Additional Final Exam Practice SOLUTIONS (These MAY be duplicates of earlier practice exam questions.....)

1) Company XYZ made a sale to a customer for cash. The company also collected 7% sales tax from the customer. Which of the following is the effect of this transaction?
   a) decreases net income.
   b) decreases the debt/equity ratio.
   c) decreases the current ratio.
   d) decreases net worth.

B

Cash
Sales
SalesTax Payable

↑ Equity
↑ Liability (but only 7% of Sales)

$\frac{\text{Debt}}{\text{Equity}}$ ↑ a little / ↑ a lot

2) On January 1, 2003, Moore Company purchased a subsidiary at a cost of $1,000,000. The balance sheet of the subsidiary reported assets of $4,000,000, and liabilities of $3,200,000. The fair value of net assets was $900,000. The book value of liabilities equaled the fair value. How much is goodwill?
   a) $200,000
   b) $100,000
   c) $0
   d) $800,000

B

A 2100,000
− L 1200,000
Net Assets 900,000

Goodwill 100,000
Assets 2100,000
Liabilities 1,200,000
Cash 1,000,000

3) The consolidation procedure of accounting for long-term equity investments is typically used
   a) when less than 20% of the investee company is owned.
   b) in situations when over 50% of the investee company is owned.
   c) only when 100% of the investee company is owned.
   d) when between 20% and 50% of the investee company is owned.

B

4) Apple, Inc. paid $10,000 for a stock investment and classified it as available-for-sale. On December 31, 2002, the company appropriately recognized an unrealized increase of $2,000. The stock is reported on Apple's balance sheet at December 31, 2002 at
   a) $10,000.
   b) $12,000.
   c) $8,000.
   d) Not enough information to determine.

B

10,000 + 2000 = 12000 FMV

5) By recognizing the economic effects of inflation on the accounting financial statements, which accounting assumption is ignored?
   a) Economic entity assumption
   b) Going concern assumption
   c) Stable dollar assumption
   d) Fiscal period assumption

C

6) Expensing the cost of a pencil holder that cost $1.25 instead of capitalizing it as a plant asset and depreciating it over its estimated useful life of 10 years
   a) violates the economic entity assumption.
   b) violates GAAP since pencil holders are important assets.
   c) is justified because of materiality.
   d) is appropriate because of the stable dollar assumption.

C

7) Below are several accounts from Ragged Company's accounting records.

Total assets, end of year	$100,000
Total liabilities, end of year	36,000
Capital stock, end of year	12,000
Retained earnings, beginning of year	18,000
Dividends for the period	31,000
Net income	65,000

The amount of retained earnings at the end of the year is

a) $34,000.
b) $40,000.
c) $52,000.
d) $64,000.

C

A = L + E
100,000 36000 12000 + ? ← 52000
C/S RE

8) Which one of the following statements best describes the concept of consistency?

a) When uncertainty exists, understating assets, overstating liabilities, accelerating recognition of losses, and delaying recognition of gains is preferred.
b) Accounting numbers are consistently market value.
c) Different firms use identical accounting measurement methods for similar events.
d) Similar events are measured using identical accounting procedures from period to period.

D

9) Which one of the following statements best describes objectivity?

a) When uncertainty exists, understating assets, overstating liabilities, accelerating recognition of losses, and delaying recognition of gains is preferred.
b) The measurement of an event is verifiable and reliable.
c) Different firms use identical accounting measurement methods for similar events.
d) Objectives are laid out that are conservative or too aggressive by management.

B

10) The stockholders' equity section of the balance sheet is

a) the owners' interest in the company based on the book value of the company.
b) the amount for which the owner could sell the company.
c) valued at the present value of the dividends paid to shareholders.
d) the difference between the fair market value and the original cost of the company's assets.

A

11) If assets are $1,200, liabilities are $600, and contributed capital is $300, then stockholders' equity is

a) $600.
b) $1,800.
c) $900.
d) $300.

A

A = L + E
1200 = 600 + 600

12) On May 31, 2002, the physical count of office supplies was $2,200. During June, supplies were acquired at a cost of $1,600 and the company debited the Office Supplies Expense account. At June 30, actual supplies on hand totaled $500. The *credit* part of the adjusting entry required at the end of June is

B

a) Office Supplies Expense of $1,700.
b) Office Supplies of $1,700.
c) Office Supplies Expense of $3,300.
d) Office Supplies of $500.

