The Final Exam

ANSWERS ARE AT 5.29

Students;

The final exam is multiple choice. This is due to a number of factors: 1) We do not have the graduate students available to help with the grading, and two, we only have a limited time after the exam to get the grades in. Fall quarter of 2002 was the first multiple choice Accounting 101 final based on the Map. The students did worse than we expected and we curved the grades on the exam about 15 points. We felt this was because the students did not know what to expect and therefore did not know how to study. The following is one of the versions of that exam. You do now know what to expect and there will be no curve on the final.

Where necessary, all answers are rounded to two digits.

1) Babs Corporation is buying all the assets and assuming all the liabilities of Zexler. The following information is available for Zexler at the day of the purchase.

Cash	300,000	Accounts payable	50,000
Accounts Rec	100,000	Bond Payable	100,000
Inventory	100,000	Common Stock	200,000
Land	300,000	Retained Earnings	250,000

100,000 x 10% = 10,000
10,000 x 3.9927 = 39,927
100,000 x .6806 = 68,060
107,987

The inventory is worth $50,000 and the land is worth $500,000. Additionally, the Bond Payable debt is payable interest only at 10% per year for the next 5 years and then the principal is due. Current interest rates for similar are debt is 8%. Babs will pay $1,000,000 for Zexler. How much of the purchase price will Babs debit to goodwill?

A. $ 450,000
B. $ 200,000
C. $ 550,000
D. $ 207,987
E. Some other number which is not here

300,000
100,000
50,000
500,000
<50,000>
<107,987>
792,013

1,000,000
<792,013> FMV
207,987

2) A 10 year, $100,000 zero coupon bond is priced to yield 10%. The amount the issuing company will receive when it is issued is:

A. $ 4,240.50
B. $ 100,000
C. $ 38,550
D. $ 42,405
E. $ 385,000

100,000 x .3855 = 38,550

3) If the above zero bond was sold on Jan 1 of 2002, the interest expense for 2003 **(the second year)** would be

A. $ 4,240.50
B. $ 3,705.60
C. $ 10,000.00
D. $ 42,405.00
E. Some other number

38,550 x 10% = 3855
42,405 x 10% = 4240.50

4) A capital lease is really:

A. A purchase of the asset
B. A "u-haul" it or temporary lease
C. A better lease than an non-capital lease
D. A current asset
E. Some other thing

5) Sally wants to retire in five years. She wants to live on $100,000 per year and she will stay retired for 40 years. She thinks that her retirement funds can earn 12% per year. If she takes her first annual check in exactly five years, how much does she need to deposit today to accomplish her goal? (Rounded to the nearest dollar)

A. $ 467,753
B. $ 46,775
C. $ 52,389
D. $ 523,893

100,000 x 8.2438 = $\boxed{824,380}$ x .6355 = 523,893.49
(12%, 40) (12%, 4)
PV

6) The term "seasoned" when referring to a loan means

a. the payments on the loan have been made when due.
b. the payments on the loan have not been made when due.
c. the interest payments on the loan have not been made when due.
d. the loan has been sold.
e. the loan has been paid.

7) Suzie bought a new pickup for $40,000 for use in her gymnastics business. She estimates the truck will be useful to her for 5 years and then will be worth $4,000.During its useful life, she estimates it will travel 200,000 for business. If she uses the activity based depreciation method, and she drove 50,000 miles in the first year and 40,000 miles in the second year, how much would her accumulated depreciation account have in it at the end of the second year?

A. $ 7,200
B. $ 16,200
C. $ 14,400
D. $ 7,200
E. Some other number

$\frac{40{,}000 - 4{,}000}{200{,}000}$ = .18 x 50,000 = 9,000
" x 40,000 7,200
16,200

8) According to the Article "Why Johnny Can't Invest" losing feels

A. Twice as bad as winning feels good
B. Three times as bad winning feels good
C. We feel about the same level of intensity psychology when we win as when we lose.
D. The article didn't really talk about the level of feelings between winning and losing

9) Leon's Paving Company issuing 5 year, $100,000 face, 10% coupon rate bonds to yield 12%. The journal entry to record the issuance of the bonds would include:

INT = 100,000 x 10% = 10,000

A) A debit to bond discount of $7,212
B) A debit to cash of $100,000
C) A credit to premium on bonds payable of $ 7,574.60
D) A credit to bonds payable of $ 92,788
E) some other answer

10,000 x 3.6048 = 36,048
100,000 x .5674 = 56,740
92,788

CASH 92,788
DISCT 7,212
BONDS PAY 100,000

10,000 11,136.56 <1134.56> 93,922.56

10,000

10) For Leon's bonds, if they were issued the first day of 20x1 (10% face priced to yield 12%) and the first years interest was paid on Dec 31 of 20x1, the entry to record that interest would include:

A) A credit to cash of $11,134.56

B) A debit to interest expense of $10,000

C) A credit to discount of $ 7,574.60

D) A credit to cash for $10,000

E) none of these.

