

Accounting 303
Exam 1, Chapters 1 – 3 & 5
Fall 2012

Name _____

Section _____ Row _____

I. Multiple Choice Questions. (2 points each, 50 points in total) Read each question carefully and indicate your answer by circling the letter preceding the one best answer.

1. The primary users of general-purpose financial statements as designated by the FASB Conceptual Framework are
 - a. creditors.
 - b. employees.
 - c. investors.
 - d. both creditors and investors.
2. Accounting principles are "generally accepted" only when
 - a. an authoritative accounting rule-making body has established it in an official pronouncement.
 - b. it has been accepted as appropriate because of its universal application.
 - c. both a and b.
 - d. neither a nor b.
3. Which organization was responsible for issuing Accounting Research Bulletins?
 - a. Accounting Principles Board.
 - b. Committee on Accounting Procedure.
 - c. The SEC.
 - d. AICPA.
4. The role of the Securities and Exchange Commission in the formulation of accounting principles can be best described as
 - a. consistently primary.
 - b. consistently secondary.
 - c. sometimes primary and sometimes secondary.
 - d. non-existent.
5. Companies that are listed on a stock exchange are required to submit their financial statements to the
 - a. AICPA.
 - b. APB
 - c. FASB.
 - d. SEC.
6. The major distinction between the Financial Accounting Standards Board (FASB) and its predecessor, the Accounting Principles Board (APB), is
 - a. the FASB issues exposure drafts of proposed standards.
 - b. all members of the FASB are fully remunerated, serve full time, and are independent of any companies or institutions.
 - c. all members of the FASB possess extensive experience in financial reporting.
 - d. a majority of the members of the FASB are CPAs drawn from public practice.

7. Which of the following organizations has **not** been instrumental in the development of financial accounting standards in the United States?
 - a. AICPA
 - b. FASB
 - c. IASB
 - d. SEC
8. Salon Corporation has adopted the policy of charging to expense at the time of purchase all assets having a cost of less than \$100, regardless of the life expectancy of the asset. This policy is most closely related to the
 - a. historical cost principle.
 - b. materiality principle.
 - c. net realizable value principle.
 - d. verifiability principle.
9. Which of the following is a fundamental characteristic of useful accounting information?
 - a. Comparability.
 - b. Relevance.
 - c. Neutrality.
 - d. Materiality.
10. Which of the following is the best description of consistency as used in the conceptual framework?
 - a. Information that is measured and reported in a similar fashion across points in time.
 - b. Information that is timely.
 - c. Information that is understandable.
 - d. Information that is verifiable.
11. Which of the following is an ingredient of faithful representation?
 - a. Predictive value.
 - b. Materiality.
 - c. Neutrality.
 - d. Confirmatory value.
12. If the FIFO inventory method was used last period, it should be used for the current and following periods because of
 - a. relevance.
 - b. neutrality.
 - c. understandability.
 - d. consistency.
13. Which of the following does not relate to relevance?
 - a. Materiality
 - b. Predictive value
 - c. Confirmatory value
 - d. All of these relate to relevance

14. A decrease in net assets arising from peripheral or incidental transactions is called a(n)
 - a. capital expenditure.
 - b. cost.
 - c. loss.
 - d. expense.
15. Which basic assumption is illustrated when a firm reports financial results on an annual basis?
 - a. Economic entity assumption.
 - b. Going concern assumption.
 - c. Periodicity assumption.
 - d. Monetary unit assumption.
16. What accounting concept justifies the usage of depreciation and amortization policies?
 - a. Going concern assumption
 - b. Fair value principle
 - c. Full disclosure principle
 - d. Monetary unit assumption
17. A journal entry to record a receipt of rent revenue in advance will include a
 - a. debit to *rent revenue*.
 - b. credit to *rent revenue*.
 - c. credit to *cash*.
 - d. credit to *unearned rent*.
18. Which of the following statements best describes a characteristic of accrual basis accounting?
 - a. The timing of cash receipts and disbursements is emphasized.
 - b. A minimum amount of record keeping is required compared to the cash basis.
 - c. This method is used less frequently by businesses than the cash method of accounting.
 - d. Revenues are recognized in the period they are earned, regardless of the time period the cash is received.
19. Year-end net assets (assets minus liabilities) would be overstated and current expenses would be understated as a result of failure to record which of the following adjusting entries?
 - a. Expiration of prepaid insurance
 - b. Depreciation of fixed assets
 - c. Accrued wages payable
 - d. All of these
20. Big-Mouth Frog Corporation had revenues of \$300,000 and expenses of \$180,000. When Income Summary is closed to Retained Earnings, the amount of the debit or credit to Retained Earnings is a
 - a. debit of \$480,000.
 - b. debit of \$120,000.
 - c. credit of \$480,000.
 - d. credit of \$120,000.

