



COURSE: Accounting 215D
INSTRUCTOR: Bill Wells
QUARTER: Autumn 2009

TEST: First Examination
DATE: October 19, 2009
Version: 1/2

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~~137~~ 139
8 E.C.
Amw
10/21

At what time does your quiz section meet? (Circle one time)

10:30

11:30

12:30

By signing below, you acknowledge that you are a part of a learning community at the Foster School of Business that is committed to the academic standards of honesty, respect, and integrity, and that you adhered to these standards while completing this examination.

- You will need access to a hand-held calculator and pencil(s)/pen only to complete this examination; all other materials should be out of sight. Scratch work should be done on the examination.
- If you need clarification (e.g. definition of words, an unclear problem) during the test, raise your hand. We will help you as best we can; We will not, however, reteach any point.
- Do not make any unnecessary or unsupported assumptions. Select the best answer from the choices provided. You may omit explanations which otherwise should accompany journal entries. Unless indicated otherwise, multiple-choice questions are worth 4 points.
- Unless indicated otherwise, all situations are subject to U.S. rules and procedures. Partial credit may be given on certain questions marked "PC" if all mathematical work is shown immediately below the problem or the narrative is close to the best answer. All answers recorded by you must be the result of only your own efforts.
- You have approximately 80 minutes to complete the test. When the end of the test is announced, you should **immediately stop your work**. Work after the exam has ended is not fair to other students who complete the test within the allotted time. If such work continues after the bell, it will be subject to point reduction at my discretion.
- BUDGET YOUR TIME WISELY. WE WISH YOU SUCCESS.

EXTRA CREDIT (8)

1. (3) In the Wall Street Journal (WSJ) article ""Sole Proprietors Face Tax Scrutiny..." what was suggested as justifying increased scrutiny?

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The fact that sole proprietors often report their own earnings and thus don't have a "watchdog" (employer) to regulate how they report income to the Government. A study found that employer reported income was dramatically less likely to be inaccurate than those reported by small, disorganized sole proprietorships who didn't have a "watchdog".

2. In The WSJ article "Pricewaterhouse Defends its Audit Procedures"

- a. (2) In which country did the situation arise?

India

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- b. (3) What event caused others to question Pricewaterhouse's audit process?

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The owner of

A ~~game~~ computer tech company based in Mumbai

but also ~~was~~ listed on New York was found fraudulent. Pricewaterhouse cooper had been in charge of auditing said company.

INTERNATIONAL (3)

3. (3) Which statement about International Financial Reporting Standards (IFRS) is correct?
- Next year, a few countries will begin to use IFRS; they will be the first users of IFRS
 - The U.S. is the leader of the movement toward IFRS and has already adopted those standards
 - Over 100 countries currently use IFRS, which includes the U.S.
 - (d) The U.S. is still working on a plan regarding adoption of IFRS

INVESTOR – FINANCIAL ANALYSIS (13)

4. Given the following, set up the following ratios by placing the correct amount(s) in the numerator and denominator columns. For example, if a ratio were $A \div B$, you would put A in the numerator and B in the denominator columns.

Dividends received over the past four quarters	\$10 per share
Market price of the stock at the beginning of the year	\$40 per share
Market price of the stock at the end of the year	\$60 per share
Net Income for the year	\$1,000,000
Revenue for the year	\$10,000,000
Preferred dividends declared/paid during the year	\$0
Weighted average number of shares outstanding	500,000

Ratio	Numerator (1)	Denominator (1)
Net Income to Sales	1,000,000	10,000,000
Dividend Yield	10 per share	60
Earnings per share	1,000,000	500,000

5. Using the above information, what is the:

- a. (3) Price earnings ratio as of the end of the year?

30:1

$$60 / \left(\frac{1,000,000}{500,000} \right) = 60 / 2 = 30$$

- b. (4) Return on investment for the year?

75%

$$\frac{30 + 10}{40} = 75\%$$

CONTROL (29)

6. Which of the following statements regarding financial accounting standards is incorrect?

- a. They are issued primarily by the FASB
- ☒ b. The FASB's authority to issue standards is statutory (found in a law)
- c. Politics are a factor in the standard setting process
- d. The AICPA does not approve the standards.