92,788 x 12% = 11,134.56

INT EXP	11,134.56	
DISCT		1134.56
CASH		10,000.00

11) Still on Leion's bond. The journal entry to record the interest expense for the **second** year would include

A) A credit to interest payable of $ 11,270.71

B) A debit to interest expense of $10,000

C) A credit to bond discount of $1,270.71

D) A credit to cash for $ 11,270.71

E) none of these.

92,788 + 1134.56 = 93,922.56 x 12% = 11,270.71

INT EXP	11,270.71	
DISCT		1270.71
CASH		10,000

12) The Brock Company prepares annual financial statements at December 31 of each year. On April 1, 20x2 they borrowed $100,000 from the bank. The Brock Company must pay interest of 12% plus $10,000 on April 1 each year.

The journal entry on December 31, 20x2 is:

INT 100,000 x 12% = 12,000 x 9/12 = 9,000

A. Interest Expense	$9,000	
Interest Payable		$9,000
B. Interest Expense	$12,000	
Cash		$12,000
C. Interest Expense	$12,000	
Note Payable	$10,000	
Cash		$22,000
D. Interest Expense	$12,000	
Interest Payable		$12,000
E. Interest Payable	$9,000	
Interest Expense		$9,000

PMT	INT	PRINC	BAL
			92,788
10,000	11,134.56	<1134.56>	93,922.56

13) Still Brock, The journal entry on April 1, 20x3 is:

A.

Interest Expense	$9,000	
Interest Payable		$3,000
Note Payable	$10,000	
Cash		$22,000

B.

Interest Expense	$3,000	
Interest Payable	$9,000	
Note Payable	$10,000	
Cash		$22,000

C.

Interest Expense	$12,000	
Note Payable		$10,000
Cash		$22,000

D.

Interest Payable	$12,000	
Cash		$12,000

F.

Interest Expense	$3,000	
Note Payable	$10,000	
Cash		$13,000

14) You plan to sell books for $50 each. The books cost $10 each, your rent is $1,500 and all other fixed expenses are $500. How many books do you need to sell to make $2,000 each month?

A) 40
B) 50
C) 100
D) 160
E) Need more information

SALES	50
VC	10
CM	40

$$\frac{1500+500+2{,}000}{40} = 100$$

15) Devlon Corp has a beginning balance (1/1/x1))in Accounts Receivable of $50,000 and beginning credit balance in the Allowance for Doubtful Accounts of $1,000. During 20x1 they sold $900,000 of goods on credit and collected $750,000. If Devlon estimates that 2% of its ending accounting receivable will eventually not be collected, its adjusting journal entry for the bad debt expense will include a credit to allowance for doubtful accounts of:

A. $ 4,000
B. $ 3,900
C. $ 4,100
D. $ 3,000

A/R	
50,000	750,000
900,000	
200,000	

200,000 × 2% = 4,000

ADA	
	1,000
	4,000

BAD DEBT EXP	3,000	
ADA		3,000

16) If Devlon had written off $500 of accounts receivable during 20x1, the debit to bad debt expense would have been:

A. $ 4,000
B. $ 3,490
C. $ 3,500
D. $ 3,990

A/R	
50,000	750,000
900,000	500
199,500	

199,500 × 2% = 3990

ADA	
500	1,000
	500
	3990

BAD DEBT EXP	3490	
ADA		3490

17) Still Devlon- the average collection period is:

A. 7.2 times
B. 6.00 times
C. 50.69 days
D. 60.83 days

A/R TURN $\frac{900{,}000}{\frac{50{,}000 + 199{,}500}{2}}$ = 7.21 $\frac{365}{7.21}$ = 50.62

(124,750)

18) Slick Bob will sell you a Thingie for $10,000. The deal is you pay for the Thingie in five equal annual payments that include interest at 2%. You called the bank and they said that they would charge you 10% for a similar loan..

How much are the payments if you take Slick Bob's deal?

