

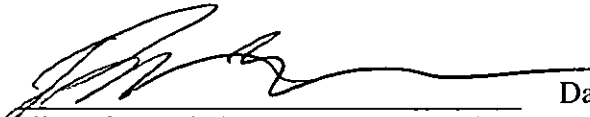
Quiz 3

14

Section Time: 10:30

Instructions: There are 12 multiple-choice questions and 2 quantitative questions on the following pages. *Your final answers must be entered in the spaces provided on this cover page in order to be graded.*

Code of Conduct: By signing below you acknowledge that you are a member of a learning community at the Foster School of Business that is committed to the highest academic standards and that you adhered to these standards while completing this quiz. Specific to this quiz, by signing below you acknowledge that you did not receive or give help to others, nor did you witness others receiving or giving help to others, during the quiz.

Signature: 

Date: 12/4/09

Your quiz will not be graded without signature above.

Answer Key:

Multiple Choice Answers:

| | | | | |
|---------|---------|---------------------|--------|---------|
| 1 B | 2 B | 3 B C | 4 A | 5 A |
| 6 C | 7 B | 8 A | 9 C | 10 C |
| 11 D | 12 D | | | |

Quantitative Answers:

| | |
|------------------|---------------|
| 13 186,410.31 | 14 7456.41 |
|------------------|---------------|

Multiple Choice Questions

Be sure to record your answers in the spaces provide on the cover sheet.

1. Which of the following is **NOT** typically a current liability?
 - a. Accounts payable.
 - ☒ b. A note payable due in 2 years.
 - c. Current portion of long-term debt
 - d. Sales tax payable.

2. On September 1, 2010, Daylight Donuts signed a \$100,000, 9%, six-month note payable. The principle and accrued interest are due on March 1, 2011. Daylight Donuts records the appropriate adjusting entry for the note on December 31, 2010. In recording interest expense for 2011 and the payment of the note at maturity on March 1, 2011, Daylight Donuts would 4.5%
4 months
 - ☒ a. Debit interest expense, \$3,000. 1,500
 - ☒ b. Debit interest expense, \$1,500.
 - c. Debit interest payable, \$1,500.
 - d. Debit interest expense, \$4,500.

3. Region Jet has a \$50 million liability at December 31, 2010, of which \$10 million is payable in 2011. In its December 31, 2010 balance sheet, the company records the \$50 million debt as ~~✗~~
 - ~~a. a \$50 million current liability on the balance sheet.~~
 - ~~b. a \$50 million long-term liability on the balance sheet.~~
 - ☒ c. a \$10 million current liability and a \$40 million long-term liability on the balance sheet.
 - ~~d. a \$40 million current liability and a \$10 million long-term liability on the balance sheet.~~

4. Skyway Corporation can estimate the amount of loss that will occur due to a lawsuit filed against the company. If the likelihood of loss is judged to be **reasonably possible**, a loss contingency should be
 - ☒ a. disclosed in the notes but not reported as a liability.
 - b. disclosed in the notes and reported as a liability.
 - c. neither disclosed in the notes or reported as a liability.
 - d. reported as a liability but not disclosed in the notes.

5. Reeves Company filed suit against Higgins Corporation seeking damages for copyright violations. Higgins' legal counsel believes it is **probable** that Higgins will settle the lawsuit for an estimated amount in the range of \$100,000 to \$200,000, with all amounts in the range considered equally likely. How should Higgins report this litigation?
- ☒ a. as a liability for \$100,000 with disclosure of the range.
 - b. as a liability for \$150,000 with disclosure of the range.
 - c. as a liability for \$200,000 with disclosure of the range.
 - d. as a disclosure only. No liability is reported.
6. Carpenter Corporation estimates warranty expense at 2% of sales. Sales during the year were \$4 million and warranty expenditures were \$44,000. What was the balance in the warranty liability account at the end of the year, assuming it had a \$0 balance at the beginning of the year?
- a. \$44,000.
 - b. \$80,000. 80,000
 - ☒ c. \$36,000. 44,000
 - d. \$480,000.
7. Serial bonds are:
- ☒ a. bonds backed by collateral.
 - ☒ b. bonds that mature in installments.
 - c. bonds with greater risk.
 - d. bonds issued below the face amount.
8. Which of the following leases is accounted for just like a regular short-term rental?
- ☒ a. an operating lease.
 - b. a capital lease.
 - c. both an operating and a capital lease.
 - d. neither an operating lease nor a capital lease.

Ramirez Mining Company issued callable bonds on January 1, 2010. Ramirez's accountant has calculated the following amortization schedule over the life of the bonds:

| Date | Cash Paid | Interest Expense | Increase in Carrying Value | Carrying Value |
|------------|-----------|------------------|----------------------------|----------------|
| 1/1/10 | | | | \$194,758 |
| 6/30/10 | \$7,000 | \$7,790 | 790 | 195,548 |
| 12/31/10 | \$7,000 | \$7,822 | 822 | 196,370 |
| 6/30/11 | \$7,000 | \$7,855 | 855 | 197,225 |
| → 12/31/11 | \$7,000 | \$7,889 | 889 | <u>198,114</u> |
| 6/30/12 | \$7,000 | \$7,925 | 925 | 199,039 |
| 12/31/12 | \$7,000 | \$7,961 | 961 | 200,000 |

9. Ramirez issued the bonds:

- a. At par.
- b. At a premium.
- ☒ c. At a discount.
- d. Cannot be determined from the given information.

10. As of 12/31/11, the present value of the interest and principle payments of the bonds will be (hint: no calculations are required):

- a. \$200,000
- b. \$194,758
- ☒ c. \$198,114
- d. Cannot be determined from the given information.

11. What is the **annual** stated interest rate on the bonds?

- a. 3%
- b. 3.5%
- c. 6%
- ☒ d. 7%

$$.035 \times 2 = 7\%$$

12. What is the **annual** market interest rate on the bonds (hint: no calculations are required)?

- a. 4%
- b. 3.5%
- c. 7%
- ☒ d. 8%

Quantitative Questions

Be sure to record your answers in the spaces provide on the cover sheet.

Stealth Fitness Center issues 7%, 10-year bonds with a face amount of \$200,000. The market interest rate for bonds of similar risk and maturity is 8%. Interest is paid semi-annually.

13. At what price will the bonds issue?

7% 10 yr 200,000
Mkt = 8%

3.5% 20 periods

$$200,000 \times .45639 = 91278$$

$$7,000 \times 13.59023 = 95132.31$$

186,410.31

14. What amount of interest expense will be recorded upon the first interest payment?

| | | |
|---------------|-------------------------------|------------|
| Cash | 186,410.31 | <u>CV</u> |
| Bonds Payable | 186,410.31 | 186,410.31 |
| Int Exp | (.04 x 186,410.31) 7456.41 | |
| Bonds Payable | 456.41 | |
| Cash | 7000 | |

