

Accounting 500
Exam 1

Name _____ Social Security _____

Please place the answer to the multiple choice section of the exam in the spaces provided below. This page may be detached from the exam. Be sure to put your name and social security number on each part of the exam as indicated. The entire exam must be returned for credit. You are allowed a calculator, pencil and eraser during the exam. **Do not use ink.**

Question	
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Accounting 500
Multiple Choice Section--Exam 1

Name _____

Social Security _____

1. Historical cost is defined as:
 - a. dollar measurements that are restated in terms of current purchasing power.
 - b. generally, the cost to replace the asset.
 - c. the amount originally paid to acquire an asset.
 - d. a general decline in the purchasing power of the monetary unit.

2. Which of the following circumstances would result in an increase in income under the cash basis but not an increase in income under the accrual basis?
 - a. the credit sale of inventory at a sales price in excess of the inventory's cost
 - b. the cash collection from a credit customer.
 - c. the cash sale of inventory, at a sales price in excess of the inventory's cost
 - d. the return of defective inventory purchased on account, to a supplier where a full credit was given.

3. The payment of a cash dividend to common stockholders is included in which section of the statement of cash flows?
 - a. cash disbursements
 - b. financing
 - c. investing
 - d. operations

4. McNutty Company owns a fixed asset with an original cost of \$25,000. As of the end of the year, the accumulated depreciation account had a balance of \$7,500. What can be inferred from this information?
 - a. The asset has approximately 70 percent of its useful life remaining.
 - b. The asset can be sold for exactly \$32,500.
 - c. Because of this fixed asset, total assets are \$25,000 higher than they otherwise would be.
 - d. Because of this fixed asset, total assets are \$32,500 higher than they otherwise would be.

5. On January 1, 1995, the Putz Company acquired a machine for \$76,000. As of January 1, 1996, the machine had accumulated depreciation of \$20,000. During 1996, depreciation expense totaled \$6,000. The net book value of the machine at December 31, 1996 equals.
 - a. \$50,000
 - b. \$70,000
 - c. \$56,000
 - d. \$76,000

6. On May 1, 1995 the Reed Company paid \$12,000 for May, June, July and August's rent in advance. The company recorded its transaction by increasing the balance in the prepaid rent account. The balance in the prepaid rent account as of July 31, 1995 is
 - a. \$0
 - b. \$3,000
 - c. \$6,000
 - d. \$9,000

7. Losealot Corporation has been offering goods for sale on credit for many years. The customer base that Losealot depends on suffers quite frequently from economic downturns and therefore Losealot uses the aging of accounts method for estimating their expected bad debts. If Losealot's credit sales for last period were \$800,000, what should the allowance for doubtful accounts balance be at the beginning of this period?
- \$0, the allowance has a zero balance until the bad debt expense is recorded.
 - an additional amount is added to the existing amount to insure that the account is large enough for any additional bad debts experienced over the expected amount.
 - the amount should be equal to the percentage of accounts on credit that have gone bad in the past.
 - Unknown since the balance in the account at the beginning of the period is unknown no amount can be determined with the data given.
8. When firms choose between the LIFO and FIFO inventory methods they are also making a choice about which number, inventory on the balance sheet or cost of goods sold on the income statement, is most current with regard to the actual cost of inventory. Which of the following statements is true?
- When LIFO is chosen the inventory account is most current and the cost of goods sold number is most outdated.
 - When FIFO is chosen the inventory account is outdated and the cost of goods sold is most current.
 - When FIFO is chosen the inventory account on the balance sheet is most current and cost of goods sold is most outdated.
 - Both amounts represent current inventory costs, neither is outdated.
9. All of the assets listed below are nonmonetary (nonliquid) assets except one. Which one is not a nonmonetary (nonliquid) asset?
- Land.
 - Inventory.
 - Patent.
 - Marketable Securities
10. Monroe Corporations retained earnings increased \$200,000 from last period. Also during the period the corporation declared and paid \$37,500 in dividends. What was Monroe's net income for the period?
- \$37,500
 - \$162,500
 - \$200,000
 - \$237,500
11. Mary Corporation has assets and liabilities of \$30,000 and \$24,000 respectively. During the period Mary C. issued additional common stock for \$4,000 in cash and paid dividends of \$1,000 during the period. At the end of the period what is the balance in the stockholder's equity section of the balance sheet.
- \$30,000
 - \$24,000
 - \$9,000
 - \$27,000

12. Wilson Company reported a balance in Accounts Receivable of \$81,000 on 1/1, 1996. During 1996 Wilson collected \$255,000 from its customers who had purchased on account. On 12/31 1996, Wilson reported a balance in Accounts Receivable of \$42,500.