Supplies	
2200	1700
500	

Supplies Exp	
1600	
1700	

Cash	
	1600

13) A revenue account

D

a) is increased with a debit.
b) is not considered to be an item on the income statement.
c) is reported on the balance sheet at the end of the accounting period.
d) when offset with expenses ultimately leads to net income and an increase to retained earnings.

* Assumes Declared + Paid on the same date

14) Which of the following changes describes the payment of $1,000 for cash dividends?

B

a) Assets and owners' equity increase by $1,000.
b) Assets and owners' equity decrease by $1,000.
c) Assets and liabilities increase by $1,000.
d) Assets and liabilities decrease by $1,000.
e) No changes in total assets, liabilities, or owners' equity.

Dividends Declared 1000
Cash 1000

15) Which of the following changes describes the collection of $6,000 from customers who purchased services on account that were received during a previous accounting period?

a) Assets and owners' equity increase by $6,000.
b) Assets and owners' equity decrease by $6,000.
c) Assets and liabilities increase by $6,000.
d) Assets and liabilities decrease by $6,000.
e) No changes in total assets, liabilities, or owners' equity.

Cash 6000
AR 6000

16) Rant Corp. purchased supplies at a cost $2,000 during 2002. At January 1, 2002, supplies inventory amounted to $800. At December 31, 2002, supplies inventory are $400. Supplies expense for 2002 are

B

a) $1,200.
b) $2,400.
c) $1,600.
d) $2,800.

Supplies	
800	400
400	

Supplies Exp	
400	
2000	
2400	

Cash	
	2000

17) A company has a 4-month, 11%, $10,000 Notes Payable account in its general ledger at the end of the year. The note matures two months after the end of the accounting period. Which statement is true?

E

a) No interest is accrued, since interest is due when the note matures.
b) Interest revenue must be accrued at the end of the accounting period.
c) The notes payable could generate a gain if the note is paid off early.
d) The interest was paid when the cash was borrowed.
e) Interest expense must be accrued at the end of the accounting period.

18) When an adjusting entry that recognizes accrued interest revenue is recorded,

D

a) assets increase and liabilities increase.
b) owner's equity increases and liabilities decrease.
c) assets decrease and liabilities decrease.
d) owner's equity and assets increase.

Int Receivable X
Interest Revenue X

19) Kramer Company sold stock for cash and received cash for services performed during the current month. Which of the following summarizes the income statement impact of these transactions for the current month?

B

a) Both the sale of stock and the performance of services increased revenues for the company.
b) Only the performance of services caused an increase in revenues.
c) Only the performance of services caused a decrease in revenues.
d) Only the sale of stock caused revenues to increase.

Cash X
C/S X

Cash X
Fees Earned X

20) Liquidity is the ability

C

a) to increase net assets through regular operations.
b) to generate cash from sources other than regular operations.
c) to convert existing assets into cash.
d) of financial statement users to predict a company's cash flows.

21) The current ratio helps assess a company's

D

a) profitability.
b) asset turnover.
c) capital structure leverage.
d) solvency.

22) Which of the following ratios would be of primary importance to a manager in evaluating the success of a new policy of reducing the stock of goods needed to meet customer demand?

D

a) Total asset turnover
b) Sales turnover
c) Accounts receivable turnover
d) Inventory turnover
e) Earnings per share

23) Which of the following is a fundamental way in which financial accounting numbers are useful?

a) They can predict the way the stock price will behave.
b) They are used to assess the quality of a company's products.
c) They can be used to predict a company's future earnings.
d) They identify the effect of inflation on the value of company's assets.

C

24) A company would likely "take a bath"

a) in periods of extraordinary high net income.
b) just prior to creating hidden reserves.
c) when it has experienced an extremely poor year.
d) when its quality of earnings is very high.

C

25) Using borrowed funds to generate returns for the stockholders is called

a) leverage.
b) profitability.
c) taking a bath.
d) solvency.

