable at par for \$290,000.

Declared and paid dividends of \$60,000.

Issued 20,000 shares of common stock at par value of \$10 per share.

Invested \$50,000 in land intended for a new plant site.

Prepare a statement of cash flows using the indirect method. Include a schedule of noncash investing and financing transactions, if applicable.

(12%) 3. From the following information, compute the ratios indicated and place the proper numbers in the blanks provided. Round to two decimal places.

Assets	

Cash	\$ 15,000
Marketable Securities	10,000
Accounts Receivable, Net	20,000
Inventory	30,000
Prepaid Assets	8,000
Property, Plant, and Equipment	117,000

Total Assets	\$200,000

Liabilities and Stockholders' Equity	

Current Liabilities	\$ 30,000
Long-Term Liabilities	50,000
Stockholders' Equity	120,000

Total Liabilities and Stockholders' Equity	\$200,000

Sales	\$160,000
Cost of Goods Sold	120,000

Gross Margin	40,000
Operating Expense	20,000

Net Operating Income	20,000
Interest Expense	8,000

Net Income	\$ 12,000

Other Information:	
Number of shares of common stock	4,000
Market price of common stock	\$15
Dividends per share	\$.60

Current ratio	_____
Quick ratio	_____
Receivable turnover	_____
Average days' sales uncollected	_____
Inventory turnover	_____
Profit margin	_____
Asset turnover	_____
Return on assets	_____
Return on equity	_____
Debt to equity ratio	_____
Interest coverage ratio	_____
Price/earnings ratio	_____
Dividend yield	_____

- (6%) 4. King Co. is planning production for the coming year. The information to be used is based on projection of cost information for the current year. Projections of the following costs were given to you:

Variable costs per unit:	
Materials	\$21.20
Direct labor	14.40
Factory overhead	13.60
Selling costs	10.80
Fixed cost estimates:	
Production costs	\$285,600
Selling and administrative costs	442,400

The King Co. sells the product for \$140.00 per unit.

Compute the following, showing your calculations:

- The breakeven point in sales units
- The breakeven point in sales dollars
- The sales level in both sales units and dollars if a net income of \$240,000 is projected

- (6%) 5. Mark's Clothing, Inc., produces a complete line of men's apparel. The shorts set is a very popular item in the southern states. During July, the company's records revealed the following information about production of the shorts set:

Standards:	Materials:	4.5 yards @ \$2.40 per yard
	Direct labor:	1.2 hours @ \$9.50 per hour
	Factory overhead:	
	Variable	\$4.00 per direct labor hour
	Fixed	\$5.25 per direct labor hour

During July, the following isolated transactions took place:

- July 6 Purchased 1,400 yards of material costing \$3,700.
10 Requisitioned 200 yards of material into production for a job calling for 40 shorts sets.
16 Paid payroll for jobs in which 1,300 shorts sets were produced: 1,440 hours, \$13,824.

- Compute the standard unit cost for a shorts set.
- Prepare journal entries for the three transactions listed, assuming that the materials price variance is recorded at the time of purchase.