

Check to see if you have pages 1 through 10. You may write this exam for two hours. If you need more scratch paper than is available on the test sheets, use the back side of the previous page. There are 125 points on this exam. Show all work necessary to support your answers!

I Indicate the best answer to the following multiple choice questions.

(100 points)

- _____ 1 Which of the following is the private sector organization involved in developing accounting principles?
- A Feasible Accounting Standards Board.
 - B Financial Accounting Students Board.
 - C Financial Accounting Standards Board.
 - D Financial Auditors' Standards Board.
- _____ 2 The cost principle requires that when assets are acquired, the assets should be recorded at what amount?
- A Cash amount still owed for the asset.
 - B Amount paid for the asset.
 - C Salvage value at the time the asset will be disposed.
 - D Acquisition cost - salvage value.
- _____ 3 Which of the following would be considered a liability?
- A An unearned revenue.
 - B Something that decreases owner's equity.
 - C Something that used to have value to the company.
 - D Something that may have value to the company in the future.
- _____ 4 The income statement can be expressed as which of the following?
- A Revenues = Assets - Liabilities + Owner's Equity - Revenues.
 - B Expenses = Revenues + Net Income (loss).
 - C Net Income (loss) = Revenues - Expenses.
 - D Net Income (loss) = Revenues + Expenses.
- _____ 5 Expenses are increased with which of the following?
- A Temporary entries
 - B Closing entries.
 - C Debits.
 - D Credits.
- _____ 6 Which of the following best describes unearned revenues?
- A Cash received and recorded as a liability before being earned.
 - B Cash earned and recorded as a liability on the income statement.
 - C Cash earned but not yet received or recorded.
 - D Cash earned and already received and recorded.
- _____ 7 When are adjusting entries required?
- A When the company's profits are below budgeted levels.
 - B Before financial statements are prepared.
 - C When expenses are unearned.
 - D When revenues are consumed.

- ___ 8 If a company fails to adjust Unearned Revenues for revenue that has been earned during the month, what effect will this have on the financial statements?
- A No effect on the financial statements.
 - B Revenues will be understated and net income and owner's equity will be understated.
 - C Assets will be overstated and net income and owner's equity will be understated.
 - D Assets will be overstated and net income and owner's equity will be overstated.
- ___ 9 Which of the following is true concerning closing entries?
- A They are prepared before the financial statements are prepared.
 - B They reduce the number of permanent accounts.
 - C They summarize the activity in every account.
 - D They record net income/loss in owner's capital.
- ___ 10 How are unearned revenues typically classified on the balance sheet?
- A As a current asset.
 - B As property, plant, and equipment.
 - C As an intangible asset.
 - D As a current liability.
- ___ 11 How should notes payable due in 6 months be classified?
- A As a current asset.
 - B As a long-term asset.
 - C As a current liability
 - D As a long-term liability.
- ___ 12 Assume a company makes a credit sale of inventory and uses a perpetual inventory system. The journal entry would include which of the following?
- A An increase to sales and a decrease to cost of goods sold.
 - B An increase to both accounts receivable and inventory.
 - C An increase to cost of goods sold and a decrease to inventory.
 - D An increase to sales and a decrease to accounts receivable.
- ___ 13 The sales returns and allowances account provides information to management about which of the following?
- A The dollar amount related to dissatisfied customers.
 - B The relationship between credit sales and cash sales.
 - C The number of customers who have promptly paid what is owed to the business.
 - D The dollar amount related to dissatisfied vendors.
- ___ 14 If a buyer of inventory is given credit terms of 2/10,N/30 the buyer should probably do which of the following when using the perpetual inventory method?
- A Not pay the bill until the end of the credit period in order to take full advantage of the discount.
 - B Pay within the discount period and record a decrease in the cost of the inventory.
 - C Not pay for the inventory until the inventory is sold.
 - D Wait until after 30 days before sending payment to the vendor.

- ___ 15 Sales discounts should be recorded in which journal?
- A General Journal.
 - B Cash Receipts Journal.
 - C Cash Payments Journal.
 - D Sales Journal.
- ___ 16 Where should a cash payment for rent be recorded?
- A General Journal.
 - B Cash Receipts Journal.
 - C Cash Payments Journal.
 - D Sales Journal.
- ___ 17 Which of the following is not an objective of an internal control system?
- A Safeguarding assets.
 - B Punishing employees for arriving late for work.
 - C Enhancing the accuracy and reliability of accounting records.
 - D Reducing the risk of errors.
- ___ 18 For accounting purposes, postdated checks received (checks to be cashed at a later date) are considered to be which of the following?
- A Cash.
 - B Accounts Payable.
 - C Accounts Receivable.
 - D Owner's Drawing
- ___ 19 The Cash Over & Short account is used for which of the following?
- A Increase revenues to meet projected profit levels.
 - B Balance the journal entry to replenish the petty cash account.
 - C Pay for any unexpected large expenses.
 - D Reconcile the bank portion of the bank statement.
- ___ 20 How is interest revenue reported on a multiple-step income statement?
- A As an addition to sales to arrive at net sales.
 - B As an operating expense.
 - C As part of cost of goods sold.
 - D As an other revenue or gain.
- ___ 21 How is the Allowance for Doubtful Accounts account reported?
- A As an expense on the income statement.
 - B As a liability on the balance sheet.
 - C As a contra account in the current assets section of the balance sheet.
 - D As a revenue on the income statement.