A

26) 'Earnings management' is described as deliberate managerial decisions and choices that are solely designed to

a) increase selling prices of a company's products.
b) reduce repair costs on the company's equipment.
c) manipulate net income from one period to the next to boost the company's stock price.
d) increase working capital.

C

27) The allowance for doubtful accounts is

a) an 'other revenue' account.
b) a contra accounts receivable account.
c) an 'other expense' account.
d) a contra expense.

B

28) On January 2, Baby Co. made a $2,000 credit sale under the terms 3/10, n/30. If Baby uses the gross method of accounting for cash discounts, the proper entry on January 2 includes

a) a debit to Accounts Receivable for $2,000, and a credit to Sales for $2,000.
b) a debit to Accounts Receivable for $2,000, a credit to Cash Discounts for $1,940, and a credit to Sales for $60.
c) a debit to Accounts Receivable for $1,940, and a credit to Sales for $1,940.
d) a debit to Accounts Receivable for $1,940, a debit to Cash Discounts for $60, and a credit to Sales for $2,000.

A

AR 2000

Sales 2000

The cash discount will be recorded when the customer pays within the discount period.

$5\% \times 30{,}000 = 1500$

not tested

29) The gross amount of accounts receivable for Bull Inc. is $30,000 at year end. It is estimated that 5% of the accounts will not be collected, cash discounts of $500 will be exercised, and $200 of sales returns will be experienced. The net realizable value of accounts receivable is
   a) $27,600
   b) $27,835
   c) $30,000
   d) $27,800

30,000
− 1500 Allowance for Doubtful Accts
− 500 Allowance for Discount
− 200 Allowance for Sales returns

assums net method

27800

D

30) Plane Co. uses an aging schedule of accounts receivable in estimating its bad debt expense. The total estimate, which appears on the aging schedule, will be equal to
   a) the amount of bad debts expense on the company's income statement.
   b) the debit balance required in the allowance account prior to the recognition of bad debts expense.
   c) the increase in bad debts expense as a result of the estimate.
   d) the credit balance required in the allowance account after the recognition of bad debts expense.

C

31) A company's allowance for doubtful accounts is $4,000 and $3,000 on 1/1/04 and 1/1/03, respectively. During 2003, bad debts expenses were estimated to be 6% on net credit sales of $100,000. During 2003, the amount of accounts written off as uncollectible amounts to
   a) $6,000.
   b) $7,000.
   c) $5,000.
   d) $4,000.

Allowance for D.A.	
w/o 5000	3000
	6000 ← 6% × 100,000
	4000

A

32) Johnny Produce fraudulently overstated its December 31, 2003 inventory by $8,000. As a result of this overstatement,
   a) the 2003 earnings per share is overstated.
   b) the 2003 current ratio is understated.
   c) the 2003 cost of goods sold amount is overstated.
   d) net income is overstated for 2004, and net income for 2003 is correct.

* If EI is overstated then COGS is understated and NI is overstated

D

33) Jenny Books purchased 200 books, paying $10 each. Jenny paid the $50 shipping costs necessary for those books to be delivered to her bookstore. How much is the cost of inventory?
   a) $2,000
   b) $2,030
   c) $2,020
   d) $2,050

200 × $10 = 2000
+ 50
$ 2050

34) Altec Corp. uses the aging method to estimate bad debts. The bookkeeper provided the following schedule as of March 30th, 2002:

Account Age	Balance	Noncollection Probability	
Current	$50,000	* 2% =	1000
1 -- 30 days past due	40,000	* 4% =	1600
31 -- 60 days past due	10,000	* 8% =	800
Over 60 days past due	5,000	* 17% =	850
			$4250

What is the amount of receivables deemed uncollectible?

a) $1,650
B b) $4,250
c) $3,400
d) $105,000

35) During a year of rising prices and increasing inventory, which cost flow assumption would measure the smallest net income?

A a) LIFO ——— ↑ COGS ↓ NI
b) FIFO
c) Averaging
d) All methods measure income the same.

36) Selecting an inventory cost flow assumption will most likely be influenced by which one of the following?

a) The physical flow of the inventory goods
b) The cost of the company's plant and equipment
C c) Income taxes
d) The cost flow assumptions most often used by other companies

37) Selling more inventory than was purchased during the current period may often cause old, smaller costs that were carried as part of the company's beginning inventory, to be moved to the income statement and reported as cost of goods sold. This is called

a) the LIFO conformity rule.
B b) LIFO liquidation.
c) the LIFO reserve rule.
d) lower-of-cost-or-market accounting.