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7. An "adverse" audit opinion:

- a. Can only be issued by the SEC
- b. Implies Generally Accepted Auditing Standards were not followed in the conduct of the audit
- ☒ c. There are significant deviations from GAAP in the financial statements
- d. Answers b and c are both correct

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8. If a system of internal controls either did not exist or was rarely followed, what impact would that have on the depth of effort during an external financial statement audit?

- a. None
- b. Since there is less to check on, audit man-hours and costs would be reduced
- ☒ c. In all probability, more effort (and thus cost) must be expended
- d. External auditors will have to impose their own internal controls on the company

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9. What guidance is available to auditors to assist them in the conduct of an audit?

- a. Other than their own firm's policy, auditors must rely on their own ingenuity and experience
- b. The FASB has published audit guides that auditors are expected to follow
- ☒ c. The PCAOB has issued general as well as procedural auditing standards
- d. Congress has enacted laws prescribing detailed auditing procedures

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10. (1 EACH) The following list reflects the normal content of an annual financial report provided to stockholders. For each section, place a check mark in the appropriate column to indicate whether that component was or was not audited by the external financial auditors.

Annual Report Component	Audited	Not audited
Introductory comments by a senior officer/chairman of the board		×
Descriptions about various elements/operations of the company		×
Management's Discussion and Analysis report		×
Financial highlights		×
Financial statements	×	
Footnotes to the financial statements	×	
Administrative/historical information		×

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11. (3 EACH) What are the two major opinions one would find in a "clean" audit opinion?

GAAP are found to be followed based on an examination by auditor on test basis

~~Internal controls~~ ^{OK} are approved as in accordance with ~~standards~~ exten. act.

BUSINESS ENTITY (21)

12. (3PC) In lecture, I showed a copy of Time Magazine's cover in which three women were shown. WorldCom, FBI and Enron employed them. What did the WorldCom and Enron women do for a living? (two word answer is correct)

Financial Accountant

13. (2) In lecture, I showed an old balance sheet from PG&E (a California utility company) in which long-term assets were listed before current assets. What exception to GAAP allowed them to do that?

industry practice

14. (2) Costco, like most other firms, reports a single amount for Selling, General and Administration (SGA) expenses rather than breaking the amount down into its components (i.e., details). What justifies them doing such?

Materiality

15. (2) One form of business has its earnings that are distributed to owners taxed twice. What is the form of that business?

Corporation

16. (2) What is the name of the committee within the board of directors that has primary responsibility for the financial affairs of the company?

Audit Committee

17. (3) According to the article by Robert Half that you read in lecture, can ethics be taught?

- a. Yes
- b. No
- ☒ c. Partially

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18. (3) Suppose the 215 Corporation has the following members on its board:

Ms. Jones – President of 215
 Mr. Smith – Vice president of 215
 Ms. Johnson – Chief Operating Officer of 215
 Mr. Wells – Consultant, The Wells Corporation.

3

What is wrong with the makeup of this board?

~~The members~~ Not all members can be affiliated with the company.
 They must be independent

19. There is no accounting standard, other information, or precedent for a unique event that happened to a firm. Yet the firm must report that event in its financial statements. Which approach is consistent with conservatively reporting the incident?
- a. Overstate net assets and owners equity
 - ☒ b. Overstate liabilities and/or understate assets
 - c. When in doubt, report it as a gain as opposed to revenue
 - d. Omit the event from its reports until it figures out what to do

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FINANCIAL ACCOUNTING (31)

20. (3) A principal reason why cash accounting is not used in financial reporting is that:

- a. It takes more effort and thus costs more to record cash transactions than accrual based transactions
- ☒ b. Timing of cash receipts and disbursements does not necessarily correspond to when the benefits and efforts were received/expended
- c. It is less objective than accrual accounting

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21. "Matching:"

- a. Is the process of relating revenues to the period in which they are realized
- ☒ b. Recording an expense because it helped produce revenue
- c. Is an important principle in cash accounting
- d. None of the above are correct

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22. After returning home from the Macy's, you decided that you really liked a sweater you had tried on. You called up the department, put it on 24-hour hold, returned the next day, bought it on credit, and paid for it a month latter. When should Macy's have recorded the sale?

- a. On your first visit
- b. When you called up and put it on reserve
- ☒ c. When you walked out the door with it
- d. When you paid for it

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23. Your firm bought a piece of equipment for \$80,000, believing at the time it would last for 10 years at which time it would be disposed of for \$9000. It then proceeded to use the machine for four full years. On the first day of the fifth year of usage, the machine was sold for \$11,000. Answer the following questions:

a. (5PC) What was the book value of the machine at the time it was sold?

