

**Accounting 201
TEST III
Fall 2007**

NAME **MASTER**

TIME 8:00 9:00

(please circle time)

MULTIPLE CHOICE (2 POINTS EACH):

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

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. If employees are bonded
 - a. it means that they are not allowed to handle cash.
 - b. they have worked for the company for at least 10 years.
 - c. they have been insured against misappropriation of assets.**
 - d. it is impossible for them to steal from the company.

2. The reconciliation of the cash register tape with the cash in the register is an example of
 - a. other controls.
 - b. independent internal verification.**
 - c. establishment of responsibility.
 - d. segregation of duties.

3. The receivable that is usually evidenced by a formal instrument of credit is a(n)
 - a. trade receivable.
 - b. note receivable.**
 - c. accounts receivable.
 - d. income tax receivable.

4. Under the allowance method, Bad Debt Expense is recorded
 - a. when an individual account is written off.
 - b. when the loss amount is known.
 - c. for an amount that the company estimates it will not collect.**
 - d. several times during the accounting period.

5. When a company using the allowance method writes off a specific customer's account receivable from the accounting system, which of the following statements are true?
 1. Total stockholders' equity remains the same.
 2. Total assets remain the same.
 3. Total expenses remain the same.
 - a. 2.
 - b. 1 and 3.
 - c. 1 and 2.
 - d. 1, 2 and 3**

6. Which of the following is *not* a step toward effective internal control over cash?
 - a. Require signatures from a manager and one financial officer on all checks.
 - b. Require that cash be deposited daily at the bank.
 - c. Require that the person responsible for removing the cash from the register have no access to the accounting records.
 - d. All of the above are steps toward effective internal control.**

7. When using the allowance method, as bad debt expense is recorded,
 - a. total assets remain the same and stockholders' equity remains the same.
 - b. total assets decrease and stockholders' equity decreases.**
 - c. total assets increase and stockholders' equity decreases.
 - d. total liabilities increase and stockholders' equity decreases.

8. Which of the following best describes the proper presentation of accounts receivable in the financial statements?
- gross accounts receivable plus the allowance for doubtful accounts in the asset section of the balance sheet
 - gross accounts receivable in the asset section of the balance sheet and the allowance for doubtful accounts in the expense section of the income statement
 - gross accounts receivable less bad debt expense in the asset section of the balance sheet
 - gross accounts receivable less the allowance for doubtful accounts in the asset section of the balance sheet**

Use the following information to answer questions 9 thru 12:

Accounts receivable 12/31/X3	\$ 8,000
Allowance for uncollectible accounts 12/31/X3 (before adjustment)	750
Credit sales during 20X3	38,000
Cash sales during 20X3	12,000
Collections from customers on account during 20X3	41,000

9. If uncollectible accounts are determined by the aging-of-receivables method to be \$1,140, the uncollectible account expense for 20X3 would be:
- \$1,140
 - \$750
 - \$390**
 - \$760
10. Using the aging-of-receivables method, the balance of the Allowance account after the adjusting entry would be
- \$1,140**
 - \$1,890
 - \$390
 - \$750
11. Assuming the aging-of-receivables method is used, the net realizable value of accounts receivable on the 12/31/X3 balance sheet would be:
- \$8,000
 - \$7,250
 - \$6,110
 - \$6,860**
12. Accounts receivable has a debit balance of \$2,300, and the Allowance for Uncollectible Accounts has a credit balance of \$200. An \$80 account receivable is written off. What is the amount of net receivables (net realizable value) after the write-off?
- \$2,100**
 - \$2,220
 - \$2,020
 - \$2,180

13. Edmonds, Company purchases a new delivery van for \$50,000. The sales taxes are \$2,000. The logo of the company is painted on the side of the van for \$1,200. The van's annual license is \$120. The van undergoes safety testing for \$220 as a request to place in service. What does Edmonds record as the cost of the new van?
- \$53,540
 - \$53,420**
 - \$52,000
 - \$51,420
14. Interest may be included in the acquisition cost of a plant asset
- during the construction period of a self-constructed asset.**
 - if the asset is purchased on credit.
 - if the asset acquisition is financed by a long-term note payable.
 - if it is a part of a lump-sum purchase.
15. One of the following statements about depreciation is false. Which statement is false?
- Depreciation is a process of allocating the cost of a plant asset over its useful life.
 - The cost of a plant asset minus accumulated depreciation equals the asset's book value.
 - Recording depreciation creates a fund to replace the asset at the end of its useful life.**
 - Depreciation is based on the matching principle because it matches the cost of the asset with the revenue generated over the asset's useful life.
16. How many of the following statements regarding goodwill are true?
- Goodwill is not reported unless purchased in an exchange.
 - Goodwill must be reviewed annually for possible impairment.
 - Impairment of goodwill results in a decrease in net income.
- none
 - one
 - two
 - three**
17. The book value of a plant asset is the difference between the
- replacement cost of the asset and its historical cost.
 - cost of the asset and the amount of depreciation expense for the year.
 - cost of the asset and the accumulated depreciation to date.**
 - proceeds received from the sale of the asset and its original cost.
18. A company sells a plant asset that originally cost \$150,000 for \$50,000 on December 31, 2007. The accumulated depreciation account had a balance of \$100,000 after the current year's depreciation of \$15,000 had been recorded. The company should recognize a
- \$100,000 loss on disposal.
 - \$50,000 gain on disposal.
 - \$50,000 loss on disposal.
 - no gain or loss on disposal.**