38) Income from trading or available-for-sale equity securities is recognized when

a) dividends are received from the investee due to the uncertainty of payment. No, when declared
B b) dividends are declared by the investee.
c) adjusting entries are made to record fair value adjustments. only for Trading
d) the investee reports profits for the accounting period. No - equity method 20% - 50% ownership

39) Trading securities are

a) readily marketable investments that management intends to hold for extended periods.

B b) always short-term investments.

c) current assets that require the equity method of accounting for investments.

d) actively 'traded' on the open market, but cannot be sold until they mature.

40) During 2003, the market price of trading securities declined. Which one of the following correctly reflects the effects on the financial statements as a result?

a) Current ratio and earnings per share decrease.

A b) Current ratio and earnings per share increase. ↓ Assets ↓ Equity ↓ NI

c) Current ratio is unchanged and earnings per share increases.

d) Current ratio increases and earnings per share are unchanged.

41) Aron Corp. purchased available-for-sale securities from Betty Company on December 23 for \$3,000. On December 31, the market value of those securities is \$3,500. Which one of the following is appropriate on December 31?

a.	Available-for-Sale Securities	3,500	
	Unrealized Gain on Available-for-Sale Securities		3,500
b.	Available-for-Sale Securities	500	
	Unrealized Gain on Available-for-Sale Securities		500
c.	Available-for-Sale Securities	500	
	Unrealized Price Increase on Available-for-Sale Securities		500
d.	No entry is required.		

C

42) Which one of the following is true of the equity method?

A a) The income recognized by the investor is based on the percentage of stock ownership and the amount of earnings reported by the investee.

b) Market value adjustments are made at yearend.

c) The receipt of dividends increases net income on the investor's financial statements.

d) The percent of ownership must be greater than 50% to apply this method.

43) Which one of the following is an area of subjectivity which opens the incentive of window dressing to management as it relates to investments?

a) The timing of when an investment is sold

B b) The proclamation of the intention to sell an investment within the next month

c) The determination of the percentage of stock acquired

d) Whether management has available cash to acquire investments

44) An investor owns trading equity securities in Jim Company. Jim Company declared dividends of $200 during July. What entry is required in August when the dividends are received?

A

a.	Cash	200	
	Dividends Receivable		200
b.	Dividends Receivable	200	
	Trading Securities		200
c.	Dividends Receivable	200	
	Dividend Revenue		200
d.	Cash	200	
	Trading Securities		200
e.	No journal entry is made.		

45) Which one of the following groups of accounts contains only assets?

A

a) Equipment, patents, accounts receivable
b) Accounts receivable, building, retained ~~earnings~~
c) Accounts ~~payable~~, notes ~~payable~~, ~~contributed~~ capital
d) ~~Retained~~ earnings, goodwill, and ~~accounts~~ payable

46) At the end of 2001, Kazlo Company has total assets and liabilities at $40,000 and $13,000, respectively. Kazlo reported net income for 2002 in the amount of $10,000. How much is stockholders' equity at the end of 2002?

D

a) $20,000
b) $22,000
c) $31,000
d) $37,000

A = L + E

12/31/01 40 = 13 + 27

+10 NI

12/31/02 37

Assumes no dividends declared

47) Which of the following accounts is valued using Present Value on the financial statements?

C

a) Equipment, less depreciation
b) Marketable securities
c) Bonds Payable
d) Intangible assets
e) Inventory

48) Jose Inc. purchased a 100 acre tract of land. The company plans to build its corporate headquarters on the land. The Land account would include all of the following costs except:

B

a) drainage costs to remove a muddy pond needed to stabilize the land and prevent erosion.
b) the cost to build a small office on the land for the accountant.
c) legal and recording fees paid at closing (purchase).
d) the cost of tearing down a building.

49) A company that is highly leveraged is one that

B

a) has a high earnings per share.
b) relies more heavily on debt financing than equity financing
c) contains only equity financing.
d) has more current liabilities than current assets

50) Sparkle Inc. purchased a group of assets from Deadbeat Inc. for a bargain purchase price of $100,000. The assets included inventory, land, and a small building. How should Sparkle record the assets purchased on Sparkle's balance sheet?