7456.41

| PRESENT VALUE OF \$1: | | | | | | | | | | | | | | | | | | | |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|---------|---------|---------|---------|
| n\i | 1.0% | 1.5% | 2.0% | 2.5% | 3.0% | 3.5% | 4.0% | 4.5% | 5.0% | 5.5% | 6.0% | 6.5% | 7.0% | 7.5% | 8.0% | 8.5% | 9.0% | 9.5% | 10.0% |
| 1 | 0.99010 | 0.98522 | 0.98039 | 0.97561 | 0.97087 | 0.96618 | 0.96154 | 0.95694 | 0.95238 | 0.94787 | 0.94340 | 0.93897 | 0.93458 | 0.93023 | 0.92593 | 0.92166 | 0.91743 | 0.91324 | 0.90909 |
| 2 | 0.98030 | 0.97066 | 0.96117 | 0.95181 | 0.94260 | 0.93351 | 0.92456 | 0.91573 | 0.90703 | 0.89845 | 0.89000 | 0.88166 | 0.87344 | 0.86533 | 0.85734 | 0.84946 | 0.84168 | 0.83401 | 0.82645 |
| 3 | 0.97059 | 0.95632 | 0.94232 | 0.92860 | 0.91514 | 0.90194 | 0.88900 | 0.87630 | 0.86384 | 0.85161 | 0.83962 | 0.82785 | 0.81630 | 0.80496 | 0.79383 | 0.78291 | 0.77218 | 0.76165 | 0.75131 |
| 4 | 0.96098 | 0.94218 | 0.92385 | 0.90595 | 0.88849 | 0.87144 | 0.85480 | 0.83856 | 0.82270 | 0.80722 | 0.79209 | 0.77732 | 0.76290 | 0.74880 | 0.73503 | 0.72157 | 0.70843 | 0.69557 | 0.68301 |
| 5 | 0.95147 | 0.92826 | 0.90573 | 0.88385 | 0.86261 | 0.84197 | 0.82163 | 0.80165 | 0.78203 | 0.76273 | 0.74376 | 0.72509 | 0.70671 | 0.68863 | 0.67085 | 0.65337 | 0.63619 | 0.61930 | 0.60282 |
| 6 | 0.94205 | 0.91454 | 0.88797 | 0.86230 | 0.83748 | 0.81350 | 0.79031 | 0.76790 | 0.74622 | 0.72525 | 0.70496 | 0.68533 | 0.66634 | 0.64796 | 0.63017 | 0.61295 | 0.59627 | 0.58012 | 0.56447 |
| 7 | 0.93272 | 0.90103 | 0.87056 | 0.84127 | 0.81309 | 0.78599 | 0.75992 | 0.73483 | 0.71068 | 0.68744 | 0.66506 | 0.64351 | 0.62275 | 0.60275 | 0.58349 | 0.56493 | 0.54703 | 0.52979 | 0.51316 |
| 8 | 0.92348 | 0.88771 | 0.85349 | 0.82075 | 0.78941 | 0.75941 | 0.73059 | 0.70319 | 0.67684 | 0.65160 | 0.62741 | 0.60423 | 0.58201 | 0.56075 | 0.54027 | 0.52067 | 0.50187 | 0.48382 | 0.46651 |
| 9 | 0.91434 | 0.87459 | 0.83676 | 0.80073 | 0.76642 | 0.73373 | 0.70269 | 0.67260 | 0.64361 | 0.61563 | 0.58869 | 0.56273 | 0.53783 | 0.51393 | 0.49098 | 0.46898 | 0.44789 | 0.42765 | 0.40824 |
| 10 | 0.90529 | 0.86167 | 0.82035 | 0.78120 | 0.74409 | 0.70892 | 0.67566 | 0.64439 | 0.61491 | 0.58643 | 0.55889 | 0.53273 | 0.50835 | 0.48519 | 0.46319 | 0.44229 | 0.42241 | 0.40351 | 0.38554 |
| 11 | 0.89632 | 0.84893 | 0.80426 | 0.76214 | 0.72242 | 0.68495 | 0.64958 | 0.61620 | 0.58468 | 0.55491 | 0.52679 | 0.50021 | 0.47509 | 0.45134 | 0.42888 | 0.40764 | 0.38753 | 0.36851 | 0.35049 |
| 12 | 0.88745 | 0.83639 | 0.78849 | 0.74356 | 0.70138 | 0.66178 | 0.62460 | 0.58966 | 0.55684 | 0.52598 | 0.49697 | 0.46967 | 0.44401 | 0.41985 | 0.39711 | 0.37570 | 0.35553 | 0.33654 | 0.31863 |
| 13 | 0.87866 | 0.82403 | 0.77303 | 0.72542 | 0.68095 | 0.63940 | 0.60057 | 0.56427 | 0.53032 | 0.49856 | 0.46884 | 0.44102 | 0.41496 | 0.39056 | 0.36770 | 0.34627 | 0.32618 | 0.30734 | 0.28966 |
| 14 | 0.86996 | 0.81185 | 0.75788 | 0.70773 | 0.66112 | 0.61778 | 0.57748 | 0.53997 | 0.50507 | 0.47257 | 0.44230 | 0.41410 | 0.38782 | 0.36333 | 0.34046 | 0.31914 | 0.29925 | 0.28067 | 0.26333 |
| 15 | 0.86135 | 0.79985 | 0.74301 | 0.69047 | 0.64186 | 0.59689 | 0.55526 | 0.51672 | 0.48102 | 0.44793 | 0.41727 | 0.38883 | 0.36245 | 0.33797 | 0.31524 | 0.29414 | 0.27454 | 0.25632 | 0.23939 |
| 16 | 0.85282 | 0.78803 | 0.72845 | 0.67362 | 0.62317 | 0.57671 | 0.53391 | 0.49447 | 0.45811 | 0.42458 | 0.39365 | 0.36510 | 0.33873 | 0.31439 | 0.29189 | 0.27110 | 0.25187 | 0.23409 | 0.21763 |
| 17 | 0.84438 | 0.77639 | 0.71416 | 0.65720 | 0.60502 | 0.55720 | 0.51337 | 0.47318 | 0.43630 | 0.40245 | 0.37136 | 0.34281 | 0.31657 | 0.29245 | 0.27027 | 0.24986 | 0.23107 | 0.21378 | 0.19784 |
| 18 | 0.83602 | 0.76491 | 0.70016 | 0.64117 | 0.58739 | 0.53836 | 0.49363 | 0.45280 | 0.41552 | 0.38147 | 0.35034 | 0.32189 | 0.29586 | 0.27205 | 0.25025 | 0.23028 | 0.21199 | 0.19523 | 0.17986 |
| 19 | 0.82774 | 0.75361 | 0.68643 | 0.62553 | 0.57029 | 0.52016 | 0.47464 | 0.43330 | 0.39573 | 0.36158 | 0.33051 | 0.30224 | 0.27651 | 0.25307 | 0.23171 | 0.21224 | 0.19449 | 0.17829 | 0.16351 |
| 20 | 0.81954 | 0.74247 | 0.67297 | 0.61027 | 0.55368 | 0.50257 | 0.45639 | 0.41464 | 0.37689 | 0.34273 | 0.31180 | 0.28380 | 0.25842 | 0.23541 | 0.21455 | 0.19562 | 0.17843 | 0.16282 | 0.14864 |
| PRESENT VALUE OF AN ORDINARY ANNUITY OF \$1 | | | | | | | | | | | | | | | | | | | |
| n\i | 1.0% | 1.5% | 2.0% | 2.5% | 3.0% | 3.5% | 4.0% | 4.5% | 5.0% | 5.5% | 6.0% | 6.5% | 7.0% | 7.5% | 8.0% | 8.5% | 9.0% | 9.5% | 10.0% |
| 1 | 0.99010 | 0.98522 | 0.98039 | 0.97561 | 0.97087 | 0.96618 | 0.96154 | 0.95694 | 0.95238 | 0.94787 | 0.94340 | 0.93897 | 0.93458 | 0.93023 | 0.92593 | 0.92166 | 0.91743 | 0.91324 | 0.90909 |
| 2 | 1.97040 | 1.95588 | 1.94156 | 1.92742 | 1.91347 | 1.89969 | 1.88609 | 1.87267 | 1.85941 | 1.84632 | 1.83339 | 1.82063 | 1.80802 | 1.79557 | 1.78326 | 1.77111 | 1.75911 | 1.74725 | 1.73554 |
| 3 | 2.94099 | 2.91220 | 2.88388 | 2.85602 | 2.82861 | 2.80164 | 2.77509 | 2.74896 | 2.72325 | 2.69793 | 2.67301 | 2.64848 | 2.62432 | 2.60053 | 2.57710 | 2.55402 | 2.53129 | 2.50891 | 2.48685 |
| 4 | 3.90197 | 3.85438 | 3.80773 | 3.76197 | 3.71710 | 3.67308 | 3.62990 | 3.58753 | 3.54595 | 3.50515 | 3.46511 | 3.42580 | 3.38721 | 3.34933 | 3.31213 | 3.27560 | 3.23972 | 3.20448 | 3.16987 |
| 5 | 4.85343 | 4.78264 | 4.71346 | 4.64583 | 4.57971 | 4.51505 | 4.45182 | 4.38998 | 4.32948 | 4.27028 | 4.21236 | 4.15568 | 4.10020 | 4.04588 | 3.99271 | 3.94064 | 3.88965 | 3.83971 | 3.79079 |
| 6 | 5.79548 | 5.69719 | 5.60143 | 5.50813 | 5.41719 | 5.32855 | 5.24214 | 5.15787 | 5.07669 | 4.99553 | 4.91732 | 4.84101 | 4.76654 | 4.69385 | 4.62288 | 4.55359 | 4.48592 | 4.41983 | 4.35526 |
| 7 | 6.72819 | 6.59821 | 6.47199 | 6.34939 | 6.23028 | 6.11454 | 6.00205 | 5.89270 | 5.78637 | 5.68297 | 5.58238 | 5.48452 | 5.38929 | 5.29660 | 5.20637 | 5.11851 | 5.03295 | 4.94961 | 4.86842 |
| 8 | 7.65168 | 7.48993 | 7.32548 | 7.17014 | 7.01969 | 6.87396 | 6.73274 | 6.59589 | 6.46321 | 6.33457 | 6.20979 | 6.08875 | 5.97130 | 5.85730 | 5.74664 | 5.63918 | 5.53482 | 5.43444 | 5.33493 |
| 9 | 8.56602 | 8.36052 | 8.16224 | 7.97087 | 7.78611 | 7.60769 | 7.43533 | 7.26879 | 7.10782 | 6.95220 | 6.80169 | 6.65610 | 6.51523 | 6.37889 | 6.24689 | 6.11906 | 5.99525 | 5.87528 | 5.75902 |
| 10 | 9.47130 | 9.22218 | 8.98259 | 8.75206 | 8.53020 | 8.31661 | 8.11090 | 7.91272 | 7.72173 | 7.53763 | 7.36009 | 7.18883 | 7.02358 | 6.86408 | 6.71008 | 6.56135 | 6.41766 | 6.27880 | 6.14457 |
| 11 | 10.36763 | 10.07112 | 9.78685 | 9.51421 | 9.25262 | 9.00155 | 8.76048 | 8.52892 | 8.30641 | 8.09254 | 7.88687 | 7.68904 | 7.49867 | 7.31542 | 7.13896 | 6.96898 | 6.80519 | 6.64730 | 6.49506 |
| 12 | 11.25508 | 10.90751 | 10.57534 | 10.25776 | 9.95400 | 9.66333 | 9.38507 | 9.11858 | 8.86325 | 8.61852 | 8.38384 | 8.15873 | 7.94269 | 7.73528 | 7.53608 | 7.34469 | 7.16073 | 6.98384 | 6.81369 |
| 13 | 12.13374 | 11.73153 | 11.34837 | 10.98318 | 10.63496 | 10.30274 | 9.98565 | 9.68285 | 9.39357 | 9.11708 | 8.85268 | 8.59874 | 8.35765 | 8.12584 | 7.90378 | 7.69095 | 7.48690 | 7.29118 | 7.10336 |
| 14 | 13.00370 | 12.54338 | 12.10625 | 11.69091 | 11.29607 | 10.92052 | 10.56312 | 10.22283 | 9.89864 | 9.58965 | 9.29498 | 9.01384 | 8.74547 | 8.48915 | 8.24424 | 8.01010 | 7.78615 | 7.57185 | 7.36689 |
| 15 | 13.86505 | 13.34323 | 12.84926 | 12.38138 | 11.93794 | 11.51741 | 11.11839 | 10.73955 | 10.37966 | 10.03758 | 9.71225 | 9.40267 | 9.10791 | 8.82712 | 8.55948 | 8.30424 | 8.06069 | 7.82818 | 7.60608 |
| 16 | 14.71787 | 14.1326 | 13.57771 | 13.05500 | 12.56110 | 12.09412 | 11.65230 | 11.23402 | 10.83777 | 10.46216 | 10.10590 | 9.76776 | 9.44665 | 9.14151 | 8.85137 | 8.57533 | 8.31256 | 8.06226 | 7.82371 |
| 17 | 15.56225 | 14.90765 | 14.29187 | 13.71220 | 13.16612 | 12.65132 | 12.16567 | 11.70719 | 11.27407 | 10.86461 | 10.47726 | 10.10558 | 9.75322 | 9.43396 | 9.12164 | 8.82519 | 8.54363 | 8.27604 | 8.02155 |
| 18 | 16.39827 | 15.67256 | 14.99203 | 14.35336 | 13.75351 | 13.18958 | 12.65939 | 12.15989 | 11.68959 | 11.24607 | 10.82760 | 10.43247 | 10.05909 | 9.70601 | 9.37189 | 9.05548 | 8.75563 | 8.47127 | 8.20141 |
| 19 | 17.22601 | 16.42617 | 15.67846 | 14.97889 | 14.32380 | 13.70984 | 13.13394 | 12.59329 | 12.08532 | 11.60765 | 11.15812 | 10.73471 | 10.33560 | 9.95908 | 9.60360 | 9.26772 | 8.95011 | 8.64956 | 8.36492 |
| 20 | 18.04555 | 17.18864 | 16.35143 | 15.58916 | 14.87747 | 14.21240 | 13.59033 | 13.00794 | 12.46221 | 11.95038 | 11.46992 | 11.01851 | 10.59401 | 10.19449 | 9.81815 | 9.46334 | 9.12855 | 8.81238 | 8.51356 |