19. Intangible assets are the rights and privileges that result from ownership of long-lived assets that
- a. must be generated internally.
 - b. are depreciated over their useful life.
 - c. have been exchanged at a gain.
 - d. do not have physical substance.**
20. Research and development costs
- a. are classified as intangible assets.
 - b. must be expensed when incurred under generally accepted accounting principles.**
 - c. should be included in the cost of the patent they relate to.
 - d. are capitalized and then amortized over a period **not** to exceed 20 years.

Problem I (25 points)

Barlowe Corporation purchased a piece of equipment on January 1, 2006 for \$24,000. The equipment has an estimated life of four years, or 50,000 units of production and an estimated residual value of \$8,000. The company's fiscal year corresponds to the calendar year.

Required: Compute annual depreciation expense for 2006, 2007, and 2008 using the methods indicated below. Show calculations.

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual Expense			
Straight-line	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>

$$\frac{\text{Coast} - \text{Salvage}}{\text{Life}} = \frac{24,000 - 8,000}{4} = 4,000$$

Units of Production (actual production)	<u>3840</u> (12,000)	<u>2,560</u> (8,000)	<u>3,200</u> (10,000)
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Step I	x .32	x .32	x .32
<u>24,000 - 8,000</u> = 32 ¢/cents			
50,000 units			

Double-declining-balance	<u>12,000</u>	<u>4,000*</u>	<u>-0-</u>
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(Cost - AID) 2/4	24,000 x 2/4 =	(24,000 - 12,000) x 1/2	(24,000)
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*Limited to depreciation base 24000-8000=16,000

Problem II (20 points)

The Portland Boat Company's bank statement for the month of November showed a balance per bank of \$3,738. The company's Cash account in the general ledger had a balance of \$5,659 at November 30. Other information is as follows:

- (1) A deposit of \$5,200 was recorded on the books of the company on November 30 but this amount does not appear on the bank statement.
- (2) The bank statement shows a debit memorandum for \$40 for check printing charges.
- (3) The total amount of checks still outstanding at November 30 amounted to \$2,800.
- (4) .Mr Portland, the company owner, used the company debit card to purchase supplies for \$181 but forgot to tell accounting about the charge. The bank statements reflected a reduction of \$181 for the item.
- (5) The bank returned an NSF check from a customer for \$560.
- (6) The bank included a credit memorandum for \$1,260 which represents collection of a customer's note by the bank for the company; principal amount of the note was \$1,200 and interest was \$60. Interest has not been accrued.

Instructions

Prepare a bank reconciliation for the Portland Boat Company at November 30.

Balance per Bank	3,738	Balance per Book	5,659
Add: Deposit in transit	5,200	Less: Service charge	(40)
Less: Outstanding checks	<u>(2,800)</u>	Debit card	(181)
	<u>6,138</u>	USF check	(560)
		Add: Collection	<u>1,260</u>
			<u>6,138</u>

b. Prepare the General Journal entries required:

Date	Description	Debit	Credit
12-31	Cash	1,260	
	Notes receivable		1,200
	Interest income		60
	Accounts receivable	560	
	Supplies	181	
	Check printing expense	40	
	Cash		781

Problem III (15 points) Internal Controls

Vinnies, a popular Wilmington night spot, used a point of sale system called Squirrel. The wait staff entered orders and the Squirrel system sent the order to the kitchen, where the cook prepared the order. The system also printed out the final bill for the customer to pay. The night manager reviewed the cash count by wait staff each night and compared it to the amount indicated on the Squirrel system. Differences were usually small and shortages over \$5 were charged to individual wait staff. All the days deposits were placed in a bag and locked in the safe overnight.

The next morning, the restaurant's accountant opened the safe, prepared the deposit ticket and took the deposit to the bank. The accountant also wrote all checks and reconciled the bank account. The night manager and the accountant were not bonded.

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	One waiter per cash count	Strength
2. Segregation of duties	Accounting handles cash	Terrible weakness
3. Physical, mechanical, and electronic control	Squirrel system	Strength
4. Independent internal verification	Night supervisor checks out staff & squirrel	Strength
5. Documentation procedures	Squirrel system prints final bill	Strength
6. Other Controls	No bonding	Weakness