- ___ 22 The percentage of net credit sales method of estimating bad debts expense accomplishes which of the following?
- A It adjusts bad debt expense without consideration for the balance in the allowance account.
 - B It adjusts bad debt expense after taking into consideration the balance in the allowance account.
 - C It includes cash sales in the estimation process in case a customer decides to return inventory.
 - D It requires a solid understanding of the relationships among the asset and liability accounts on the income statement.
- ___ 23 When inventory is “in transit” at the end of the year and the terms of the transaction are FOB shipping point, then which of the following is a true statement?
- A The company in physical possession of the inventory at the end of the year includes the inventory on their balance sheet.
 - B The seller of the inventory includes the inventory on their balance sheet.
 - C The buyer of the inventory includes the inventory on their balance sheet.
 - D The buyer of the inventory includes the inventory on their income statement.
- ___ 24 Which of the following is true about the LIFO method of calculating cost of goods sold?
- A It requires the buyer of the inventory to pay shipping charges.
 - B It implies the first inventory purchased by the seller is the first inventory included on the income statement.
 - C It implies the last inventory purchased by the seller is the first inventory included on the income statement.
 - D It does not affect the cost of inventory included on the balance sheet.
- ___ 25 How do you record freight charges paid by the seller of inventory?
- A As an increase in cost of goods sold.
 - B As a part of net sales.
 - C As a selling expense on the income statement.
 - D As a decrease in cost of goods sold.
- ___ 26 When using the double-declining balance method to estimate depreciation expense in the second year after an asset is purchased, which of the following is not important?
- A The original cost of the asset.
 - B Salvage value of the asset.
 - C The book value of the asset.
 - D The amount of depreciation expense previously recorded for that asset.
- ___ 27 Which of the following is true concerning an intangible asset?
- A It should always be amortized over a period of 40 years.
 - B It should not be amortized if it has an indefinite life.
 - C It should be amortized over its useful life or 40 years, whichever is longer.
 - D It should be amortized over its useful life or 40 years, whichever is shorter.
- ___ 28 Land is depreciated using which method?
- A Straight-line.
 - B Units-of-activity.
 - C Declining balance.
 - D Depreciation expense is not recorded for land.

- ___ 29 Bookkeeping differs from accounting in that bookkeeping primarily involves which part of the accounting process?
- A Identification.
 - B Communication.
 - C Recording.
 - D Analysis.
- ___ 30 Which of the following is true concerning the calculation current assets divided by current liabilities?
- A It is useful in determining net income.
 - B It is useful in evaluating a company's liquidity.
 - C It is a key component of the matching principle.
 - D It is useful in determining a company's long-term capital structure.
- ___ 31 Which of the following is true concerning the amount of sales tax collected by a retail store?
- A It is a miscellaneous revenue for the store.
 - B It is a current liability.
 - C It is not recorded because the tax is owed by the customer.
 - D It is considered an operating expense for the store.
- ___ 32 In its first year of business, the Kane Company sells 2,000 units of its product for \$500 each. The selling price includes a one-year warranty on parts. It is expected that 3% of the units will be defective and that repair costs will average \$50 per unit. In this first year of sale, warranty contracts are honored on 40 units for a total cost of \$2,000. What amount should Kane report for its end of year one balance sheet amount for Estimated Warranty Liability?
- A \$1,000
 - B \$2,000
 - C \$3,000
 - D Cannot be determined.
- ___ 33 Pederson Company borrows \$10,000 for 6 months at 10% annual interest. How much interest should Pederson expect to pay if the loan is paid back after 6 months?
- A \$200
 - B \$300
 - C \$400
 - D \$500
- ___ 34 Sue Stein's regular pay rate of pay is \$15 with one and a half times her regular rate for any hours worked above 40 hours per week. She worked 48 hours last week. What amount should be reported as her gross wages?
- A \$ 600
 - B \$ 720
 - C \$ 780
 - D \$1,080

- ___ 35 Assuming a FICA tax rate of 8% on the first \$65,000 in wages, and a federal income tax rate of 20% on all wages, what would be an employee's net pay for the entire year if the employee earned \$80,000 for the year?
- A \$57,600
 - B \$58,800
 - C \$64,000
 - D \$74,800
- ___ 36 Which of the following is the tax that is paid equally by both the employee and the employer?
- A Federal income tax.
 - B Federal unemployment tax.
 - C State unemployment tax.
 - D FICA tax.

Use the following information to answer questions 37, 38, 39.

On June 30, **2006** Magazine Company received cash for monthly subscriptions from 1,000 customers for 48 month subscriptions. The individual cost of a **48 month** subscription is \$40 for the entire 48 months.