D

a) The assets should be recorded based on the relative book values from Deadbeat's financial statements prior to the sale.
b) The cost should be allocated mostly to inventory since those items will be sold first and will convert to Cost of Goods Sold on the income statement. This allocation results in the most conservative valuation by quickly lowering net income.
c) The cost should be allocated to the inventory and building; no cost should be allocated to the Land since Land is never amortized or depreciated.
d) The cost should be allocated to all three asset categories based on their relative fair market values even though these values are often subjective and difficult to determine.

51) On January 10, 2008 Andersen Corp. purchased 3,000 shares of stock in Boxwood Corp. The cost of the purchase was $6,000 and it represented 10% of Boxwood Corp.'s outstanding stock. On November 30th Boxwood Corp. declared and paid a total dividend to all shareholders of $5,000 and at December 31, 2008 Boxwood Corp. reported net income of $12,000. At 12/31/08, the stock was trading at $3 per share. What is the 12/31/08 ending balance on Andersen's financial statements for the "Investment in Boxwood Corp. Stock" account?

B

a) $6,500
b) $9,000

3000 * $3 = $9000

c) $10,200
d) $10,700
e) None of the above answers are correct.

52) Which one of the following is subtracted from net income in determining cash flows from operations?

* Assumes Indirect Method

D

a) Loss from sale of land
b) Depreciation expense
c) Stock dividends declared and distributed
d) Gain from sale of equipment

53) Dunder Miflin Corporation had the following inventory transactions during June 2009:

At 6/1/09 the company had 6,000 units in inventory at a cost of $3.00 per unit
On 6/9/09 the company purchased 4,000 units of inventory at a cost of $2.00 per unit
On 6/12/09 the company purchased 3,000 units of inventory at a cost of $2.50 per unit
On 6/14/09 the company purchased 5,000 units of inventory at a cost of $3.50 per unit
On 6/25/09, 9,000 units of inventory were sold at a price of $6.00 per unit

What was the Cost of Goods Sold for June assuming the company used the FIFO inventory method of accounting for inventory?

6000 * $3 = 18000
3000 * $2 = 6000
24000

a) $18,000
B b) $24,000
c) $26,000
d) $34,500
e) None of the above answers are correct

54) The following amounts relate to Madison Company's inventory for 2009:

FIFO Cost of Goods sold for 2009	$252,200
LIFO Cost of Goods sold for 2009	$390,400
FIFO Ending Inventory balance at 12/31/09	$56,500
LIFO Ending Inventory balance at 12/31/09	− $32,000
Market value of inventory at 12/31/09	$45,200

† 24500

What is the amount of the LIFO Reserve at 12/31/09?

a. $13,200
b. $11,300
C c. $24.500
d. $138,200
e. $0

ie temporary accounts

55) Which of the following sets of accounts is closed at the end of an accounting period?

A a) Unrealized gain on trading securities, Cost of Goods Sold, Dividends Declared
b) Interest Expense, Unearned Revenue, Prepaid Expense
c) Dividends Declared, Cost of Goods Sold, Accumulated Depreciation
d) Fees Earned, Interest Income, Prepaid Expense
e) Dividends Payable, Sales, Insurance Expense, Income Summary

56) Heath Co.'s current ratio is 4.0. Which of the following transactions would decrease this ratio? *Note: Current Ratio: Current Assets/Current Liabilities*

a) Issuing common stock at a price above par.
B b) Declaring and paying a dividend.
c) Collecting accounts receivable
d) Purchasing machinery and signing a long term note payable
e) Purchase of short term investment with cash

Dividends Declared X
Cash X

57) During December 2009 Thompson Corporation invests in the equity securities of two companies: Corp. A and Corp. B. The investments represent less than 20% of the outstanding stock of Corp. A and Corp. B. There is a ready market for these securities. Thompson Corporation accounts for the Investment in Corp. A stock as a Trading Security and the Investment in Corp. B stock as Available for Sale Security. Details are as follows:

12/1 Owner buys 200 shares of A at $15 per share
12/1 Owner buys 100 shares of B at $40 per share
12/5 Owner sells 50 shares of A at $18 per share Realized gain $3 * 50 = 150
12/8 Owner sells 30 shares of B at $32 per share Realized loss $8 * 30 = <240>
12/15 Owner receives $600 in dividends from A Dividend Income = 600
12/31 The market price for A stock is $17 per share Unrealized gain 150 * $2 = 300
12/31 The market price for B stock is $38 per share
— Does not affect NI (AFS) 810

What is the effect of the above information on Thompson's 2009 net income?