A. $ 2,374.17
B. $ 2,637.97
C. $ 2,000.00
D. $ 2,121.57
E. None of these

$\frac{10{,}000}{4.7135}$ = 2121.57

(2%, 5)

19) How much, to the nearest dollar, are you really paying for the Thingie under Slick Bob's deal?

A. $ 8,042
B. $ 9,000
C. $ 11,191
D. $ 7,238
E. None of these

2121.57
x 3.7908 (10%, 5)
8042.43

20) If you amortize the Slick Bob deal properly, the interest for the first year would be

A. $ 804.20
B. $ 237.42
C. $ 723.80
D. $ 900.00
E. $ none of these

8042.42
x 10%
804.24

21) Susie Company has a balance in the treasury stock account of $6,000 representing 1,000 shares of stock she bought back last year. If she sells 200 shares of the stock for $ 7 per shares, her balance in treasury stock will be:

A. $ 4,800
B. $ 5,800
C. $ 4,600
D. None of these

1,000 @ $6

TREAS STOCK	
6,000	1200
4800	

(200 x $6)

PIC - T/S	
	200

Cash	1400	
T/S		1200
PIC-T/S		200

22) Samantha had a flood. Her ending inventory last year was $10,000. To the day of the flood she had purchased $800,000 in goods. Her sales to the date of the flood were $1,000,000. She keystones all her merchandise when determining the sales price. How much did Samantha lose in the flood?

A. $ 1,000,000
B. $ 810,000
C. $ 310,000
D. $ 190,000
E. Some other number

SALES		1,000,000
BI	10,000	
PURCH	800,000	
	810,000	
E.I.		
COGS		500,000 (1,000,000 ÷ 2)

23) Chris's Company had net income for 20x2 before tax and depreciation of $500,000. The corporate tax rate is 30%. Chris's has $1,000,000 in fixed assets. Assume that the fixed assets are depreciated using the straight line method for reporting purposes over 10 years with no salvage value. All of the property is 5 year property for tax (MACRS) purposes. The five year percentages are 20.00, 32.00, 19.20, 11.52, 11.52, 5.76. The equipment was all purchased at the beginning of 20x1. Assume this is the company's second year of operation and no assets, other than the $1,000,000 which the company purchased on the day it opened, have been bought or sold since the company opened..

How much is the debit to tax expense for 20x2?

A. $ 300,000
B. $ 160,000
C. $ 54,000
D. $ 120,000
E. $ Some other number

	Book	Tax	
	500,000	500,000	1,000,000
$\frac{1,000,000}{10}$ Depr	100,000	320,000	× 32%
	400,000	180,000	320,000
	× 30%	× 30%	
	120,000	54,000	
	66,000		

24) Still Chris's Company-- How much is the credit to deferred taxes in the 20x2 journal entry to record taxes?

A. $ 300,000
B. $ 66,000
C. $ 54,000
D. $ 120,000
E. $ Some other number

25) Still Chris's- What is the balance in the deferred tax account after the 20x2 journal entry for taxes? (Assume the company had the same net income before tax and depreciation for 20x1 as it did for 20x2)

A. $ 66,000
B. $ 128,000
C. $ 96,000
D. $ 120,000
E. $ Some other number

Book	Tax	
500,000	500,000	1,000,000
100,000	200,000	× 20%
400,000	300,000	200,000
× 30%	× 30%	
120,000	90,000	
30,000		

Def Tax

	30,000
	66,000 Yr #2
	96,000

Tax Exp 120,000
Taxes Pay 54,000
Deferred Taxes 66,000

Answer the next six questions using the below data

	Beg Balance	End Balance	
Cash	10,000	25,000	
Accts Rec	40,000	35,000	
Inventory	50,000	60,000	
Equipment	200,000	220,000	20,000
Accum Deprec	20,000	30,000	
Land		100,000	100,000
Accts Pay	50,000	60,000	85,000
Wage pay	10,000	5,000	
Long-term debt	100,000	20,000	<80,000>
Common Stock	50,000	325 75,000	25,000
Retained Earnings	70,000	250,000	20,000 Div
Sales		1,000,000	
Cost of goods sold		500,000	
Other expenses		300,000	

Last year the company had sales of $1,000,000, and earned $200,000 after taxes. The land was purchased for cash, the equipment was acquired by exchanging common stock worth $20,000. The company did not sell any equipment during the year. The retained earnings balance for both years is after all closing entries have been made.