How much was Wilson's credit sales for 1996.

- a. \$216,500
 - b. \$259,000
 - c. \$293,500
 - d. \$297,500
13. Which of the following transactions did not result in revenue being reported?
- a. Sold merchandise for cash.
 - b. Sold merchandise on account.
 - c. Collected an account receivable.
 - d. All of the above transactions would result in revenue being reported.
14. Which of the following is the correct sequence of cost flows for a manufacturing firm?
- a. Work in Process, Finished Goods, Cost of Goods Sold, Raw Materials.
 - b. Raw Materials, Work in Process, Finished Goods, Cost of Goods Sold.
 - c. Cost of Goods Sold, Raw Materials, Work in Process, Finished Goods.
 - d. Finished Goods, Work in Process, Raw Materials, Cost of Goods Sold.
15. The major components of the statement of cash flows include the following:
- a. Cash flow from operations, cash flow from investing, and cash flow from financing.
 - b. Cash flow from operations, other sources of cash, and other uses of cash.
 - c. Sources of cash from investments, application of cash for financing activities, and other cash transactions.
 - d. Cash received from customers, cash paid to customers, and other sources of cash.
16. During 1995 the Winterline Company had net income of \$312,000. In addition, selected additional facts are also given:

Decrease in accounts receivable	\$10,000
Gain on sale of building	\$14,000
Increase in accounts payable	\$12,000
Issuance of common stock	\$90,000
Retirement of debt	\$45,000

What is the amount of cash flow from operations?

- a. \$334,000
 - b. \$322,000
 - c. \$320,000
 - d. \$324,000
17. Which of the following is not a measure of profitability?
- a. Rate of Return on Assets.
 - b. Accounts Payable Turnover Ratio.
 - c. Rate of Return of Common Shareholder's Equity
 - d. Earnings per Common Share.

18. The phenomenon of common shareholders trading extra risk for a potentially higher return is called.
- Financial Leverage.
 - Operating Leverage.
 - Liquidity
 - Interest Coverage Ratio.
19. In computing the quick (acid) ratio which of the following items is customarily excluded from the numerator?
- Cash.
 - Inventory.
 - Marketable Securities.
 - Accounts Receivable.
20. Wallenda Co. had \$450,000 of sales during 1995. \$200,000 of which were on account. The balance in its Accounts Receivable and its Allowance for Uncollectible Accounts on December 31 1995 were \$60,000 and \$8,000 (debit) respectively. Wallenda ages its accounts receivable and determined that \$10,000 of all credit sales will not be paid. What is the correct amount for Wallenda to record for Bad Debt Expense?
- \$18,000
 - \$10,000
 - \$5,000
 - \$20,000
21. Which equation correctly applies to the determination of cost of goods sold?
- Beginning Inventory - Purchases + Ending Inventory = Cost of Goods Sold.
 - Beginning Inventory + Purchases + Ending Inventory = Cost of Goods Sold.
 - Cost of Goods Sold = Beginning Inventory + Purchases - Ending Inventory.
 - None of the Above.
22. If this inventory flow assumption is used for income tax purposes, the Internal Revenue Service requires its use for income determination for financial reports to owners:
- FIFO method
 - LIFO method.
 - Weighted-average method.
 - Replacement cost method.
23. White, Inc. issued bonds on 1/1 1995 which mature in 10 years. The \$100,000 bonds, which pay 8 percent interest annually on 12/31 1995, were issued at a time when the market interest rate was 10 percent. The bonds were issued for \$87,710. What amount of bond interest expense would White report in 1995?
- \$10,000.
 - \$8,000.
 - \$8,771.
 - \$8,848.

