

**Accounting 201
TEST III
Fall 2005**

NAME _____

Section _____

TIME 10:00 12:00 1:00

(please circle time)

MULTIPLE CHOICE (2 POINTS EACH):

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

Multiple Choice	40
Problem I	25
Problem II	20
Problem III	15

	<u>100</u>

Multiple Choice – There is only ONE best answer (2 points each)

1. IBM lends one of its customers \$200,000 to be paid back in one year at 5.5% interest. Which of the following is true:
 - A. This is recorded as trade receivables of \$200,000.
 - B. The maturity value is \$200,000.
 - C. IBM is the maker of the note.
 - D. The interest is based on a 360 day year.**

2. A college professor at Chapel Hill has been selling Tarheel memorabilia at foot ball and basketball games for twenty years. He has a transferable contract with the university for use of the booth at events. He is retiring and decides to sell his business. He is asking \$25,000 which includes equipment and inventory of \$15,000. The remaining \$10,000 cost of purchasing his business would be identified as which of the following intangible assets?
 - A. Patent.
 - B. Goodwill.**
 - C. Trademark.
 - D. Copyright.

3. Interest during construction is:
 - A. An asset contra-account that offsets a self constructed asset.
 - B. The interest expense a company incurs when borrowing money.
 - C. Part of the cost of a self constructed asset.**
 - D. When a company lends another money and is repaid interest.

4. How are research and development costs initially recorded and reported in financial statements under generally accepted accounting principles in the United State of America?
 - A. As property in the balance sheet.
 - B. As intangible assets in the balance sheet.
 - C. As an expense in the income statement.**
 - D. As investing activities in the statement of cash flows.

5. One way double-declining balance differs from the straight-line method is that it:
 - A. Takes book value below residual value.
 - B. Does not use the useful life of the asset in the calculation.
 - C. Cannot be used for tax purposes.
 - D. Uses book value instead of depreciable cost in the calculation.**

6. Half way through the accounting period a company sells a piece of equipment. The straight-line rate of depreciation on the equipment is \$40,000 a year. The company would:
 - A. Debit depreciation expense \$40,000 and credit long-lived assets \$40,000.
 - B. Debit accumulated depreciation \$40,000 and credit cash \$40,000.
 - C. Debit depreciation expense \$20,000 and credit accumulated depreciation \$20,000.**
 - D. Debit cash \$20,000 and credit depreciation expense \$20,000.

7. Company A uses an accelerated depreciation method while Company B uses straight-line depreciation for an asset of the same cost and useful life. Which of the following is true?
- A. Company A will have higher net income in the early years but Company B will have higher income towards the end of the asset's useful life.
 - B. Company A will consistently have the larger net income until residual value is reached.
 - C. Company B will have higher net income in the early years but Company A will have higher income towards the end of the asset's useful life.**
 - D. Company B will consistently have the larger net income until residual value is reached.
8. Which of the following combinations of turnover ratios indicates a company which has the longest operating cycle
- A. Coastal Beverage/ inventory turnover 15, receivable turnover 20.
 - B. Harley Davidson/ inventory turnover 12, receivable turnover 20.
 - C. Miller Brewing/ inventory turnover 8, receivable turnover 10.**
 - D. McDonalds/ inventory turnover 720, receivable turnover infinite.
9. Which of the following intangible assets generally has the longest legal life granted by the government?
- A. Patent.
 - B. Goodwill.
 - C. Trademark.
 - D. Copyright.**
10. Purrfect Pets, Inc. sees its receivables turnover ratio rise from 10.2 to 13.6.
- A. This indicates that the company is taking longer to collect credit payments.
 - B. This is an indication that the company is experiencing rising credit costs.
 - C. This could be an indication that the company is using more efficient collection methods.
 - D. This is an indication that the company is buying and selling financial assets rapidly.**
11. When a company that uses the allowance method writes off actual bad debt:
- A. Assets decrease.
 - B. Liabilities increase.
 - C. Expenses increase and revenues increases.
 - D. Assets, revenue and expenses remain the same.**
12. A company installs concrete traffic dividers and signs to direct traffic in its parking lot. In which account should the cost be recorded:
- A. Land.
 - B. Land improvements.**
 - C. Equipment.
 - D. Building.

13. Which of the following documents is sent to the vendor of goods?
- A. Receiving report.
 - B. Purchase requisition.
 - C. Invoice.
 - D. Purchase order.**
14. On average, 5% of total accounts receivable has been uncollectible in the past. The current balance of accounts receivable is \$100,000. The allowance for uncollectible accounts has a credit balance of \$500 after write-offs of \$3,000 during the year. Credit sales during the year were \$150,000. The estimated bad debt expense is:
- A. \$4,500 under the aging of accounts receivable method.**
 - B. \$5,000 under the aging of accounts receivable method.
 - C. \$7,000 under the aging of accounts receivable method.
 - D. \$3,000 under the aging of accounts receivable method.
15. The direct write-off method:
- A. Ignores the matching principle.**
 - B. Is always an acceptable alternative method of recognizing bad debt expense under GAAP.
 - C. Results in higher bad debt expense for most companies.
 - D. May only be used by companies that do not extend credit to their customers.
16. The book or carrying value of an asset is:
- A. Its acquisition cost less the accumulated depreciation from acquisition date to the balance sheet date.**
 - B. Its acquisition cost plus accumulated depreciation from acquisition date to the balance sheet date.
 - C. The amount that could be obtained for the asset on the balance sheet date if it were sold.
 - D. The annual cost of carrying the asset in inventory.
17. Who should usually reconcile the bank account?
- A. Chief accountant.
 - B. Cashier.
 - C. Check signer.
 - D. None on the above.**