Name: ~~XXXXXXXXXX~~Student Number: 0829711TA: Jared JenningsSection Time: 10:30

Code of Conduct: By signing below you acknowledge that you are a member of a learning community at the Foster School of Business that is committed to the highest academic standards and that you adhered to these standards while completing this exam. Specific to this exam, by signing below you acknowledge that you did not receive or give help to others, nor did you witness others receiving or giving help to others, during the exam.

Signature: Date: 10/20/09

A215
Autumn 2009
Exam I

-13



- You have one hour and twenty minutes to complete this exam.
- For problems that require calculations show your work.
- Provide your answers in the space provided (not on a separate answer sheet).
- Please check to see that you have 12 pages (they are numbered).

CONCEPTUAL QUESTIONS

*These questions help me assess whether you understand the concepts we have covered. I created each question from looking through the text, my slides, your quiz section instructor's materials, and the homework.

1. (1 pts) Accounting is often referred to as the "language of business."

2. (2 pts) Only publicly-traded corporations are required to file financial statements with the Securities and Exchange Commission. Filing financial statements is costly. What are two benefits to being a publicly-traded cooperation?
 - 1) Limited Liability
 - 2) Distribution of Common Stock

3. (1 pts) A Dividend represents a return of the company's profits to its owners.

4. (1 pts) What is the name (or acronym) of the organization that sets International Financial Reporting Standards?

IASB

5. (1 pts) The role of the Auditor is to attest that management has appropriately applied Generally Accepted Accounting Principles in preparing a company's financial statements.

6. (3 pts) What are the six steps in the recording process?
 - Step 1: Analyze Source Documents
 - Step 2: Determine the effect on the accounting equation
 - Step 3: Determine Debits and Credits
 - Step 4: Record to the Journal
 - Step 5: Post to a T-account on a General Ledger
 - Step 6: Prepare a Trial Balance



7. (2 pts) If an investor wants to know how much a firm has earned, but not paid back to shareholders, over its lifetime what financial statement should the investor analyze?

Statement of Stockholders Equity

8. (3 pts) Does a debit increase or decrease the following accounts (circle one answer per account):

| | | |
|--------------------------|-----------------|-----------------|
| Accrued expenses | Increase | <u>Decrease</u> |
| Accumulated depreciation | Increase | <u>Decrease</u> |
| Deferred revenue | Increase | <u>Decrease</u> |
| Prepaid rent | <u>Increase</u> | Decrease |
| Cost of goods sold | <u>Increase</u> | Decrease |

9. (2 pts) Oakley Company purchases a piece of eyewear manufacturing equipment for \$4,000 on account. The piece of equipment has an expected life of 18 months.

Assume that Oakley has an operating cycle of 12 months. How will current assets be affected on the day that Oakley purchases the piece of equipment (circle one)?

Current assets will increase
Current assets will decrease
 Current assets will stay the same

X

-2

10. (3 pts) Which of the following accounts are temporary accounts and which are permanent accounts (circle one answer per account)?

| | | |
|-------------------|------------------|------------------|
| Dividends | Permanent | <u>Temporary</u> |
| Prepaid expenses | Permanent | <u>Temporary</u> |
| Unearned revenue | <u>Permanent</u> | Temporary |
| Accrued expenses | <u>Permanent</u> | <u>Temporary</u> |
| Retained earnings | <u>Permanent</u> | Temporary |

-1

11. (1 pts) Trek Corporation provides services to a customer on June 17, but the customer does not pay for the services until June 28. According to the revenue recognition principle, on what date should Trek record the revenue?

June 28

X

-1

-4

12. (1 pts) The Revenue Recognition Principle states that a firm should recognize expenses in the same period as the revenue they helped generate.

13. (1 pts) *Timing* is the key difference between cash-basis accounting and accrual-basis accounting.

14. (1 pts) On a classified balance sheet, current assets are listed in order of liquidity.

15. (2 pts) What are the three sections of the cash flow statements?

Financial
Operating
Investing

16. (1 pts) Ed says to Jared, "If a firm creates a trial balance and total debits equal total credits it means that the firm correctly recorded all of its transactions for the period." Jared says, "You lie!" Do you agree with Ed or Jared (circle one)?