5 51,600

$$\frac{80,000 - 9,000}{10} = 7,100$$

11,000 / (51,600) (

$$80,000 - (7,100 \cdot 4) =$$

3

b. (3PC) How much of a gain or loss (circle one) should have been recorded on the sale?

40,600

$$11,000 - 51,600$$

24. (1 EACH) For each of the events below: 1) if assets, liabilities or equity were unaffected by that event, record nothing. If assets, liabilities or equity were affected, circle either the "+" or "-" to indicate which way assets, liabilities or equity changed as a result of recording the event.

Event	Assets		Liabilities		Owners Equity	
a. Receipt of cash before it is earned	(+)	-	(+)	-	+	-
b. The cash received in a above is earned	+	-	+	(-)	(+)	-
c. Purchase of merchandise inventory on credit	(+)	-	(+)	-	+	-
d. Payment of a dividend previously declared	+	(-)	+	(-)	+	-
e. Recording yearly depreciation	+	(-)	+	-	+	(-)
f. Sale of stock to the public for cash	(+)	-	+	-	(+)	-

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FINANCIAL REPORTING (45)

25. Which is an example of an event said to occur in the primary capital market?

- a. A firm issues new stock to owners
 b. A stock owner sells stock through his or her broker
 c. A customer purchases goods from a firm
 d. A firm pays its suppliers for the goods it bought

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26. (2 each) All the events below involve cash. Indicate the category in which they would be reported on the statement of cash flows by placing a check in the appropriate column.

Cash event	Operating	Investing	Financing
Sell stock to new owners			X
Acquire a building		X	
Pay interest on a mortgage (debt)			X
Receive funds from a customer who charged their original purchase	X		
Receive the proceeds of an insurance policy	X		

8

32

27. Firms have the authority to determine how often they distribute financial statements to their owners (2 EACH) When recording the following events in accrual accounting records, some accounts used may or may not affect the income statement. If the event would not affect the income statement, place an X in the column "Not Affected." If the event would affect the income statement, place an "X" under the subtotal/total that would first be affected. For example, suppose there were three subtotals, A, B and C, and suppose the account involved would appear between B and C. You would then put an X in the C subtotal because that account came after the B subtotal and before the C subtotal. Only one entry per line should be recorded.

Event	INCOME STATEMENT AFFECTED				NOT AFFECTED
	Gross profit margin	Income from operations	Income from continuing operations	Net income	
Purchase inventory on credit					X
Loss on sale of equipment				X	
Costs of marketing the products			X		
Report income from a division that was sold during the year		X			
Sale of merchandise inventory	X				

28. Which amount or total would appear on both of the following statements? (Answer should be the name of the account or total.)

a. (2PC) Income statement and statement of retained earnings. Net Income

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b. (2PC) Statement of retained earnings and the balance sheet? Retained Earnings

2

c. (3PC) Statement of cash flow and the balance sheet?

Ending Cash Balance

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$$RE = \text{Revenue} + \text{Gains} - \text{losses} + \text{expenses}$$

NI - D

29. The fiscal-period assumption suggests:

- a. Firms must decide when their fiscal year must start and end
- ☒ b. Economic activity can be associated with specific periods
- c. December 31st is the end of the fiscal year

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30. (2 EACH) Retained Earnings is determined by three different categories of resource outflows and two different categories of inflows. What are those categories? (In other words, what five elements affect retained earnings?)

OUTFLOWS

INFLOWS

Dividends

Revenue -

Expenses

Gains

losses

10

INTRODUCTION (8)

31. (2) Who are the intended recipients of the financial reports we have studied to date?

Creditors, investors

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32. (3) Financial accounting is best described in which of the following statements?

- a. It addresses such issues as break-even points and unit costs of products
- ☒ b. It reduces uncertainty in the process of deciding whether to invest funds
- c. Its primary purpose is to serve as a basis for rewarding management
- d. Its use is limited to corporations, not partnerships and sole proprietorships

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33. (3) Which description describes the traditional role of a financial accountant?

- ☒ a. She is an information specialist
- b. He is the one who makes the decisions
- c. She is the analyst who recommends courses of action to others
- d. He is the person responsible for filing the firm's tax returns

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