

Answer all multiple choice questions below; there is only one BEST answer (2 points each)

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|------------------|------------------|
| 1. <u>  C  </u>  | 11. <u>  C  </u> |
| 2. <u>  B  </u>  | 12. <u>  D  </u> |
| 3. <u>  B  </u>  | 13. <u>  D  </u> |
| 4. <u>  B  </u>  | 14. <u>  B  </u> |
| 5. <u>  D  </u>  | 15. <u>  C  </u> |
| 6. <u>  C  </u>  | 16. <u>  D  </u> |
| 7. <u>  C  </u>  | 17. <u>  D  </u> |
| 8. <u>  A  </u>  | 18. <u>  D  </u> |
| 9. <u>  C  </u>  | 19. <u>  D  </u> |
| 10. <u>  C  </u> | 20. <u>  C  </u> |

**Note:** Put answers to problems on Pages provided. Turn in all pages of exam.

Put answer sheets in front of exam.

**SCORE**

	Possible	Actual
Multiple Choice	40	
Problem I	25	
Problem II	25	
Short Answer	<u>10</u>	
Total	<u>100</u>	

**Multiple Choice** (2 points each) There is only **ONE BEST** answer.

1. Which of these could be a closing entry?

A. Salary expense	XX	
Income summary		XX
B. Dividends	XX	
Retained earnings		XX
<b>C. Income summary</b>	<b>XX</b>	
<b>Income Tax expense</b>		<b>XX</b>
D. Cost of sales	XX	
Sales	XX	
  
2. Which of the following is true regarding a perpetual inventory system?
  - A. Physical counts are needed to determine the inventory balance.
  - B. The balance in the inventory account is updated with each inventory purchase action.**
  - C. Cost of goods sold must be calculated and adjusted at the end of the period.
  - D. The account Purchases is not used as inventory is acquired.
  
3. Under FOB Delivery, sales revenues are usually considered earned when
  - A. Cash is received from the sale on account
  - B. The merchandise accrues at the customer's location.**
  - C. A sales order has been received
  - D. The goods leave the seller's business
  
4. A company shows the following balances:

Sales	\$1,000,000
Sales Returns and Allowances	175,000
Sales Discounts	25,000
Cost of Goods Sold	600,000

What is the gross profit amount?

  - A. 1,000,000
  - B. 200,000**
  - C. 225,000
  - D. 400,000
  
5. After preparing an adjusted trial balance, what is the next step in the accounting cycle?
  - A. Post adjusting entries
  - B. Analyze transactions
  - C. Prepare the closing entries
  - D. Prepare the financial statements**

6. Under the accrual basis of accounting
- A. cash must be received before revenue is recognized.
  - B. net income is calculated by matching cash outflows against cash inflows.
  - C. events that change a company's financial statements are recognized in the period they occur rather than in the period in which cash is paid or received.**
  - D. the ledger accounts must be adjusted to reflect a cash basis of accounting before financial statements are prepared under generally accepted accounting principles.
7. All of the following statements are true except one. Which statement is false?
- A. Accrual accounting provides better information about overall performance than cash-basis accounting.
  - B. Adjusting entries are required for a business that uses the cash basis.
  - C. The revenue principle directs accountants to identify and measure all expenses incurred and deduct them from revenues earned during the same period.**
  - D. A fiscal year can end on some date other than December 31.
8. All of the following statements are false except one. Which statement is true?
- A. The inventory method that best matches current expense with current revenue is LIFO.**
  - B. Application of the lower-of-cost-or-market rule often results in higher inventory.
  - C. An error overstating ending inventory in 20X1 will also overstate cost of sales for 20X1.
  - D. When prices are rising, the inventory method that results in the highest inventory value is LIFO.
9. Which of the following amounts appears closest to net income on a multi-step income statements?
- A. Net sales
  - B. Gross profit
  - C. Operating income before taxes**
  - D. Cost of sales
10. What is a difference between the profit margin ratio and the gross profit rate?
- A. None, these are interchangeable terms.
  - B. The gross profit rate is computed by dividing net sales by gross profit and the profit margin ratio is computed by dividing net sales by net income.
  - C. The gross profit rate will normally be higher than the profit margin ratio.**
  - D. A profit margin ratio of 7% means that 7 cents of each net sales dollar ends up in net income and a gross profit rate of 7% means that the cost of the goods were 7% of the selling price.

11. Isaac Company developed the following information about its inventories in applying the lower of cost or market (LCM) basis in valuing inventories:

<u>Product</u>	<u>Cost</u>	<u>Market</u>
A	\$55,000	\$60,000
B	40,000	38,000
C	80,000	81,000

If Isaac applies the LCM basis, the value of the inventory reported on the balance sheet would be

- A. \$175,000.
  - B. \$171,000.
  - C. **\$173,000.**
  - D. \$181,000.
12. Adjusting entries are made to ensure that:
- A. expense are recognized in the period in which they are incurred.
  - B. revenues are recorded in the period in which they are earned.
  - C. balance sheet and income statement accounts have correct balances at the end of an accounting period.
  - D. **All of the above.**
  - E. None of the above.
13. The primary difference between a periodic and perpetual inventory system is that a periodic system
- A. keeps a record showing the inventory on hand at all time.
  - B. provides better control over inventories.
  - C. records the cost of the sale on the date the sale is made.
  - D. **determines the inventory on hand only at the end of the accounting period.**
14. The practice of recording staplers and tape dispensers as expense rather as an asset is an example of the application of
- A. The principle of cost
  - B. **The constraint of materiality**
  - C. The assumption of going concern
  - D. The assumption of economic units
15. The assumption that a business can continue to remain in operating into the future is the
- A. Cost principle.
  - B. Unit-of-measure assumption.
  - C. **Continuity assumption.**
  - D. Separate-entity assumption.

