ACCT 2101 Financial Accounting

# Sample test 4

Part I: Multiple Choice Answers (**Please write your multiple choice answers here!**)

1. \_\_\_\_\_ 6. \_\_\_\_\_
2. \_\_\_\_\_ 7. \_\_\_\_\_
3. \_\_\_\_\_ 8. \_\_\_\_\_
4. \_\_\_\_\_ 9. \_\_\_\_\_
5. \_\_\_\_\_ 10. \_\_\_\_\_

I. Multiple choices

Choose the **one** best answer for each of the following questions. **Please write your answers in the space provided on the cover page.**

1) Under the allowance method, Bad Debt Expense is recorded

1. when an individual account is written off.
2. when the loss amount is known.
3. when the company estimates the amount that it will not collect.
4. when the company receives notice from the client.

2) When a customer’s account is written off using the allowance method, the

a. cash realizable value of total accounts receivable will increase.

b. net accounts receivable will decrease.

c. allowance account will increase.

d. net accounts receivable will stay the same.

3) An analysis and aging of the accounts receivable of Yates Company at December 31 reveal these data:

Accounts receivable $ 1,600,000

Allowance for doubtful accounts before adjustment (credit): 100,000

Amounts expected to become uncollectible 130,000

What is the cash realizable value of the accounts receivable at December 31 after adjustment?

1. $1,370,000
2. $1,500,000
3. $1,600,000
4. $1,470,000

4) Wynn, Inc. purchased a delivery truck for $24,000. The company was given a $2,400 cash discount by the dealer, and paid $1,200 sales tax. Annual insurance on the truck is $600. As a result of the purchase, by how much will Wynn, Inc. increase its truck account?

a. $22,800

b. $21,600

c. $23,400

d. $24,000

5) The declining-balance method of depreciation produces a

a. decreasing accumulated depreciation each period.

b. decreasing depreciation expense each period.

c. decreasing depreciation rate each period.

1. decreasing profit each period.

6) Greg's Copy Shop bought equipment for $60,000 on January 1, 2006. Greg estimated the useful life to be 3 years with no salvage value, and the straight-line method of depreciation will be used. On January 1, 2007, Greg decides that the business will use the equipment for a total of 5 years. What is the revised depreciation expense for 2007?

a. $20,000

b. $8,000

c. $10,000

d. $15,000

7) In recording the acquisition cost of an entire business

a. goodwill is recorded as the excess of purchasing cost over the fair market value of the seller’s net assets.

b. goodwill is recorded as the book value of the seller’s total assets.

c. goodwill is recorded as the fair market value of the seller’s net assets.

d. goodwill is recorded as the excess of purchasing cost over the book value of the seller’s total assets.

8) The amount of sales tax collected by a retail store when making sales is

a. a miscellaneous revenue for the store.

b. a current liability for the store.

c. not recorded because it is a tax paid by the customer.

d. recorded by the store as an operating expense.

9) Over the term of the bonds, the balance in the Discount on Bonds Payable account will

a. increase or decrease depending on the market interest rate.

b. decrease.

c. increase.

d. be unaffected until the bonds mature.

10) The current carrying value of Jensen’s $600,000 face value bonds is $597,750. If the bonds are retired at 102, what would be the amount Jensen would pay its bondholders in cash?

a. $597,750

b. $600,000

c. $603,000

d. $612,000

II. Receivables

Fancy Company uses the percentage of receivables approach to estimating bad debts expense. On March 31, the firm had accounts receivable $515,000 and Allowance for Doubtful Accounts had a credit balance of $370 before adjustment. The credit manager estimated that uncollectible accounts would amount to 5% of accounts receivable. On April 10, an accounts receivable from Andy Bole for $2,100 was determined to be uncollectible and written off. However, on April 25, Bole received an inheritance and immediately paid his past due account in full. Fancy Company closes books monthly.

Prepare the journal entries for Fancy Company on the following dates:

1. March 31

2. April 10

3. April 25

III. Long-lived assets

a) On January 1, 2006, Porika Company purchased a truck for $57,000. The company expected the truck to last four years or 100,000 miles, with an estimated salvage value of $6,000 at the end of that time. During 2007 the truck was driven 27,000 miles. Compute the depreciation expense for 2007 under each of the methods below and place your answers in the blanks provided.

Units-of-activity $

Double-declining-balance $

b) Prepare the journal entries associated with the following disposal of equipment for Sysco Company, which uses the straight-line method of depreciation.

On September 30, 2007, Sysco sold old delivery equipment for $27,000. The delivery equipment was purchased on January 1, 2005, for $57,000 and was estimated to have a $12,000 salvage value at the end of its 5-year life. Depreciation on the delivery equipment has been recorded through December 31, 2006.

IV. Liabilities

a) On April 1, Nolton Company borrows $80,000 from West Bank by signing a 6-month, 6%, interest-bearing note. Prepare any adjusting entries necessary for Nolton on June 30 in order to prepare the semiannual financial statements. Assume no other interest accrual entries have been made.

b) On January 1, 2006, Matrix Corporation issued $800,000, 5%, 5-year bonds dated January 1, 2006, at 95. The bonds pay annual interest on January 1. The company closes books annually and has a calendar year end.

1. Prepare all the journal entries that Matrix Corporation would make related to this bond issue through January 1, 2007. Be sure to indicate the date on which the entries would be made.
2. After paying interests on January 1, 2008, the book value of the bonds was $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Key to sample test 4

**I. Multiple choice**

1 C 2 D 3 D 4 A 5 B 6 C 7 A 8 B 9 B 10 D

**II. Receivables**

1. March 31:

Bad Debts Expense 25,380 (i.e., = [($515,000  .05) – $370])

Allowance for Doubtful Accounts 25,380

2. April 10:

Allowance for Doubtful Accounts 2,100

Accounts Receivable 2,100

3. April 25

Accounts Receivable 2,100

Allowance for Doubtful Accounts 2,100

Cash 2,100

Accounts Receivable 2,100

**III. Long-lived assets**

a)

Units-of-activity $\_ 13,770

[($57,000 – $6,000) ÷ 100,000] × 27,000 = $13,770)

Double-declining-balance $\_ 14,250

(year 1— [$57,000 × (1 ÷ 4 × 2)] = $28,500)

(year 2— [($57,000 – $28,500) × (1 ÷ 4 × 2)] = $14,250)

b)

September 30, 2007

1. Depreciation Expense 6,750

Accumulated Depreciation 6,750

($45,000 ÷ 5 years = $9,000 × 9/12 = $6,750)

2. Cash 27,000

Accumulated Depreciation 24,750 (i.e., 18000+6750)

Loss on Disposal 5,250 (i.e.,32250-27000)

Equipment 57,000

**IV. Liabilities**

a)

Interest Expense 1,200

Interest Payable 1,200

(i.e., $80,000 × 6% × 3/12)

b)

1. January 1, 2006

Cash 760,000

Discount on Bonds Payable 40,000

Bonds Payable 800,000

December 31, 2006

Bond Interest Expense 48,000

Discount on Bonds Payable 8,000

Bond Interest Payable 40,000

January 1, 2007

Bond Interest Payable 40,000

Cash 40,000

2. $ 776,000

(i.e., 760,000 + 8,000\*2)