26) What was the cash Flow from Operations for the Year?
A. $ 200,000
B. $ 210,000
C. $ 240,000
D. $ 15,000

200 NI
10 Depr
5 A/R
<10> Inventory
10 A/P
<5> Wages
210

27) What was The cash Flow from Investing for the year?
A. ($120,000)
B. ($100,000)
C. ($ 80,000)
D. Some other number

<100> LAND

28) What was The cash Flow from Financing for the year? (Be careful!!)
A. $ -0-
B. ($80,000)
C. ($ 75,000)
D. ($ 95,000)

<80,000> N/P
5,000 Common Stock
<20,000> Div
<95,000>

29) How much in dividends did the company pay during the year?
A. $ -0-
B. $ 10,000
C. $ 20,000
D. $ 200,000
E. Unable to determine from information given

30) What was the debt to equity ratio at the end of the year?

A. .2073
B. 1
C. .5692
D. 4.823
E. None of these

$\frac{85}{85+325} = .2073$

(410)

31) What was the inventory turn?

A. 9.09
B. 40.15
C. 8.33
D. 43.82
E. Some other number

$\frac{500,000}{\frac{50,000+60,000}{2}} = 9.09$

55,000

For the next four questions, use the following data:

On January 1, 20x1 John F's Company had 8 Thingies which cost you $10 each in your inventory. During the year, the following transactions occurred

60	Jan 1 Sold 3 Thingies for $20 each
	Feb 1 bot 8 Thingies @ $11 each
88	Mar 1 sold 4 Thingies @ $22 each
110	Jun 1 sold 5 Thingies for $22 each
	Sept 1 bot 3 @ $12 each
48	Dec 1 sold 2 @ $24 each
306	

INV - FIFO

8 @ $10	80	30	3 @ $10
8 @ $11	88	40	4 @ $10
3 @ $12	36	54	1 @ $10, 4 @ $11
		22	2 @ $11
	204	146	
	28		

32) Cost of Goods Sold Under FIFO would be:

A) $146
B) $152
C) $160
D) $154
E) none of these

33) Cost of Goods Sold Under LIFO would be

A) $146
B) $152
C) $160
D) $154
E) none of these

LIFO

8 @ $10	80	30	3 @ $10
8 @ $11	88	44	4 @ $11
3 @ $12	36	54	4 @ $11, 1 @ $10
		24	2 @ $12
	204	152	
	52		

34) Gross Margin using FIFO

A) $146
B) $152
C) $160
D) $154
E) none of these

306
146
160

35) Ending Inventory using LIFO

A) $ 47
B) $ 52
C) 4 @ $10
D) $154
E) none of these

Brutus wants to buy from Debbie a Lucky Company 10%, \$100,000 bond that was issued 5 years ago. The bond pays interest annually. The bonds currently have exactly five years to maturity. Figure out the price Brutus should pay Debbie under each of the following scenarios. (Answer to the nearest \$5)

36) Current interest rates are 8%
A) \$ 107,987
B) \$ 100,000
C) \$ 74,730
D) \$ 92,818
E) \$ 62,090

INT = 100,000 x 10% = 10,000
10,000 x 3.9927 = 39,927
100,000 x .6806 68,060
107,987

37) Current interest rates are 10%
A) \$ 107,787
B) \$ 100,000
C) \$ 74,730
D) \$ 68,060
E) \$ 62,090

38) Current Interest rates are 12%
A) \$ 107,787
B) \$ 100,000
C) \$ 74,730
D) \$ 92,788
E) \$ 62,090

10,000 x 3.6048 = 36,048
100,000 x .5674 = 56,740
92,788

39) Freeland Company had wages payable at the beginning of the year of \$4,000. During the year her company paid cash wages of \$80,000 and at the end of the year she owed wages of \$10,000. Her income statement for the year will show wage expense of:
A) \$ 80,000
B) \$ 84,000
C) \$ 94,000
D) \$ 90,000
E) \$ 86,000

WAGE
76
10
86

WAGES PAY 4,000
WAGE EXP 76,000
CASH 80,000

WAGE EXP 10,000
WAGE PAY 10,000

40) Still on Freeland Company, her wages payable on the balance sheet at the end of the year will be :
A) \$ 10,000
B) \$ 14,000
C) \$ 84,000
D) \$ 94,000
E) \$ 86,000

41) If Susie Co issues 2,000 shares of \$1 par value stock for \$60,000, the credit to "paid in capital in excess of par" would be
A. \$ 60,000
B. \$ 58,000
C. \$ 2,000
D. None of these

CASH 60,000
CS 2,000
ADD'L 58,000