

**Introduction to Accounting and Financial Reporting  
ACCTG 215 Section E**

**Fall 2009**

**Professor J.B. Paperman**

**Exam I**

 of 3  
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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 exam.

**INSTRUCTIONS:**

- a) **This exam is closed book and closed notes. You may use a calculator to assist in computations. You may not use a phone, iPod, or 'Blackberry' as a calculator.**
- b) **You must complete this exam on your own. No assistance is allowed except that provided by the Professor and TA.**

**TRUE/FALSE. (3 points each) Write 'T' if the statement is true and 'F' if the statement is false.**

~~1) A corporation is an entity that is legally separate from its owners.~~  
F

2) A credit to an account balance always results in the balance decreasing.  
F

3) The *Sarbanes-Oxley Act* is also known as Generally Accepted Accounting Principles.  
F

4) Long-term asset categories include investments; property, plant, and equipment; and intangible assets.  
T

5) Common examples of cash equivalents are money market funds, treasury bills, and certificates of deposit.  
T

6) Selling common stock for cash causes assets to increase and stockholders' equity to decrease.  
F

7) The office supplies account is an example of an accrued expense.  
F

8) The two primary components of stockholders' equity include common stock and revenue.  
F

9) The primary functions of financial accounting are to measure business activities of a company and to communicate those measurements to internal parties for decision-making purposes.  
F

10) Separation of duties refers to auditors not being allowed to perform both audit and nonaudit services for the same client.  
F

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**MULTIPLE CHOICE. (3 points each) Circle the one alternative that best completes the statement or answers the question.**

~~11)~~ The matching principle is the principle that states:

- A. All costs that are used to generate revenue are recorded in the period the revenue is recognized.
- ☒ B. All transactions are recorded at the exchange price.
- C. The business is separate from its owners.
- D. The business will continue to operate indefinitely unless there is evidence to the contrary.

12) With respect to the bank reconciliation which is correct?

- A. Subtract interest earned from the bank's balance.
- B. Add service charge to the company's balance.
- ☒ C. Subtract NSF checks from the company's balance.
- D. Add deposits outstanding to the company's balance.

13) Materiality is based upon which factor(s)?

- A. Timeliness of an item.
- ☒ B. Amount and nature of an item.
- C. Consistency of an item.
- D. Relevance of an item.

14) External events include all of the following *except*:

- A. Paying employees' salaries.
- B. Purchasing equipment.
- ☒ C. Using office supplies.
- D. Collecting an account receivable.

15) The accounts payable account has a beginning balance of \$12,000 and the company purchased \$50,000 of supplies on account during the month. The ending balance was \$10,000. How much did the company pay to creditors during the month?

- A. \$50,000.
- ☒ B. \$52,000.
- C. \$60,000.
- D. \$62,000.

~~16)~~ The form of business organization that is legally separate from its owners is a:

- A. Partnership.
- B. Single proprietorship.
- C. Corporation.
- ☒ D. Separation entity.

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17) Accounting information that does not provide measurement bias in favor of a particular set of companies has the characteristic of:

- A. Relevance.
- B. Consistency.
- C. Materiality.
- ☒ D. Neutrality.

18) The costs of providing goods and services to customers are referred to as:

- A. Assets.
- ☒ B. Expenses.
- C. Liabilities.
- D. Revenues.

19) Which statement below best describes the accounting equation?

- A. The change in retained earnings equals net income less dividends.
- B. Equality of revenue and expense transactions over time.
- ☒ C. Resources of the company equal creditors' and owners' claims to those resources.
- D. Financing activities equal investing and operating activities.

20) Receiving cash from an account receivable:

- ☒ A. Increases a revenue and decreases an asset.
- B. Decreases a liability and increases an asset.
- C. Increases an asset and increases a revenue.
- D. Increases one asset and decreases another asset.

21) Which of the following is true about adjusting entries?

- A. Entries are necessary due to the conservatism principle.
- B. Entries can be done at the beginning or end of the accounting period.
- C. They zero the balance of all income statement accounts.
- ☒ D. They are a necessary part of accrual-basis accounting.

22) Which of the following would not represent good controls over cash disbursements?

- A. Periodically check amounts shown in the debit card and credit card statements against purchase receipts.
- B. The employee verifying the accuracy of the debit card and credit card statements should not also be the employee responsible for actual purchases.
- C. Set maximum purchase limits on debit cards and credit cards.
- ☒ D. Employees responsible for making cash disbursements should also be in charge of cash receipts.

23) Receiving assets from customers before services are performed results in:

- A. Prepaid assets.
- B. Service revenue.
- ☒ C. Unearned revenues.
- D. Accounts receivable.

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24) Cash may not include:

- A. Foreign currency.
- B. Money orders.
- ☒ C. Accounts receivable.
- D. Undeposited customer checks.

25) Generally Accepted Accounting Principles (GAAP) are best defined by:

- ☒ A. Standards or methods for presenting financial accounting information.
- B. Government-mandated rules that companies must follow.
- C. Rules that help best estimate profitability for a company.
- D. The group of individuals that create and enforce all accounting rules.