☒ I agree with Ed

☐ I agree with Jared

-2

SHORT PROBLEMS

*These questions help me assess whether can use the concepts we have covered to solve problems. I created each question from looking through the text, my slides, your quiz section instructor's materials, and the homework.

17. (2 pts: Homework E1-4) Bontrager Corporation produces bicycle parts. At the end of the current period, the company reports the following amounts: Assets = \$80,000; Liabilities = \$44,000; Dividends = \$4,000; Revenues = \$28,000; Expenses = \$22,000.

Stockholders' equity at the end of the period is equal to: \$ \$36,000

18. (2 pts) Time Company started business at the beginning of 2005. Over the first four years of its life, Time reported the following:

| | Net income (loss) | Dividends |
|------|-------------------|-----------|
| 2005 | (\$1,000) | \$0 |
| 2006 | (\$3,000) | \$0 |
| 2007 | \$5,000 | \$1,000 |
| 2008 | \$10,000 | \$2,000 |

At the end of 2008, what is the balance in Time's retained earnings account?

\$ \$12,000

19. (3 pts) Mavic Company reported the following balances (prior to closing) at the end of 2009:

| | |
|----------------------|---------|
| Cash | \$6,000 |
| ✕ Rent expense | \$1,000 |
| ✕ Sales | \$9,000 |
| Common stock | \$4,000 |
| Accrued expenses | \$2,000 |
| ✕ Tax expense | \$1,000 |
| Unearned revenue | \$2,000 |
| ✕ Cost of goods sold | \$4,000 |
| Dividends | \$2,000 |
| Inventory | \$6,000 |
| ✕ Retained earnings | \$1,000 |

What did Mavic report as net income at the end of 2009?

\$ Net Gain of \$3000

(-2)

20. (3 pts) Saxo bank loans bicycle companies money. On January 1, 2009, Saxo loans Bianchi \$10,000 at an annual interest rate of 8%. Bianchi is contractually obligated to pay the \$10,000 principle and interest back at the end of 2009. Bianchi will not make any interest payments during the year. At the end of March 2009, Bianchi is required to create financial statements. Record the journal entry (if any) that Bianchi will enter on March 31 to reflect the interest it owes Saxo. If Bianchi is not required to record a journal entry on March 31 state "no entry required."

| DATE | REF # | ACCOUNTS | DEBIT | CREDIT |
|--------|-------|------------------|-------|--------|
| Mar 31 | 1 | Interest Expense | 2400 | |
| | | Interest Payable | | 2400 |

21. (3 pts) Rolf Company sells wheels. At the beginning of 2009, Rolf's inventory balance is \$4,000. At the end of 2009, its inventory balance is \$6,000. During 2009, Rolf reported cost of goods sold of \$325,000. How much inventory did Rolf purchase during 2009?

\$ 323,000

22. (5 pts) Compute the missing values (A – E).

ANSWERS & CALCULATIONS

Revenues \$290,000
Expenses \$250,000
Dividends paid \$0
Net income A

$$290,000 - 250,000 = 40,000$$

Retained Earnings:

Beginning balance \$60,000

Ending balance B

$$60,000 + 40,000 = 100,000$$

Total Assets:

Beginning balance \$250,000

Ending balance \$290,000

Total liabilities:

Beginning balance C

$$250,000 - 160,000 = 90,000$$

Ending balance D

$$290,000 - 200,000 = 90,000$$

Total equity:

Beginning balance \$160,000

Ending balance \$200,000

Common Stock:

Beginning balance \$100,000

Ending balance E

$$200,000 - 100,000 = 100,000$$

23. (2 pts) Campy Corporation sells and installs bicycle parts. During May, Campy has the following transactions:

- May 1 Customer pays cash in advance to have Campy install new parts on a bicycle.
- May 8 Campy purchases the parts on account from a supplier.
- May 15 Campy installs the parts and customer picks up the bike.
- May 20 Campy pays the supplier for the parts purchased on May 8.

Under Generally Accepted Accounting Principles, on what date should Campy record the supplies expense associated with installing the new parts?

May ~~20~~ 15

24. (4 pts: Homework E3-8) Consider the following transactions for Pearl Izumi Corporation:

- a. Equipment costing \$36,000 is purchased at the beginning of the year for cash. Depreciation on the equipment is \$6,000 per year.
- b. On June 30, the company lends its chief financial officer \$40,000; principle and interest at 6% are due in one year.
- c. On October 1, \$12,000 is received from a customer for a one-year property insurance policy. Unearned revenue is credited.

For each transaction, record the necessary adjusting entry (if any) for Pearl Izumi at its year-end of December 31. No adjusting entries were made during the year. If Pearl Izumi is not required to record an adjusting entry for any of the transactions state "no entry required."

| DATE | REF # | ACCOUNTS | DEBIT | CREDIT |
|-----------|-------|--|----------------------|--------|
| Jan 1 | 1 | Depreciation Expense Accumulated Depreciation | 6,000 | 6,000 |
| June 30 | 2 | Long Interest Revenue | 1200 1200 | 1200 |
| October 1 | 3 | Unearned Revenue Insurance Revenue | 3000 | 3000 |

COMPREHENSIVE PROBLEM

*This question helps me assess whether you can bring everything we have covered together to update a firm's balance sheet accounts.

25. (15 pts) Hammer Nutrition sells food and coaching services to elite endurance athletes. Hammer reported the following income statement and balance sheet for 2008.

Hammer Nutrition
Income Statement
For the year ended December 31, 2008

REVENUES

| | |
|------------------|----------------|
| Product revenue | \$70,000 |
| Coaching revenue | 50,000 |
| Total revenues | <u>120,000</u> |

EXPENSES

| | |
|----------------------|----------------|
| Cost of goods sold | 60,000 |
| Travel expense | 40,000 |
| Depreciation expense | 10,000 |
| Total expenses | <u>110,000</u> |

| | |
|------------|-----------------|
| Net income | <u>\$10,000</u> |
|------------|-----------------|

Hammer Nutrition
Balance Sheet
As of December 31, 2008

ASSETS

| | |
|----------------------|----------------|
| Current assets | |
| Cash | \$100,000 |
| Accounts receivable | 8,000 |
| Inventories | 80,000 |
| Total current assets | <u>188,000</u> |

Long-term assets

| | |
|-------------|---------|
| Equipment | 400,000 |
| Investments | 30,000 |

| | |
|------------------------|----------------|
| Total long-term assets | <u>430,000</u> |
|------------------------|----------------|

| | |
|--------------|------------------|
| Total assets | <u>\$618,000</u> |
|--------------|------------------|

LIABILITIES

| | |
|---------------------------|---------------|
| Current liabilities | |
| Accounts payable | \$6,000 |
| Accrued expenses | 8,000 |
| Deferred revenue | 70,000 |
| Total current liabilities | <u>84,000</u> |

Long-term liabilities

| | |
|-------------------|---------------|
| Notes payable | 5,000 |
| Total liabilities | <u>89,000</u> |

OWNERS' EQUITY

| | |
|----------------------|----------------|
| Common stock | 437,000 |
| Retained earnings | 92,000 |
| Total owners' equity | <u>529,000</u> |

| | |
|------------------------------------|------------------|
| Total liabilities & owners' equity | <u>\$618,000</u> |
|------------------------------------|------------------|

During the first three months of 2009 Hammer enters into the following transactions:

1. January 10: Hammer uses cash to pay \$5,000 of its accounts payable.
2. February 5: Hammer delivers \$60,000 worth of goods to a customer. The customer paid cash for the goods in November of 2008. The goods cost Hammer \$50,000.
3. February 20: Hammer is paid \$20,000 cash for coaching services. Hammer incurred travel costs of \$8,000 in providing the services. Hammer paid cash for the travel costs and classifies them as "travel expense."
4. March 7: Hammer is paid \$500 cash for interest on its investments.
5. March 16: Hammer issues \$5,000 of common stock for cash.
6. March 31: Hammer records depreciation expense of \$20,000. At the beginning of 2009, the gross amount in the equipment account is 500,000 and the total amount in the accumulated depreciation account is 100,000.

Assuming that these six transactions are the only activities for the quarter, and that Hammer is required to create financial statements at the end of the quarter.

REQUIRED

1. Record all required journal entries for transactions 1 – 6 in the attached journal.
 2. Record all required closing entries in the attached journal.
 3. In the attached ledger:
 - a. Fill in the beginning balances for all accounts.
 - b. Post all transactions and closing entries.
 - c. Fill in the ending balances for all accounts.
- ⇒ You DO NOT need to create any other documents (e.g., trial balance, income statement, balance sheet).