24. Lang, Inc. issued bonds on 1/1/95 which mature in 10 years. The \$100,000 bonds, which pay 9 percent interest annually on 12/31/95 were issued at a time when the market interest rate was 11 percent. The bonds were issued for \$88,220. At the end of 1995 how much of the Bond Discount will be amortized using the effective interest method?
- \$0
 - \$1060
 - \$704
 - \$356
25. The Ashcraft Company issued \$200,000 par-value bonds several years ago. On January 1 of 1995 the bond premium account has a balance of 12,000 when the bonds are called at 104. What is the amount of the gain or loss on the retirement of the bonds?
- \$1,000.
 - \$3,000.
 - \$0.
 - \$4,000.
26. One feature that is generally not associated with preferred stock is the
- Cumulative feature.
 - Callable feature.
 - Voting right.
 - Conversion right.
27. The owner's equity account with a normal debit balance is
- Additional Paid-in Capital.
 - Common Stock.
 - Retained Earnings.
 - Treasury Stock.
28. The Treasury Shares account should be disclosed in the balance sheet as a
- Short-term investment.
 - Contra to total stockholders equity.
 - Deferred charge.
 - Stock investment account.
29. All of the following should be presented in the financing activities section of the statement of cash flows except:
- Issue of common shares for cash.
 - Issue of preferred shares for cash.
 - Sale of investment in stock for cash.
 - Payment of cash dividends.
30. The Pushee Co. owns machinery having a cost of \$100,000 and accumulated depreciation of \$60,000 on January 1, 1995. Pushee has owned the machine for 6 years and used straight-line depreciation. If Pushee sells the asset on January 1, 1996 for \$50,000, how much should Pushee report as a gain or loss on the sale.
- \$0
 - \$20,000
 - \$10,000
 - \$30,000

Accounting 500
Problem Section--Exam 1

Name _____ Social Security _____

Instructions:

There are four problems presented on the second part of the exam. You are required to work **only** three of the four. Only three problems will be graded, you must clearly indicate which three of the four you wish to have graded. No additional credit is allowed for an extra problem worked.

Problem 1 Benson Hedges began a sole proprietorship and named Hedges Co. on June 1 1996. The following transactions occurred during the month of June.

- June 1 Benson invested \$15,000 cash in Hedges Co.
- June 2 Hedges Co. acquired equipment costing \$6,000 was acquired through a note.
Hedges Co. will use straight-line depreciation for the five year asset. The asset is expected to have a zero salvage value.
- June 3 Hedges Co. purchased inventory for \$3,000. \$1,500 was paid in cash and the remainder was put on account.
- June 4 Hedges sold \$2,000 of inventory for \$4,000. The customer paid \$1,000 in cash and put the remainder on account.
- June 5 Hedges purchase supplies for \$500.
- June 6 Hedges pre-pays the rental expense for June and July on equipment used to display inventory for sale. The amount is \$2,000.
- June 10 Hedges receives \$1,000 on outstanding accounts receivable.
- June 15 Hedges pays \$500 on the note for the equipment and \$500 on account for inventory purchased.
- June 30 Hedges recognizes one month of the display equipment rental expense and one month of depreciation expense.

Required: Prepare an income statement and balance sheet that reflects the transactions for Hedges Co.

Problem 2

Using the information you provided in **Problem 1** construct cash flow from operations for Hedges Co. using the indirect method.

Problem 3

Grover Corporation provides you with the following information about their inventory purchases and sales during the period.

Purchase 400 units at \$6	\$2,400
Purchase 500 units at \$7	\$3,500
Sell 200 units at \$12	\$2,400
Purchase 300 units at \$5	\$1,500
Sell 400 units at \$12	\$4,800

Estimate Grover Corporation's Cost of Goods Sold assuming inventory costs flow according to

a) LIFO

b) FIFO

c) Weighted-average

Problem 4

AlwaysBroke Corporation decided to issue bonds to fund a new project guaranteed to make a tremendous profit for AlwaysBroke shareholders. AlwaysBroke issued \$10,000 of 10 year bonds with a stated rate of 8 percent payable once a year. By the time AlwaysBroke got the bonds to market the market rate of interest was 12 percent.

a) What is the amount that AlwaysBroke received for the bond issue and how would AlwaysBroke record the issuance.

b) How would your answer differ if the market interest rate had been 6 percent