C
a) $210 increase net income
b) $670 increase net income
c) $810 increase net income
d) $230 decrease net income
e) None of the above answers are correct

58) At 12/31/**2008** Gateway Corporation reported ending Accounts Receivable, gross, of $250,000 and an ending balance in the Allowance for Doubtful Accounts of $20,000. During 2009 the company reported credit sales of $300,000. The company uses the % of Sales Method to estimate bad debt expense. This year, 2009, the company estimates that 3% of its sales are uncollectible. During 2009 the company also wrote-off $4,000 in accounts considered uncollectible and recovered (collected) $2,000 in accounts that had previously been written off. In addition to the $2,000 in recovered accounts the company also collected $250,000 of the credit sales. What was the **12/31/2009 ending NET account receivable**?

C
a) $228,500
b) $265,500
c) $269,000
d) $271,000
e) None of the above answers are correct

296000
− 27000
← 269000

AR: 250000, 300000 | 4000, 250000 — 296000
Allowance: 4000 | 20000, 9000, 2000 — 27000
BD Exp: 9000 |
Sales: | 300000
Cash: 2000, 250000 |

BD Exp → 300,000 * 3% = 9000

59) Thans Company has a $3,000 balance in its Allowance for Doubtful Accounts at 12/31/08. During 2009 credit sales of $15,000 were made. The company uses the % of sales method (income statement approach) to estimate bad debt and estimates that 2% of the 2009 sales will be uncollectible. The company also wrote off $500 in bad debts during 2009. What is the balance in the allowance account at 12/31/09?

A
a) $2,800
b) $800
c) $2,500
d) $1,300
e) $3,200

Allowance: 500 | 3000, 300 — 2800

15000
* 2%
300

60) Johnsen Corp. had the following information in its accounting records for 2009:

	Units	Price per unit
Beginning Inventory	3,000	$ 4.00

	Units	Price per unit
Purchased 3/01/09	2,400	$ 4.10
Purchased 5/01/09	3,000	$ 3.75
Purchased 10/01/09	1,000	$ 4.50

1000 * 4.10 = 4100
3000 * 3.75 = 11250
1000 * 4.50 = 4500
5000 19850 COGS

For the year ended 2009 the company sold 5,000 units of inventory. Assuming the company used Last In- First Out (LIFO) method of accounting for inventory what was the 12/31/09 Ending Inventory balance?

3000 * 4 = 12000
1400 * 4.10 = 5740
17740 EI

D

a) $13,640
b) $16,850
c) $17,390
d) $17,740
e) None of the above answers are correct

61) On December 15, 2008, Simmons Company received $10,000 cash from a customer for work to be performed during one week in December and three weeks during January. When the cash was received the company made an entry to record cash received and fees earned of $10,000. The company prepares annual financial statements. The appropriate adjusting entry at 12/31/2008 is:

a) Fees Earned 10,000
Unearned Revenue 10,000

b) Unearned Revenue 10,000
Fees Earned 10,000

c) Fees Earned 7,500
Unearned Revenue 7,500

d) Unearned Revenue 2,500
Fees Earned 2,500

e) No entry would be needed.

C

Cash Received
Cash 10,000
Fees Earnd 10,000

AJE
Fees Earnd 7500
Unearnd Rev 7500

62) Assume Jose Corporation uses the allowance method of accounting for bad debts. Jose wrote off $1,000 of accounts receivable for customer #124, which was determined to be uncollectible. What effect did the transaction have on Jose's financial statements?

a) decreased total assets by $1,000
b) increased total assets by $1,000
c) decreases net income by $1,000
d) increases net income by $1,000
e) had no effect on total assets or net income

E

Allowance DA 1000
AR 1000

Both accounts in the asset section