

Intermediate Accounting I
Quiz 1, Part 2

This part of the exam is not timed. You must submit your answers in your Leo assignment folder by Sunday, September 7 (midnight). Question #3 asks you to prepare an Income Statement. This must be in good form, so you may want to create it in Excel and attach it as a PDF file. (You can submit all of your answers as one uploaded document.) AN ATTACHMENT MUST FIRST BE SAVED AS A PDF OR I WILL NOT OPEN IT AND YOU WILL NOT GET CREDIT FOR IT.

You may use your textbook to answer the questions. You may not use any other written material. You may not discuss the questions or your answers with your classmates or any other person.

Note: Part 1 of the exam is in WileyPlus. (Part 1 is a timed exam.)

1. Identify the basic assumption or broad accounting principle that was violated in each of the following situations. *Explain your answer.*
1. Don Sherwood, a shareholder of the Brady Construction Corporation, has not received a financial statement from the company for over two years.
 2. The Diatonics Corporation reported equipment on its balance sheet at fair market value.
 3. Holyoke Corporation paid \$20,000 for a three-year insurance policy and recorded the entire expenditure as insurance expense.
 4. The Acme Appliance Company is involved in a major lawsuit. The company is being sued for \$10 million dollars for alleged patent infringement. The company believes the suit is without merit and has not disclosed its existence in its financial statements.
 5. The Ravel Company's balance sheet includes assets owned by the company as well as assets of its principal shareholder, Jim Thomas.
 6. The Marine Chemical Company recorded revenue for a \$50,000 advance payment received from a customer. The customer's order will be shipped next month.

2. Prepare the necessary adjusting entries at December 31, 2013, for the Jasper Company for each of the following situations. Assume that no financial statements were prepared during the year and no adjusting entries were recorded.
1. A two-year fire insurance policy was purchased on August 1, 2013, for \$12,000. The company debited prepaid insurance for the entire amount.
 2. Depreciation on equipment totaled \$20,000 for the year.
 3. Employee salaries of \$27,000 for the month of December will be paid in early January, 2014.
 4. On October 1, 2013, the company lent \$50,000 to a customer. The customer signed a note that requires principal and interest at 8% to be paid on September 30, 2014.
 5. In July, the company purchased supplies for \$4,500. The entry was recorded as a debit to supplies expense. Supplies on hand at the end of the year totaled \$2,200. No supplies had been previously purchased.

3.

Presented below is information related to the *Galaxy Corporation*.

Retained earnings, December 31, <u>2012</u> .	\$ 650,000
Sales	1,400,000
Selling and administrative expenses	240,000
Hurricane loss (pre-tax) on plant (extraordinary item)	250,000
Cash dividends declared on common stock	33,600
Cost of goods sold	820,000
Gain resulting from computation error on depreciation charge in <u>2011</u> (pre-tax)	520,000
Other revenue	60,000
Other expenses	50,000

Instructions

Prepare in good form a multiple-step income statement for the year 2013. Assume a 30% tax rate and that 50,000 shares of common stock were outstanding during the year.