21. A company receives interest on a \$40,000, 8%, 5-year note receivable each April 1. At December 31, 2012, the following adjusting entry was made to accrue interest receivable:

Interest Receivable	2,400	
Interest Revenue		2,400

Assuming that the company *does* use reversing entries, what entry should be made on April 1, 2013 when the annual interest payment is received?

a. Cash	800	
Interest Revenue		800
b. Cash	2,400	
Interest Receivable		2,400
c. Cash	3,200	
Interest Receivable		2,400
Interest Revenue		800
d. Cash	3,200	
Interest Revenue.....		3,200

22. The balance sheet is useful for analyzing all of the following except
- liquidity.
 - solvency.
 - profitability.
 - financial flexibility.
23. Which of the following is a contra account?
- Bond sinking fund
 - Unearned revenue
 - Patents
 - Accumulated depreciation
24. In a statement of cash flows, receipts from sales of property, plant, and equipment and other productive assets should generally be classified as cash inflows from
- operating activities.
 - financing activities.
 - investing activities.
 - selling activities.

II. Problems – (52 points in total)

1. (13 points)

a.	Current Assets	e.	Current Liabilities
b.	Investments	f.	Long-term Liabilities
c.	Plant and Equipment	g.	Common Stock and Paid-in Capital in Excess of Par
d.	Intangible Assets	h.	Retained Earnings

Indicate by letter from the table above how each of the items below should be classified at December 31, 2012. If an item is not reported on the face of the December 31, 2012 balance sheet, use the letter "X" for your answer. If the item is reported only in the footnotes of the December 31, 2012 balance sheet, use the letter "N" for your answer. If the item is a contra account within the particular classification, place parentheses around the letter. A letter may be used once, more than once, or not at all.

Sample question and answer:

_____ 1. Allowance for doubtful accounts.

_____ 2. Customers' accounts receivable with credit balances.

_____ 3. Bond sinking fund.

_____ 4. Salaries which the company's cash budget shows will be paid to employees in 2013.

_____ 5. Accumulated depreciation—equipment.

_____ 6. Amortization of patents for 2012.

_____ 7. On December 31, 2012, Hale signed a purchase commitment to buy all of its raw materials from Delta Company for the next 2 years.

_____ 8. Discount on bonds payable due March 31, 2015.

_____ 9. Launching of Hale's Internet retailing division in February, 2013.

_____ 10. Cash dividends declared on December 15, 2012 payable to stockholders on January 15, 2013.

2. (14 points) Selected accounts from Trent Company's trial balance as of December 31, 2012, appear below. (All accounts have their standard or normal debit or credit balance.):

Accounts Payable	160,000
Accounts Receivable (net)	150,000
Cash	150,000
Common Stock	60,000
Equipment	90,000
Insurance Expense	30,000
Interest Expense	10,000
Notes Payable (due 6/1/14)	200,000
Prepaid Rent	180,000
Salaries and Wages Expense	328,000
Unearned Service Revenue	48,000

Required: Prepare adjusting journal entries at year end, December 31, 2012, based on the following supplemental information.

- a. Six months of interest on the notes payable needs to be accrued at 5%.
- b. The unearned service revenue account represents an amount a customer paid in advance on November 30, 2012 for service that will be provided evenly over the period December 2012 through March 2013.
- c. The rent prepayment of \$180,000 covered the six months from November 30, 2012 through May 31, 2013.
- d. Salaries and wages earned but unpaid at 12/31/12 are \$22,000.
- e. The equipment has a 10 year life, no salvage value, and is depreciated using the straight line method.

3. (10 points) The following trial balance was taken from the books of Fiscal Corporation on December 31, 2012.

Accounts	DR	CR
Cash and Equivalents	\$100	
Accounts Receivable	2,150	
Inventory	440	
Property, Plant, and Equip. (net)	4,020	
Investments	440	
Accounts Payable		150
Taxes Payable		408
Notes Payable, due January 15, 2012		2,100
Capital Stock		1,700
Retained Earnings		1,552
Sales		7,700
Sales Returns	89	
Purchases	2,100	
Purchases Returns		139
Transportation-In	130	
S G & A Expenses	4,280	
Total	\$14,329	\$14,329

Required:

- a. Prepare the necessary closing entries.

- b. What is the balance of Retained Earnings that will appear on the December 31, 2012 Balance Sheet?

4. (15 points) The December 31, 2012, balance sheet for Kraus Company is shown on the next page. After examining the balance sheet, you discover it contains some errors. Use the additional information provided below to determine the correct balance sheet amounts, and write the correct amounts in the space provided to prepare a corrected balance sheet. Any accounts not adjusted by the additional information are correct as stated in the original balance sheet. Carry correct amounts across to the corrected columns so the corrected balance sheet balances. DO NOT remove the last page from your test.