- ___ 37 The journal entry to record the receipt of cash from customers on June 30, 2006 should include which of the following?
- A Debit to Cash for \$20,000 and a credit to Unearned Subscriptions for \$20,000.
 - B Debit to Cash for \$40,000 and a credit to Unearned Subscriptions for \$40,000.
 - C Debit to Cash for \$40,000 and a credit to Subscription Revenue for \$40,000.
 - D Debit to Unearned Subscriptions for \$40,000 and a credit to Subscription Revenue for \$40,000.
- ___ 38 After 18 months what amount should Magazine Company report on its balance sheet as unearned revenues related to the magazine subscriptions?
- A \$ -0-
 - B \$15,000
 - C \$25,000
 - D \$40,000
- ___ 39 For the fiscal year ended December 31, **2007** what amount should Magazine Company report on the income statement for Subscription Revenue?
- A \$ -0-
 - B \$10,000
 - C \$20,000
 - D \$40,000
- ___ 40 Liabilities are classified on the balance sheet as either Current Liabilities or which of the following?
- A Deferred.
 - B Unearned.
 - C Long-term.
 - D Permanent.

- ___ 41 How should the current portion of long-term debt be reported?
- A It should be classified as long-term debt.
 - B It should be reclassified as a current liability.
 - C It should be immediately paid.
 - D It should not be paid until all the long-term debt is paid.

- ___ 42 Daggett Company has the following assets and liabilities on its balance sheet as of December 31, 2007.

Cash	\$12,000
Accounts Receivable	\$22,000
Accounts Payable	\$16,000
Unearned Revenues	\$ 4,000
Current maturity of long-term debt	\$ 8,000
Total long-term debt	\$80,000

Compute the current ratio for Daggett Company as of December 31, 2007.

- A about 0.82 times
- B about 1.21 times
- C about 1.42 times
- D about 1.70 times

Use the following information to answer questions 43 & 44.

Lawnmower Company produced and sold 50,000 lawnmowers during 2007. Of these 50,000 lawnmowers approximately 500 are expected to break down while still under warranty. The average cost of fixing a lawnmower under warranty is \$100. Of the 500 lawnmowers to be fixed, 460 will probably be fixed during 2007 and the other 40 will probably be fixed during 2008.

- ___ 43 What amount should Lawnmower Company report as Warranty Expense for the fiscal year ended 2007?
- A \$ 4,000
 - B \$46,000
 - C \$50,000
 - D Cannot be determined until Lawnmower Company knows exactly how many lawnmowers will be fixed during 2007.

- ___ 44 If Lawnmower Company actually fixes 430 lawnmowers during 2007 at a total cost of \$43,000, what amount should Lawnmower Company report on the December 31, 2007 balance sheet as Warranty Liability?
- A \$ -0-
 - B \$3,000
 - C \$4,000
 - D \$7,000

- ___ 45 Which of the following is NOT a characteristic of a partnership?
- A The act of any partner on behalf of the partnership is typically binding on all partners.
 - B Each partner's share of net income is taxable at personal tax rates.
 - C The partnership is not taxed as a separate entity.
 - D Partnerships have an unlimited life.

- ___ 46 The written contract outlining the duties and responsibilities of each partner is typically called which of the following?
- A Partner's capital statement.
 - B Limited partnership agreement.
 - C Mutual income agreement.
 - D Partnership agreement.
- ___ 47 Which of the following is true concerning a partnership?
- A It has only one partner.
 - B It pays taxes on partnership income.
 - C It must file an information tax return.
 - D It does not need to produce financial statements.
- ___ 48 Iverson Company's cash register recorded \$32,000 in cash receipts for the last week. This amount includes sales taxes. If the sales tax rate is 4%, what is the dollar of sales revenue that should be recorded by Iverson?
- A \$30,720.00
 - B \$30,769.23
 - C \$32,000.00
 - D \$33,230.77
- ___ 49 Which of the following best describes a contingent liability?
- A A liability that is contingent on a company's cash flow situation.
 - B A liability that is dependent on a customer's ability to pay.
 - C A potential liability that, dependent on a future event, may become an actual liability.
 - D A liability that is created when a company receives cash in advance.
- ___ 50 Assume there is a primary beneficiary of a variable interest entity that is under common control with the primary beneficiary and the primary beneficiary has control of the variable interest entity. The primary beneficiary transfers assets and liabilities to the variable interest entity. How should the primary beneficiary initially measure the assets and liabilities transferred to the variable interest entity?
- A This represents an anomolous situation that is incapable of resolution.
 - B This represents an anomolous situation that is legally unqualified.
 - C This represents the type of test questions I can expect in ACCT 201.
 - D This type of question is exactly why I am happy the semester is over.

II. (11 points) Brewer and Roberts have a partnership agreement which includes the following provisions regarding the sharing of net income or net loss:

1. A salary allowance of \$40,000 to Brewer and \$10,000 to Roberts.
2. An interest allowance of 15% on capital balances at the beginning of the year.
3. The remainder (profit or loss) to be divided 30% to Brewer and 70% to Roberts.

The capital balance on January 1, 2006, for Brewer and Roberts was \$90,000 and \$120,000, respectively. During 2006, the Brewer and Roberts Partnership had a net income of \$230,000

REQUIRED:

Prepare a Division of Net Income schedule to show the distribution of income to each of the partners.