16. The assumption that the assets and liabilities of the business are accounted for on the books of the company but not included in the records of the owner is the
- A. Unit-of-measure assumption.
  - B. Continuity assumption.
  - C. Cost principle.
  - D. Separate entity assumption.**
17. The principle that requires us to record a transaction when we provide service to a client and bill them is
- A. Cost-benefit
  - B. Cost principle.
  - C. Full disclosure.
  - D. Revenue recognition.**
18. The principle which hold that all of the expenses incurred in earning revenue should be identified with the revenue recognized and reported for the same period is the
- A. revenue principle.
  - B. liability principle.
  - C. timing principle.
  - D. matching principle.**
  - E. cost principle.
19. Accountants value transactions at cost because
- A. it reflects the most timely market valuation of real estate and other long term assets.
  - B. it provides an objective measure of the value of a business's people.
  - C. it considers the long range social and environmental impact on the finances of the company.
  - D. it is objective and relevant at the date the original transaction was completed.**
  - E. all of the above.
20. What accounting constraint refers to the tendency of accountants to resolve uncertainty in a way least likely to overstate assets and net income?
- A. Comparability.
  - B. Materiality.
  - C. Conservatism.**
  - D. Consistency.

**Problem I** (25 points)

Inventory records indicate the following at October 31:

Oct.	1	Beginning inventory .....	10 units @	\$93	=	930
	8	Purchase .....	55 units @	\$150	=	8,250
	15	Purchase .....	25 units @	\$181	=	4,525
	19	Purchase.....	35 units @	\$185	=	6,475
	26	Purchase .....	<u>55</u> units @	<u>\$196</u>	=	<u>10,780</u>
			180			30,960

One hundred and fifteen units were sold for \$200 each. The Physical count of inventory at October 31 indicates that 65 units are on hand, and the company owns them.

**Required:** Complete the comparative income statements below under the various inventory-costing methods.

Hint: Determine sales, then compute ending inventory and cost of goods sold and finally gross profit using each of the following methods (show your calculations in the space provided):

1. Specific identification of unit cost, where the warehouse determines 40 units @ \$150 and 25 @ \$196
2. Weighted-average cost
3. First in, first out
4. Last in, first out

	<u>Specific ID</u>	<u>Weighted Average Cost</u>	<u>FIFO</u>	<u>LIFO</u>
Sales	<u>23,000</u>	<u>23,000</u>	<u>23,000</u>	<u>23,000</u>
Beginning Inventory	930	930	930	930
Purchases	<u>30,030</u>	<u>30,030</u>	<u>30,030</u>	<u>30,030</u>
Good available	30,960	30,960	30,960	30,960
Less: Ending Inventory	<u>(10,900)</u>	<u>(11,180)</u>	<u>(12,630)</u>	<u>(9,180)</u>
Cost of Sales	<u>20,060</u>	<u>19,780</u>	<u>18,330</u>	<u>21,780</u>
Gross Profit	<u>2,940</u>	<u>3,220</u>	<u>4,670</u>	<u>1,220</u>

$$\frac{30,960}{180} = 172 \times 65$$

**Problem II** (25 points)

The Julien Hotel opened for business on January 1, 2009. Here is its trial balance before adjustment on January 31.

JULIEN HOTEL  
Trial Balance  
January 1, 2009

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 2,500	
Prepaid insurance	1,800	
Supplies	2,600	
Land	15,000	
Lodge	70,000	
Furniture	16,800	
Accounts payable		\$ 4,700
Unearned rent revenue		3,300
Mortgage payable		36,000
Common stock		60,000
Rent revenue		9,000
Salaries expense	3,000	
Utilities expense	800	
Advertising expense	500	
	\$ <u>113,000</u>	\$ <u>113,000</u>

Other data:

1. Insurance expires at the rate of \$300 per month.
2. An inventory of supplies shows \$1,350 of unused supplies on January 31.
3. Annual depreciation is \$3,600 on the lodge and \$3,000 on furniture.
4. The mortgage interest rate is 9%. (The mortgage was taken out on January 1.)
5. Unearned rent of \$1,500 has been earned.
6. Salaries of \$750 are accrued and unpaid at January 31.

Using the additional information provided above, prepare the adjusting entries that should be made by the Julien Hotel for the month ending January 31, 2009 (on the following page). You will need to use additional accounts not listed above.

**General Journal**

Entry	Description	Debit	Credit
1.	Insurance Expense Prepaid Insurance	300	300
2.	Supplies Expense Supplies	1250	1250
3.	Depreciation Expense – Lodge Accumulated Depreciation - Lodge	300	300
4.	Depreciation Expense - Furniture Accumulated Depreciation -Furniture	250	250
5.	Interest Expense Interest Payable	270	270
6.	Unearned Rent Revenue Rent Revenue	1500	1500
7.	Salaries Expense Salaries Payable	750	750

**Short Answer – Question III** (10 points)

Wachovia Bank, NA has invested in various securitized loan securities which were purchased by the Bank in June 2008, for \$1,000,000,000. The Bank borrowed \$950,000,000 to buy the securities in June and paid \$50,000,000 cash for them.

The quoted market value of these securities by Wall Street brokers is \$250,000,000 at December 31, 2008.

Required: Applying one or more of the accounting procedures, constraint of cost, conservatism, going concern, materiality at what accounting value should the bank record the securitized loan securities (an asset) at December 31, 2008.

There are two possible good answers:

- (1) \$250,000,000 under conservatism should record losses when probably will happen. This is best answer for banks value.
- (2) \$1,000,000,000 under cost, should record at purchase value, best answer for someone less concerned about liquidation.