18. Cash equivalents do not include
- A. **Stocks, bonds, and mutual funds.**
 - B. Money market accounts.
 - C. Commercial paper.
 - D. U.S. Treasury bills.
19. The Gulp convenience store chain buys new soda machines for \$450,000 and pays \$50,000 for installation. One half of the total cost is paid in cash; the other half is financed. The company would record this transaction in which way?
- A. Credit equipment \$500,000, debit cash \$250,000 and debit notes payable \$250,000.
 - B. **Debit equipment \$500,000, credit cash \$250,000 and credit notes payable \$250,000.**
 - C. Credit equipment \$450,000, credit expenses \$50,000, debit cash \$250,000 and debit notes payable \$250,000.
 - D. Debit equipment \$450,000, debit expenses \$50,000, credit cash \$250,000 and credit notes payable \$250,000.
20. A road construction company purchased a gravel pit and installed equipment to grind the stone into gravel. The equipment is expected to last 5 years and grind 2,000,000 tons of stone during its life. Which depreciation method would accountants usually recommend to best match depreciation expense with related revenue in this case?
- A. Sum of the digits
 - B. Double declining balance
 - C. **Units of production**
 - D. Straight line

Problem I (25 points)

Barlowe Corporation purchased a piece of equipment on January 1, 2005 for \$84,000. The equipment has an estimated life of eight years, or 84,000 units of production and an estimated residual value of \$8,400. The company's fiscal year corresponds to the calendar year.

Required: Compute annual depreciation expense for 2005, 2006, and 2007 using the methods indicated below. Show calculations.

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual Expense			
Straight-line	<u>9,450</u>	<u>9,450</u>	<u>9,450</u>
	$\frac{84,000 - 8,400}{8} = \frac{75,600}{8} = 9,450$		
Units of Production	$\frac{4,500}{(5,000 \text{ production})}$	$\frac{7,200}{(18,000 \text{ production})}$	$\frac{9,000}{(10,000 \text{ production})}$
	.9 X 5,000	.9 X 8,000	.9 X 10,000
	$\frac{84,000 - 8,400}{84,000} = .9$		
Double-declining-balance	<u>21,000</u>	<u>15,750</u>	<u>11,812.50</u>
	$84,000 \times \frac{2}{8} = (84,000 - 21,000)$		84,000
	$84,000 \times \frac{1}{4} = \quad \quad \quad \times \frac{1}{4}$		<u>(36,750)</u>
	$63,000 \times \frac{1}{4} = 15,750$		47,250
			<u> x 1/4</u>
			11,812.50

Problem II (20 points)

The following information is available for Fenton MacIntyre Company as of May 31, 2005:

- a. Cash on the books as of May 31 amounted to \$42,754.16. Cash on the bank statement for the same date was \$52,351.46.
- b. A deposit of \$5,220.94, representing cash receipts of May 31, did not appear on the bank statement.
- c. Outstanding checks totaled \$3,936.80.
- d. A check for \$1,920.00 returned with the statement was recorded incorrectly in the check register as \$1,380.00. The check was for a cash purchase of merchandise.
- e. The bank service charge for May amounted to \$25.
- f. The bank collected \$12,240.00 for Fenton MacIntyre Company on a note. The face value of the note was \$12,000.00.
- g. An NSF check for \$183.56 from a customer, Lisa Rideout, was returned with the bank statement.
- h. The bank mistakenly charged to the company account a check for \$850.00 drawn on another company.
- i. The bank reported that it had credited the account for \$240.00 in interest on the average balance for May.

Instructions

- a. Prepare the Bank Reconciliation at May 31, 2005:

<p>Balance per Bank:</p> <p style="text-align: right;">52,351.46</p> <p>Deposit in transit 5,220.94</p> <p>Outstanding checks (3,936.80)</p> <p>Bank error <u>850.00</u></p> <p style="text-align: right;">54,485.60</p>	<p>Balance per Books:</p> <p style="text-align: right;">42,754.16</p> <p>Less: Check error (540.00)</p> <p> Service charge (25.00)</p> <p>Add: Note collected 12,240.00</p> <p>Less: NSF check (183.56)</p> <p>Add: Interest <u>240.00</u></p> <p style="text-align: right;">54,485.60</p>
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- b. Prepare the General Journal entries required:

Date	Description	Debit	Credit
5/30/2005	Service charge expense A/R – NSF check Inventory (on purchases) Cash Cash Note receivable Interest revenue	25.00 183.56 540.00 12,240.00	 748.56 12,000.00 240.00

Problem III (15 points) Internal Controls

Ned Remy, who operates a small grocery store with four employees, has established the following policies with regard to the checkout cashiers:

1. Each cashier has his or her own cash drawer, to which no one else has access.
2. Each cashier may accept checks for purchases under \$50 with proper identification. Checks over \$50 must be approved by Remy before they are accepted.
3. Every sale must be rung up on the cash register and a receipt given to the customer. Each sale is recorded on a tape inside the cash register.
4. At the end of each day, Remy counts the cash in the drawer and compares it with the amount on the tape inside the cash register.
5. Remy maintains bonding insurance of \$10,000 on each cashier

Required: Using the information in the case, indicate one example for **three** of the six types of internal controls listed below and indicate whether it is a strength or weakness.

<u>Type of Internal Control</u>	<u>Case Application</u>	<u>Strength or Weakness</u>
1. Establishment of responsibility	(1) Each has cash register	Strength
2. Segregation of duties		
3. Physical, mechanical, and electronic control devices	Cash register	Strength
4. Independent internal verification	(4) Remy counts register	Strength
5. Adequate documentation	#3 Receipt to customer	Strength
6. Other Controls	5. Bonding insurance	Strength