HAMMER NUTRITION JOURNAL

| DATE | REF # | ACCOUNTS | DEBIT | CREDIT |
|----------|-------|---|--------|--------|
| Jan 10 | 1 | Accounts Payable Cash | 5,000 | 5,000 |
| Feb 5 | 2 | Unearned Revenue Product Revenue Service Revenue | 60,000 | 60,000 |
| Feb 5 | 3 | Cost of Goods Sold Inventories | 50,000 | 50,000 |
| Feb 20 | 4 | Cash Coaching Revenue | 20,000 | 20,000 |
| Feb 20 | 5 | Travel Expense Cash | 8,000 | 8,000 |
| March 7 | 6 | Cash Interest Revenue | 500 | 500 |
| March 16 | 7 | Cash Common Stock | 5,000 | 5,000 |
| March 31 | 8 | Depreciation Expense Accumulated Depreciation | 20,000 | 20,000 |
| March 31 | 9 | Product Revenue Retained Earnings | 60,000 | 60,000 |
| | 10 | Coaching Revenue Retained Earnings | 20,000 | 20,000 |
| | 11 | Interest Revenue Retained Earnings | 500 | 500 |
| | 12 | Retained Earnings Cost of Goods Sold | 50,000 | 50,000 |
| | 13 | Retained Earnings Travel Expense | 8,000 | 8,000 |
| | 14 | Retained Earnings Depreciation Expense | 20,000 | 20,000 |

HAMMER NUTRION LEDGER

| | | |
|---|--|--|
| Cash <div>100,000</div> <div>5,000 ①</div> <div>④ 20,000</div> <div>⑥ 500</div> <div>⑦ 5,000</div> <hr/> <div>112,500</div> | Accounts receivable <div>8000</div> <hr/> <div>8000</div> | Inventories <div>80,000</div> <div>50,000 ③</div> <hr/> <div>30,000</div> |
| Equipment <div>400,000</div> <div>500,000</div> <hr/> <div>500,000</div> | Accumulated depreciation <div>100,000</div> <div>20,000 ⑧</div> <hr/> <div>120,000</div> | Investments <div>30,000</div> <hr/> <div>30,000</div> |
| Accounts payable <div>① 5,000</div> <div>6000</div> <hr/> <div>1000</div> | Accrued expenses <div>8000</div> <hr/> <div>8000</div> | Deferred revenue <div>② 60,000</div> <div>70,000</div> <hr/> <div>10,000</div> |
| Notes payable <div>5,000</div> <hr/> <div>5000</div> | Common stock <div>437,000</div> <div>5,000 ⑦</div> <hr/> <div>442,000</div> | Retained earnings <div>92,000</div> <div>60,000 ④</div> <div>20,000 ⑩</div> <div>500 ⑪</div> <div>⑫ 50,000</div> <div>⑬ 8,000</div> <div>⑭ 20,000</div> <hr/> <div>92,000</div> <div>94,500</div> |

-0

| | | | | | |
|-----------------|------------|------------------|------------|------------------|---------|
| Product revenue | | Coaching revenue | | Interest revenue | |
| (1) 60,000 | 60,000 (2) | (19) 20,000 | 20,000 (4) | (11) 500 | 500 (3) |
| | 0 | | 0 | | 0 |

| | | | | | |
|--------------------|-------------|----------------|------------|----------------------|-------------|
| Cost of goods sold | | Travel expense | | Depreciation expense | |
| (3) 50,000 | 50,000 (12) | (5) 8,000 | 8,000 (13) | (8) 20,000 | 20,000 (14) |
| 0 | | 0 | | 0 | |

Feedback (no points, but I appreciate your feedback & will share the results with you in our next class)

Was the exam fair (i.e., did it cover topics addressed in the text, my slides, your quiz section instructor's materials, and/or the homework problems)?

| | | | | | | | | | | |
|---------------------------|---|---|---|---|---|---|---|---|----|------------------------|
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| No, the exam was not fair | | | | | | | | | | Yes, the exam was fair |

Was the exam difficult?

| | | | | | | | | | | |
|-----------------------|---|---|---|---|---|---|---|---|----|----------------------------|
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| No, it was quite easy | | | | | | | | | | Yes, it was very difficult |

Approximately how many hours did you spend studying for the exam? _____ hours

Name: [scribbled out]Student Number: 0829711TA: Jared JenningsSection Time: ~~8:30~~ 10:30

Code of Conduct: By signing below you acknowledge that you are a member of a learning community at the Foster School of Business that is committed to the highest academic standards and that you adhered to these standards while completing this exam. Specific to this exam, by signing below you acknowledge that you did not receive or give help to others, nor did you witness others receiving or giving help to others, during the exam.

Signature: [Signature]Date: 11/12/09**A215****Autumn 2009****Exam II**

68
78
A

- You have one hour and twenty minutes to complete this exam.
- For problems that require calculations show your work.
- Provide your answers in the space provided (not on a separate answer sheet).
- Please check to see that you have 11 pages (they are numbered).

CONCEPTUAL QUESTIONS

*These questions help me assess whether you understand the concepts we have covered. I created each question from looking through the text, my slides, your quiz section instructor's materials, and the homework.

1. (3 pts) Internal control consists of five interrelated components. Name any three of the five components:

Risk Assessment

Monitoring

Control Environment

2. (2 pts) In what current asset account will you find a firm's short term investments that have a maturity date no longer than three months from the date of purchase?

Accounts Receivable ✓

3. (2 pts) Earnings quality is measured by comparing a company's net income to its

Net Sales ✓

4. (2 pts) Firms refer to the small amount of cash that they keep on hand to pay for minor purchases as Petty Cash.

5. (2 pts) Does writing off a customer's accounts receivable balance change a firm's net accounts receivable? (circle one)

YES

NO

6. (2 pts) On October 10, Bellatrix Corporation entered the following journal entry:

Bad debt expense.....400
Accounts receivable.....400

Which one of the following is true? (check one)

- ☐ Bellatrix uses the allowance method to account for accounts receivable.
☒ Bellatrix uses the direct write-off method to account for accounts receivable.
☐ There is not enough information to determine which method Bellatrix uses to account for accounts receivable.

7. (2 pts) In fiscal 2008, Sirius Black Corporation wrote off Terry Boot's accounts receivable balance of \$140. Unexpectedly in fiscal 2009, Terry Boot magically appears and pays off his accounts receivable balance that was previously written off. Indicate how Sirius' cash flows will be affected in fiscal 2008 and fiscal 2009 as a result of these events.

Cash flows in fiscal 2008 will: (circle one)

- will increase
will decrease
will not change

Cash flows in fiscal 2009 will: (circle one)

- will increase
will decrease
will not change

8. (2 pts) Which account below is NOT a contra sales account? (circle one)

- Sales discounts
Sales returns
Trade discounts
Sales allowances

(1)

9. (3 pts) Merchandising firms typically have one inventory account. In contrast, manufacturing firms typically classify inventory into three categories. What are the three categories?

Purchases Raw Inventory
Freight in In-Progress Inventory
Finished Inventory

10. (2 pts) The additional amount of inventory a firm would report if it used FIFO instead of LIFO is called the Lifo Reserve.

11. (2 pts) Once a firm has determined both the cost and market value of inventory at the end of an accounting period it applies a rule to see if the inventory needs to be written down. What do we call this rule?

Lower-cost-of-Market

12. (2 pts) Delacour Corporation uses a periodic inventory system. Delacour mistakenly overstates ending inventory at the end of period 1. Ending inventory is correctly stated at the end of period 2. Given this error, which of the following accounts will be understated at the end of period 2? (circle all accounts that will be understated)

Retained earnings
Net income
Inventory
 Cost of goods sold

-2

13. (2 pts) We use the term Capitalize to describe recording an expenditure as an asset rather than expensing it in the current period.

14. (3 pts) The systematic allocation of a **tangible** asset's cost to an expense over time is called Depreciation. The systematic allocation of an **intangible** asset's cost to an expense over time is called Amortization. The systematic allocation of a **natural resource** asset's cost to an expense over time is called Depletion.

2

15. (2 pts) Does GAAP or MACRS allow firms greater flexibility in choosing a cost allocation method? (circle one)

GAAP allows more flexibility

MACRS allows more flexibility

16. (2 pts) At the beginning of fiscal 2009, Goyle Corporation sold a piece of equipment for \$56,000 cash. Goyle originally bought the equipment at the beginning of fiscal 2004 for \$100,000. At the time of purchase, Goyle estimated the equipment's service life to be 10 years and its residual value to be \$10,000. Which of the following is true? (circle one)

Goyle recorded a loss when it sold the equipment.