26) Cash flows from investing do not include cash flows from:

- A. Lending.
- B. The sale of equipment.
- ☒ C. Borrowing.
- D. The purchase of a building.

27) Which of the following accounts has a debit balance?

- A. Accounts payable.
- B. Unearned revenue.
- C. Service revenue.
- ☒ D. Salaries expense.

28) A list of all accounts and their balances after updating account balances for adjusting entries is referred to as:

- A. A trial balance.
- ☒ B. An adjusted trial balance.
- C. A post-closing trial balance.
- D. An accounting trial balance.

29) Which of the following is a possible adjusting journal entry?

- A. Debit cash, credit accounts payable.
- B. Debit service revenue, credit cash.
- ☒ C. Debit expenses, credit liability.
- D. Debit expenses, credit retained earnings.

30) A customer purchased a \$2,000 item at ApplianceWorld, paying with a credit card. ApplianceWorld is charged a 2% fee by the credit card company. When recording this sale, ApplianceWorld would:

- A. debit accounts receivable for \$2,000.
- ☒ B. credit sales revenue for \$2,000.
- C. credit sales revenue for \$1,960.
- D. credit unearned sales revenue for \$2,000.

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X 31) The revenue recognition principle states that:

- ☒ A. Revenue should be recognized in the period the cash is received.
- B. Revenue should be recognized in the period earned.
- C. Revenue should be recognized in the balance sheet.
- D. Revenue is a component of common stock.

32) The financial statement(s) that record activity over an interval of time is (are) the:

- A. Income statement.
- B. Balance sheet.
- C. Balance sheet and income statement.
- ☒ D. Income statement and statement of cash flows.

33) Permanent accounts would not include:

- ☒ A. Interest expense.
- B. Wages payable.
- C. Prepaid rent.
- D. Unearned revenues.

34) The following amounts are reported in the ledger of Mariah Company:

Assets	\$80,000
Liabilities	36,000
Retained Earnings	12,000

What is the balance in the common stock account?

- A. \$44,000.
- ☒ B. \$32,000.
- C. \$48,000.
- D. \$42,000.

X 35) Which employees are responsible for a company's effective internal controls?

- ☒ A. Upper management.
- B. Mid-level managers.
- C. Lower-level employees.
- D. All employees.

36) Providing services and receiving cash will:

- ☒ A. Increase assets and increase stockholders' equity.
- B. Increase assets and increase liabilities.
- C. Decrease assets and increase liabilities.
- D. Decrease liabilities and increase stockholders' equity.

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**SHORT ANSWER. (3 points per blank)** Write the word, number or phrase that best completes each statement or answers the question.

37) Listed below are ten terms followed by a list of phrases that describe or characterize four of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

**Terms:**

- ☒ a. Monitoring
- b. Oversight board
- c. Control activities
- d. Corporate executive accountability
- ☒ e. Nonaudit services
- f. Control environment
- g. Internal control
- ☒ h. Information and communication
- i. Auditor rotation
- ☒ j. Risk assessment

A) a Procedures for maintaining separation of duties.

B) h PCAOB establishes standards related to the preparation of audited financial reports.

C) e Audit firm cannot provide a variety of other services to its client, such as consulting.

D) j Formal policies to evaluate internal and external threats to achieving company objectives.

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38) Suppose a company rents office space for one year, paying \$24,000 (\$2,000/month) in advance on September 1. Record the adjusting entry on December 31.

	Dr.	Cr.
Rent Expense	8,000	
Prepaid Rent		8,000

39) A company purchases new equipment for \$36,000 cash on August 1, 2010. At the time of purchase, the equipment is expected to be used in operations for four years (48 months) and have no resale or scrap value at the end. The company depreciates equipment evenly over the 48 months. Record the adjusting entry for depreciation on December 31, 2010.

150 per month

	Dr.	Cr.
Depreciation Expense	3,750	
Accumulated Depreciation		3,750

40) A company borrows \$20,000 with 8% interest on October 1, 2010. This amount plus interest is due on September 30, 2011. Record the adjusting entry on December 31, 2010.

No adjusting entry, the interest is not compounded monthly. Therefore, there is not yet an insurance expense.

41) A company pays its employees \$5,600 every two weeks (\$400/day). The current two-week pay period ends on December 26, 2010, and employees are paid \$5,600. The next two-week pay period ends on January 9, 2011, and employees will be paid \$5,600. Record the adjusting entry on December 31, 2010.

	Dr.	Cr.
Salaries Expense	2,000	
Salaries Payable		2,000

42) Below are typical transactions for a company. Indicate whether each transaction is classified as a financing, investing, or operating activity.

1. Financing Sell common stock to investors.
2. Operating Sell services to customers.
3. Investing Purchase factory for operations.
4. Operating Pay for cost of advertising.
5. Operating Purchase supplies on credit.
6. Financing Distribute cash to stockholders.

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