Additional information:

- a. Included in the current investment in securities are \$15,000 of highly liquid securities with a maturity of February 1, 2013, and \$40,000 of securities that will not mature until June 30, 2014.
- b. Cash includes the cash surrender value of a life insurance policy, \$9,000.
- c. The net accounts receivable balance includes accounts receivable with credit balances of \$4,000
- d. Inventory does not include goods costing \$3,000 shipped out on consignment.
- e. The current notes payable account included two loans; one in the amount of \$25,000 is due on August 15, 2013, and the other one in the amount of \$50,000 is due on June 30, 2015.
- f. The long-term notes payable balance of \$35,000 represents a 10-year loan taken out on December 31, 2012. The loan requires it to be repaid in 10 equal installments with the first payment due on December 31, 2013.
- g. Plug retained earnings to make the corrected balance sheet balance.

Kraus Company
Balance Sheet
December 31, 2012

	Original Balance Sheet		Corrected Balance Sheet	
Assets				
Current Assets				
Cash and cash equivalents	85,000			
Accounts receivable (net)	52,200			
Inventory	57,000			
Investment in securities	76,300			
Prepaid assets	25,000			
Total Current Assets		295,500		
Noncurrent Assets				
Investment in securities	50,000			
Property, plant, and equipment	146,000			
Accumulated depreciation PP&E	<40,000>			
Total Noncurrent Assets		156,000		
Total Assets		451,500		
Liabilities				
Current Liabilities				
Accounts payable	40,000			
Accrued and unearned liabilities	15,000			
Notes payable	75,000			
Current portion of long-term debt	0			
Total Current Liabilities		130,000		
Long-term Liabilities				
Notes payable	35,000			
Bonds payable	100,000			
Total Long-term Liabilities		135,000		
Total Liabilities		265,000		
Stockholders' Equity				
Common stock	80,000			
Retained earnings	106,500			
Total Stockholders' Equity		186,500		
Total Liabilities and Stockholders' Equity		451,500		

Answers

Multiple Choice

Question	Answer		Question	Answer
1	d		13	d
2	c		14	c
3	b		15	c
4	c		16	a
5	d		17	b or d
6	b		18	d
7	c		19	d
8	b		20	d
9	b		21	d
10	a		22	c
11	c		23	d
12	d		24	c

Solution to Problem 1

1	(a)
2	e
3	b
4	X
5	(c)
6	d or (d) or X
7	N
8	(f)
9	X or N
10	e or h

Solution Problem 2

a. Interest Expense (\$200,000 x .05 x 6/12)	5,000	
Interest Payable		5,000
b. Unearned Service Revenue	12,000	
Service Revenue		12,000
c. Rent Expense	30,000	
Prepaid Rent		30,000
d. Wages Expense	22,000	
Wages Payable		22,000
e. Depreciation Expense	9,000	
Accumulated Depreciation		9,000

Solution Problem 3

a.		
Sales	7,700	
Purchase Returns	139	
Income Summary		7,839
Income Summary	6,599	
Sales Returns		89
Purchases		2,100
Transportation-In		130
SG&A Expenses		4,280
Income Summary	1,240	
Retained Earnings		1,240
b. $1552 + 1240 = 2792$		

Solution to Problem 4

Kraus Company
Balance Sheet
December 31, 2012

	Original Balance Sheet		Corrected Balance Sheet	
Assets				
Current Assets				
Cash and cash equivalents	85,000		91,000	
Accounts receivable (net)	52,200		56,200	
Inventory	57,000		60,000	
Investment in securities	76,300		21,300	
Prepaid assets	25,000		25,000	
Total Current Assets		295,500		253,500
Noncurrent Assets				
Investment in securities	50,000		99,000	
Property, plant, and equipment	146,000		146,000	
Accumulated depreciation PP&E	<40,000>		<40,000>	
Total Noncurrent Assets		156,000		205,000
Total Assets		451,500		458,500
Liabilities				
Current Liabilities				
Accounts payable	40,000		44,000	
Accrued and unearned liabilities	15,000		15,000	
Notes payable	75,000		25,000	
Current portion of long-term debt	0		3,500	
Total Current Liabilities		130,000		87,500
Long-term Liabilities				
Notes payable	35,000		81,500	
Bonds payable	100,000		100,000	
Total Long-term Liabilities		135,000		181,500
Total Liabilities		265,000		269,000
Stockholders' Equity				
Common stock	80,000		80,000	
Retained earnings	106,500		109,500	
Total Stockholders' Equity		186,500		189,500
		451,500		458,500