Goyle recorded a gain when it sold the equipment.

There is not enough information to determine if Goyle recorded a loss or a gain when it sold the equipment.

$$\frac{100,000 - 10,000}{10} = 9000/\text{yr} \quad 56,000 \text{ cash}$$

x 5

| | |
|-----------|--------|
| Cash | 56,000 |
| Accum Dep | 45,000 |

| | |
|-----------|---------|
| Equipment | 100,000 |
| Gain | 1,000 |

10

SHORT PROBLEMS

*These questions help me assess whether can use the concepts we have covered to solve problems. I created each question from looking through the text, my slides, your quiz section instructor's materials, and the homework.

17. (4 pts: Homework E4-7) On July 31, 2010, Arkie Company's general ledger shows a checking account balance of \$22,870. The July cash receipts of \$1,785 included in the general ledger balance are placed in the night depository at the bank on July 31 and processed by the bank on August 1. The bank statement dated July 31 shows bank service charges of \$45. The bank statement reflects all checks written by the company on or before July 31, except for one check totaling \$1,360. The bank statement shows a balance of \$22,400 on July 31.

Prepare a bank reconciliation to calculate the correct ending balance of cash on July 31, 2010.

| | |
|-----------------------------------|-------------------------------|
| 22,400 | 22,870 |
| <i>Bank's Cash Balance</i> | <i>Company's Cash Balance</i> |
| <i>Deposits Outstanding 1,785</i> | <i>Service charge (45)</i> |
| <i>Checks outstanding (1,360)</i> | |

Real Balance = 22,825

Real Balance = 22,825

18. (3 pts) After completing its bank reconciliation and conducting a thorough investigation, Katie Bell Company cannot explain why its October 31 cash balance reported in the general ledger is \$45 less than the cash balance reported on its October 31 bank statement. What is the journal entry that Katie Bell will record to reconcile its cash balance with the bank's cash balance?

| DATE | REF # | ACCOUNTS | DEBIT | CREDIT |
|---------|-------|---|-------|--------|
| July 31 | 1 | Service Charge Expense Cash | 45 | 45 |

(2)

19. Borgan and Burkes Corporation reported the following information for fiscal 2006-2009:

| | 2006 | 2007 | 2008 | 2009 |
|--------------------------|-----------|-----------|----------|----------|
| Net sales | \$120,000 | \$100,000 | \$90,000 | \$80,000 |
| Cost of goods sold | 70,000 | 50,000 | 45,000 | 40,000 |
| Depreciation expense | 24,000 | 20,000 | 18,000 | 16,000 |
| Other operating expenses | 6,000 | 5,000 | 4,500 | 4,000 |
| Tax expense | 18,000 | 15,000 | 13,500 | 12,000 |
| Net income | 2,000 | 10,000 | 9,000 | 8,000 |
| Accounts receivable | 8,000 | 12,000 | 8,000 | 11,000 |
| Inventory | 12,000 | 14,000 | 16,000 | 15,000 |
| Total assets | 120,000 | 118,000 | 122,000 | 128,000 |
| Total liabilities | 50,000 | 60,000 | 60,000 | 68,000 |
| Total owners' equity | 70,000 | 58,000 | 62,000 | 60,000 |

Round all ratios to the nearest tenth.

- a. (2 pts) What is Borgan & Burkes' average collection period for 2008?

$$\frac{\text{Accounts Receivable}}{\text{Net Sales}} = .088 \times 365 = \boxed{32 \text{ days}}$$

- b. (2 pts) What is Borgan & Burkes' inventory turnover ratio for 2008?

$$\frac{\text{Net Sales} - 40,000}{\text{Avg. Inv.} = 16,000} = \frac{45,000}{16,000} = \boxed{2.8}$$

COGS = 45,000

- c. (2 pts) What is Borgan & Burkes' return on assets ratio for 2008?

$$\text{Profit Margin} = \frac{9,000}{90,000} = 10\% \text{ or } .1$$

$$\text{Asset Turnover} = \frac{90,000}{122,000} = .7$$

$$.1 \times .7 = \boxed{.07 \text{ or } 7\%}$$

20. (3 pts) On October 2, Barty Crouch Company sells a bike to a customer for \$2,000. The customer pays with a credit card. The credit card company charges 2% of the sale price of an item as a processing fee. Provide the journal entry that Barty will record when it sells the bike on October 2.

| DATE | REF # | ACCOUNTS | DEBIT | CREDIT |
|-------|-------|--------------------------|-------|--------|
| Oct 2 | 1 | Sales Revenue | 1960 | |
| | | Credit Card Charge Exp | 40 | |
| | | Sales Revenue | | 2000 |

-4

21. (3 pts: Homework E5-3) On October 10, Sir Nicholas Corporation provides services on account to Fleur Company for \$10,000 with terms 3/10, n/30. Fleur pays cash for those services on October 18. Record the collection of cash for Sir Nicholas on October 18.

| DATE | REF # | ACCOUNTS | DEBIT | CREDIT |
|--------|-------|---------------------|-------|--------|
| Oct 18 | 1 | Cash | 9,700 | |
| | | Sales Discounts | 300 | |
| | | Accounts Receivable | | 10,000 |

22. (3 pts) On March 1, Gideon Company provides consulting services to Diggory Corporation totaling \$140,000. In payment for the services, Diggory signs a note requiring payment of the principle and interest on October 1. The annual interest rate on the note is 12%. Record the collection of cash for Gideon on October 1.

| DATE | REF # | ACCOUNTS | DEBIT | CREDIT |
|-------|-------|------------------|---------|---------|
| Oct 1 | 1 | Cash | 149,800 | |
| | | Notes Receivable | | 140,000 |
| | | Interest Revenue | | 9,800 |

23. (3 pts) Below is a portion of Dumbledore Company's fiscal 2009 trial balance (before any adjusting entries have been recorded):

| | Debits | Credits |
|------------------------|--------|-----------|
| Net sales | | \$100,000 |
| Cost of goods sold | 70,000 | |
| Operating expenses | 24,000 | |
| Accounts receivable | 28,000 | |
| Allowance for bad debt | | 400 |
| Inventory | 20,000 | |
| Accounts payable | | 4,000 |
| Long-term debt | | 58,000 |
| Retained earnings | | 18,000 |

$$28,000 \times .15 = 4,200$$

| | |
|----------|-------|
| Bad Debt | 400 |
| | 3,800 |
| | 4,200 |

Dumbledore estimates uncollectible accounts to be 15% of accounts receivable. Record the adjusting entry to record bad debt expense at the end of fiscal 2009.

| DATE | REF # | ACCOUNTS | DEBIT | CREDIT |
|--------|-------|--------------------------------------|-------|--------|
| Dec 31 | 1 | Allowance for Bad Debt | | |
| | | Bad Debt Expense | 3,800 | |
| | | Allowance for Uncollectible Accounts | | 3,800 |

-0

24. During 2009, Hufflepuff Company had the following inventory transactions:

| Date | Transaction | Units | Unit cost | Total cost |
|-------|---------------------|-------|-----------|------------|
| Jan 1 | Beginning inventory | 1,000 | \$11 | \$11,000 |
| Feb 1 | Sale | 200 | | |
| Mar 1 | Sale | 600 | | |
| Jun 1 | Purchase | 400 | \$10 | \$4,000 |
| Sep 1 | Sale | 500 | | |
| Nov 1 | Purchase | 100 | \$15 | \$1,500 |

The sale price of each unit sold in 2009 was \$20.

- a. (3 pts) If Hufflepuff uses LIFO and a perpetual inventory system, what is the dollar amount of cost of goods sold and ending inventory at the end of 2009?

Feb 1 Sale 200 @ 11 Rev = 200 @ 20
 2200 4000

Mar 1 Sale 600 @ 11 Rev = 600 @ 20
 6600 12000

Sep 1 Sale ~~500~~ 400 @ 10 Rev = 500 @ 20
 100 @ 11 10,000
 4000 + 1100 5100

Cost of Goods Sold = 13,900
 Ending Inventory = 2600

- b. (3 pts) If Hufflepuff uses average cost and a periodic inventory system, what is the dollar amount of cost of goods sold and ending inventory at the end of 2009?

$$\text{Total Cost} = \frac{16500}{1500} = 11 = \text{Average Cost}$$

$$\text{Total Sales} = 1300 \times 11 =$$

Cost of Goods Sold = 14,300
 Ending Inventory = 2200

-0

25. On January 1, 2007, Luna Company purchases a moped for \$4,000. Luna estimates that at the end of its three-year service life the moped can be sold for \$700. During the three-year period Luna expects to drive the moped 3,000 miles.

a. (3 pts) Provide the journal entry to record depreciation expense for **year 2** assuming Luna uses the straight-line method of depreciation.

$$\frac{4000 - 700}{3}$$

$$\frac{3300}{3} = 1100/\text{yr}$$

| DATE | REF # | ACCOUNTS | DEBIT | CREDIT |
|---------------|-------|--------------------------|-------|--------|
| Jan 1 2008 | 1 | Depreciation Expense | 1100 | |
| | | Accumulated Depreciation | | 1100 |

b. (3 pts) Provide the journal entry to record depreciation expense for **year 2** assuming Luna uses the 150% declining balance method of depreciation.

$$\left(\frac{15}{30}\right) 4000$$

$$2000 = \text{yr 1} \quad 1000 = \text{yr 2}$$

| DATE | REF # | ACCOUNTS | DEBIT | CREDIT |
|---------------|-------|--------------------------|-------|--------|
| Jan 1 2008 | 1 | Depreciation Exp. | 1000 | |
| | | Accumulated Depreciation | | 1000 |

c. (3 pts) Provide the journal entry to record depreciation expense for **year 2** assuming Luna uses the activity-based method of depreciation. Luna drove the moped 1,100 miles in year 1, 1,200 miles in year 2, and 1,000 miles in year 3.

$$\frac{3300}{3000}$$

$$1.1 = \text{per mile} \times 1200 = 1320$$

| DATE | REF # | ACCOUNTS | DEBIT | CREDIT |
|---------------|-------|--------------------------|-------|--------|
| Jan 1 2008 | 1 | Depreciation Exp. | 1320 | |
| | | Accumulated Depreciation | | 1320 |



- d. (3 pts) Assume that Luna uses the straight-line method of depreciation and has determined at the end of year 2 (after recording depreciation expense) that the moped is impaired with a fair value of only \$1,000. Provide the journal entry to record the impairment loss at the end of year 2.

| DATE | REF # | ACCOUNTS | DEBIT | CREDIT |
|-------|-------|--------------------------|-------|--------|
| Jan 1 | 1 | Loss on impairment | 800 | |
| | | Accumulated Depreciation | | 800 |

$$\text{year 2 value} = 1000 \text{ not } (4000 - 2200) = 1800$$

$$1800 - 1000$$

Feedback (no points, but I appreciate your feedback & will share the results with you in our next class)

Was the exam fair (i.e., did it cover topics addressed in the text, my slides, your quiz section instructor's materials, and/or the homework problems)?

| | | | | | | | | | | |
|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|
| <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| No, the exam was not fair | | | | | | | | | | Yes, the exam was fair |

Was the exam difficult?

| | | | | | | | | | | |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------------------|-----------------------|----------------------------|
| <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| No, it was quite easy | | | | | | | | | | Yes, it was very difficult |

Approximately how many hours did you spend studying for the exam? 20 hours

- 0

BRANDON BARRON

MACRO 201

PHIL BROCK MIDTERM

First Exam

Instructions:

- This is a closed book test, so please put all materials except your UW answer sheet and #2 pencil on the floor.
- Be sure to fill in your name and student number, and I recommend you also circle your choices on the exam for future reference.
- You may not use a calculator or cell phone, and of course you may not share any information with anyone else. Please move quickly and quietly if asked to do so.
- The exam consists of 50 multiple choice questions. The right answer is the best of the choices offered, even if it is not the only one that is at least partially true.
- Fill in the bubble for **TEST VERSION A** on Side 1 of the answer sheet.

The test will end promptly at 10:20 am. When you finish, please turn in your answer sheet to your own TA, being sure that she/he checks your name off the class list.

Exam Questions

1. The field of macroeconomics studies:

- a. Government spending and taxation Row
- b. Trade policy toward China
- c. Anti-trust enforcement X
- d. All of the above

2. The most common definitions of GDP are

- a. the value of goods and services produced during a given period ✓
- b. the value of expenditure on goods and services during a given period X
- c. the sum of labor income and capital income during a given period ✓
- d. a and c ✓

3. Nominal GDP

- a. generally grows slower than real GDP ✓
- b. is measured by correcting for inflation X
- c. is calculated by multiplying the quantity of goods produced by their current prices X
- d. Has been discontinued due to statistical problems. X

$$Real = Nominal \cdot Price\ Index$$

$$Y = C + I + G + (X - M) \quad Sp + T = I + G$$

$$(Y - C - T) + (T - G) - I = X - M$$

$$P_3 + G_5 - I = X - M$$

4. The share of national income going to labor in the U.S. is about

- a. 10%
- b. 50%
- c. 70%
- d. 90%

5. Income distribution on the U.S. is:

- a. less equal than 30 years ago X
- b. more unequal over time
- c. more unequal than in most Latin American countries ✓
- d. all of the above

6. over the last 30 years income per capita has

- a. stayed the same
- b. increased
- c. doubled
- d. increased only if new immigrants are excluded

7. Which of the following is a public good?

- a. Social security
- b. National defense
- c. Food stamps
- d. Education

8. In the current recession

- a. Actual output has remained above potential output
- b. Industrial production has fallen less than in previous recessions
- c. Industrial production has fallen less than in previous recessions
- d. None of the above

9. During the current recession, households have increased their saving rate.

According to macroeconomists, this increased saving will do the following:

- a. shorten the recession
- b. Shorten the length of the recession X
- c. Decrease the size of the trade deficit ✓
- d. a and c ✓

10. The development of the U.S. national accounts began

- a. shortly after Alexander Hamilton became the first Secretary of the Treasury in 1789
- b. shortly after the end of the Civil War
- c. Sometime in the 1930s during the Great Depression
- d. In 1961 as part of Kennedy's New Frontier legislation

19.7% ✓ 17 1/6 1/6 1/6

14

11. Long term economic growth is necessarily accompanied by a rise in

- a. the productivity of labor
- b. inflation
- c. the productivity of labor
- d. interest rates

12. Which of the following statements is incorrect?

- a. Households buy goods and services from business firms ✓
- b. Firms supply factors of production to households ✓
- c. Firms buy factors of production from households ✓
- d. The government taxes households and firms ✓

factors of prod = inputs

13. Social security is an example of which function of government?

- a. Subsidizing retirees
- b. Making transfer payments
- c. Promoting the common good
- d. Promoting the welfare state

14. The relationship describing the choices that society can make among different types of goods and services is called

- a. gross domestic product
- b. the balance of trade
- c. intertemporal investment
- d. none of the above

Real Poss Frontier

15. The loss to society from the reduction in investment during a recession is

- a. lower saving
- b. lower standard of living in the future
- c. lower consumption now
- d. increased exports now

$$S - I = X - M$$

16. In the fourth quarter of 2008, investment expenditure in the U.S.:

- a. Fell by over 20 percent
- b. Excluding housing, it rose by 5 percent
- c. Either rose or fell, depending on which deflator is used
- d. All of the above

$$Y = C + I + G + X - M$$

$$SP + T = I + G$$

$$S - I = X - M$$

17. The current global recession is synchronized. This means that

- a. The OECD countries are coordinating their fiscal policies
- b. The OECD countries are coordinating their monetary policies
- c. The OECD countries have gone into recession at the same time
- d. The collapse of Lehman Brothers triggered the collapse of world trade.

18. If the U.S. is running a trade deficit, which of the following must be true:

- a. $Y = C + I + G$
- b. $Y < C + I + G$
- c. $Y > C + I + G$
- d. $Y - G = SP + I$

$$Y = C + I + G + X - M$$

$$(Y - C - I) + (X - M) = G - M$$

19. If China begins to export inexpensive cars to the U.S. in several years, what do macroeconomists think will happen to the U.S. trade balance?

- a. It will get worse
- b. It will not change
- c. It will get a lot worse
- d. Paradoxically, it will improve

$$Y = C + I + G + (X - M)$$

20. Suppose that a country's expenditure is only on consumption (i.e., no investment or government spending). Suppose also that Y is fixed at \bar{Y} . Then an improvement in the trade balance requires:

- a. a decrease in C
- b. an increase in C
- c. an increase in M
- d. none of the above

$$Y - C = X - M$$

21. If the government runs a bigger fiscal deficit, what must happen to keep investment constant?

- a. private saving must rise
- b. the trade deficit must get smaller
- c. consumption must rise
- d. all of the above

$$Y - C + G - I = X - M$$

22. What is the name of the bailout bill passed by the US congress to help the financial market?

- a. Emergency Economic Stabilization Act
- b. Toxic Asset Relief Program
- c. Troubled-Asset Relief Program
- d. Emergency financial support Bill

$$I = (X - M) - (S - I) - G$$

23. What are the restrictions placed on firms who received the bailout money?

- a. Firms are limited in how much they can compensate executives ✓
- b. The bailout bill allows the US Treasury to appoint a new CEO of the recipient firms. ✓
- c. The bill eliminates insurance on deposits.
- d. None of the above.

24. The current person who is responsible for running the bailout program is

- a. Henry Paulson
- b. Timothy Geithner ✓
- c. Elizabeth Warren
- d. Ben Bernanke → Obama

25. What is not a necessary characteristic of bankruptcy (Chapter 11)?

- a. Diluting of stock value ✓
- b. Production stops completely ✓
- c. Re-organization ✓
- d. Contract re-negotiations ✓

26. Why is GM less competitive than Toyota?

- a. The effects of the current economic recession
- b. Difference in the access to US Government bailout money
- c. GM has to pay higher tax rates on domestic production.
- d. Difference in employee compensation (wages, pensions, healthcare benefits) ✓

27. Who is least likely to be affected by GM going bankrupt?

- a. Suppliers
- b. Investors ✓
- c. Taxpayers
- d. Employees

Suppliers will decrease
Investors come badly
Employees
taxes ↑
but not too bad

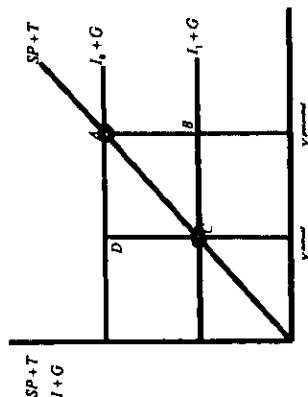
28. What can we observe about Japanese and US economies recently?

- a. The Japanese economy recorded a trade surplus ✓
- b. The US economy has a larger trade deficit ✓
- c. The Japanese economy recorded a trade deficit
- d. The US economy recorded a trade surplus

29. Among wealthy countries which of the following has the highest debt-GDP ratio?

- a. The US
- b. Japan ✓
- c. Canada
- d. South Korea

170%



$$SP+T = I+G$$

30. In the diagram above, at points A and C, we know that

- a. private saving is equal to taxes
- b. private saving is equal to investment ✓
- c. private saving plus public saving is equal to investment ✓
- d. private saving equals public saving

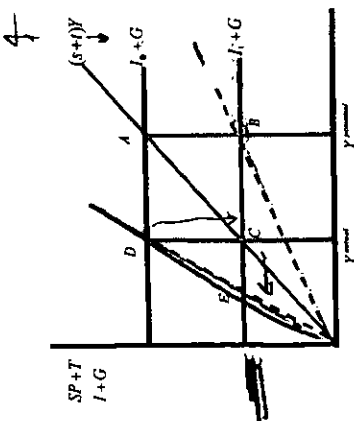
31. Suppose that an economy starts out at point A. Investment then falls from I_0 to I_1 in the above diagram. In the short run the economy will be at point

- a. A
- b. B ✓
- c. C
- d. D

32. At point B in the above diagram, inventories are

- a. accumulating
- b. decumulating ✓
- c. not changing
- d. being sold to the government (G)

Not changing ✓



33. Suppose that a country starts out at point C in the above diagram. If the tax rate t is lowered, the economy will have a new equilibrium at which point?

- a. A
b. B
c. D
d. E

34. Suppose that a country starts out at point C. If the saving rate increases, the economy will have a new equilibrium at which point?

- a. A
b. B
c. D
d. E

35. Suppose that the economy starts out at point D. If investment falls from I_0 to I_1 , the economy will move toward which point over time?

- a. A
b. C
c. D
d. B

$$Y = C + I + G$$

36. In 2008 households in the U.S. received a tax rebate. What was the macroeconomic impact of this rebate?

- a. It allowed households to go out and spend, raising $C + I + G$.
b. It was largely offset by increased household saving.
c. It caused Lehman Brothers to collapse in September 2008.
d. It caused short-term interest rates to fall.

$$Y = C + I + G$$

$$Y = C + T$$

37. Which of these is typically fixed for a government bond?

- a. the price
b. the yield
c. the coupon
d. all of the above

$$Y = C + T$$

$$Y = C + T + (T - G) - 1 = X - M$$

38. "When interest rates rise, the U.S. Treasury boosts the coupon paid on existing long term bonds accordingly." Rate this statement as

- a. wrong
b. correct
c. true only before the 1950 Treasury Accord
d. only true beginning in 2009 as part of the government's PPPP (Public-Private Investment Partnership)

$$Y = C + I + G$$

39. Although long term U.S. Treasury bonds are free of ~~price~~ risk, they are not free of ~~price~~ risk.

- a. inflation/default
b. interest rate/default
c. interest rate/default
d. default/interest rate

40. The fluctuation in the price of a long term bond in response to changes in the interest rate is called

- a. interest rate risk
b. interest rate risk
c. interest rate risk
d. default risk

Means interest & change
Price risk

41. The income risk of a bond

- a. Only applies to long-term bonds
b. Is the risk that the issuer of the bond will default
c. Is the risk that the price of a bond will fall due to changes in the interest rate
d. Is the risk that consecutive short-term investments will not yield the same return as a long-term investment

Price risk = default risk?

NO

42. A negative interest spread is a good predictor of

- a. banking crises
- b. recessions
- c. rising bill rates
- d. higher inflation rates

43. Compared to 2006, Treasury bill rates in the U.S. are now

- a. about the same
- b. much higher
- c. well in excess of bond prices
- d. much lower

44. The most important interest rate for macroeconomic policymaking is

- a. the one-year Treasury bill rate
- b. the 30-year Treasury bond rate
- c. the Federal Funds rate
- d. the Federal Reserve discount rate

45. According to the expectations theory of interest rates, if the interest rate spread is positive, investors expect short term interest rates to

- a. rise
- b. fall
- c. remain steady
- d. there is no connection

46. If a 10-year treasury bond has a 3% coupon rate and the price of the bond is less than 100 (face value) then the yield on the bond:

- a. will increase over time
- b. will decrease over time
- c. will be greater than 3 percent
- d. will be equal to the coupon rate

The following formulas may be useful for the next four questions:

$$Y = \frac{100 - P}{P} \times \frac{365}{\text{\# days to maturity}}$$

$$Y = \frac{C + (FV - P)/n}{\frac{1}{2}(FV + P)}$$

47. If the price of a newly-issued 1-year treasury bill is 99, the yield is approximately:

- a. 1 percent
- b. 2 percent
- c. 8 percent
- d. it depends on the Federal Funds rate

48. If the coupon on a ten-year bond is 7 and the price of the bond is 80, the yield on the bond is approximately:

- a. 1 percent
- b. 2 percent
- c. 7 percent
- d. 10 percent

49. If the coupon on a twenty-year bond is 7 and the price of the bond is 100, the yield on the bond is:

- a. 1 percent
- b. 2 percent
- c. 7 percent
- d. 10 percent

50. If a 90-day T-bill (i.e., it will mature in 90 days) has an annualized yield of 4%, then it must be selling for about

- a. \$98
- b. \$99.50
- c. \$99
- d. \$96

The End!

Make sure you have filled in **TEST VERSION A** on Side 1 of the answer sheet.

bill
9
Bank

long short term

$$7 + 2 = 9$$

$$\frac{7 + (100 - 80)/10}{90}$$

$$\frac{7 + (100 - 80)/10}{90} = 10$$

$$\frac{7}{100}$$

$$4 = \frac{100 - x}{x} \cdot \frac{1}{4}$$

$$\frac{1}{d} = \frac{100 \times d}{x} \cdot \frac{1}{99}$$

$$\frac{100 - 99}{99} = \frac{1}{99}$$

Test Files

Class

MATH 126

- Quiz #1, 2, 3
- MIDTERMS I, II
- 2 practice Finals

ESRM (online)

- MIDTERM I, II

Computer Science +
Engineering

- Midterm, Final

ECONOMICS 200

Quiz #1-6

MIDTERM

Teacher

Elro Bekegel

Spring '09

who cares

Spring '09

Ralph Stuart

Winter '09

Jeremy Twerner

Winter '09

of

Treuer's Extra

Test FILES

Scholarship Chair's Eyes Only