

**Accounting 201
TEST III
Fall 2008**

NAME **MASTER**

TIME 8:00 9:00

(please circle time)

MULTIPLE CHOICE (2 POINTS EACH):

- | | |
|---------------------|---------------------|
| 1. <u>C</u> | 11. <u>C</u> |
| 2. <u>A</u> | 12. <u>A</u> |
| 3. <u>C</u> | 13. <u>C</u> |
| 4. <u>D</u> | 14. <u>C</u> |
| 5. <u>A</u> | 15. <u>A</u> |
| 6. <u>A</u> | 16. <u>D</u> |
| 7. <u>C</u> | 17. <u>C</u> |
| 8. <u>D</u> | 18. <u>B</u> |
| 9. <u>D</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
	<hr/>
	<u>100</u>

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

1. General Molding is building a new plant that will take three years to construct. The construction will be financed in part by funds borrowed during the construction period. There are significant architect fees, excavation fees, and building permit fees. Which of the following statements is true?
 - a. Excavation fees are capitalized but building permit fees are not.
 - b. Architect fees are capitalized but building permit fees are not.
 - c. Interest is capitalized during the construction as part of the cost of the building.**
 - d. The capitalized cost is equal to the contract price to build the plant less any interest on borrowed funds.

2. Which depreciation method is most frequently used in businesses today?
 - a. Straight-line.**
 - b. Declining-balance.
 - c. Units-of-activity.
 - d. Double-declining- balance.

3. The two key parties to a promissory note are the
 - a. maker and a bank.
 - b. creditor and the payee.
 - c. maker and the payee.**
 - d. sender and the receiver.

4. Which of the following best describes the proper presentation of accounts receivable in the financial statements?
 - a. gross accounts receivable plus the allowance for doubtful accounts in the asset section of the balance sheet
 - b. 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
 - c. gross accounts receivable less bad debt expense in the asset section of the balance sheet
 - d. gross accounts receivable less the allowance for doubtful accounts in the asset section of the balance sheet**

Use the following information to answer questions 5 thru 6:

Accounts receivable 12/31/X3	\$ 8,000
Allowance for uncollectible accounts 12/31/X3 (before adjustment)	50 debit
Credit sales during 20X3	38,000
Cash sales during 20X3	12,000
Collections from customers on account during 20X3	41,000

5. If uncollectible accounts are determined by the percentage-of-receivables method to be 10% of accounts receivable, the uncollectible account expense for 20X3 would be:
 - a. \$850**
 - b. \$750
 - c. \$50
 - d. \$800

6. Using the percentage-of-receivables(aging) method, the balance of the Allowance account after the adjusting entry would be
- \$800**
 - \$750
 - \$1550
 - \$50
7. A high receivable turnover ratio indicates
- the company's sales are increasing.
 - a large proportion of the company's sales are on credit.
 - customers are making payments very quickly.**
 - customers are making payment slowly.
8. Granite Corp. uses the allowance method to account for bad debts. What are the effects on the accounting equation of the entry to record the write-off of a customer's account balance?
- Assets and liabilities decrease.
 - Assets and owners' equity decrease.
 - Owners' equity decreases and liabilities increase.
 - No effect – assets increase and decrease by the same amount.**
9. The Farm Coop received a promissory note from a customer on November 1, 2008. The face amount of the note is \$8,000; the term is 120 days and 9% interest. What is the maturity value of the note?
- \$8,000
 - \$8,720
 - \$240
 - \$8,240**
10. Which of the following items is not cash or a cash equivalent?
- Microsoft stock certificates.**
 - Sixty day certificate of deposit.
 - Series E savings bond due in 90 days.
 - A customer check dated November 12.
11. The custodian of a company asset should
- have access to the accounting records for that asset.
 - be someone outside the company.
 - not have access to the accounting records for that asset.**
 - be an accountant.

12. In 2008, Roland Carlson Company had net credit sales of \$750,000. On January 1, 2008, Allowance for Doubtful Accounts had a credit balance of \$18,000. During 2008, \$30,000 of uncollectible accounts receivable were written off and \$40,000 of uncollectible accounts expense was recorded. What is the final balance in the Allowance for Doubtful Accounts after the year's activity?
- \$28,000.**
 - \$10,500.
 - \$22,500
 - \$40,500.
13. Which of the following is a revenue expenditure:
- The addition of a building wing.
 - A complete overhaul of an air-conditioning system.
 - A tune-up of a company vehicle.**
 - Replacement of an old motor with a new one in a piece of equipment.
 - The cost of installing a piece of equipment.
14. If Kmart has an inventory turnover rate of 4 times and Walmart has an inventory turnover rate of 6 times, which of the following statements should be true?
- Kmart apparently collects cash from customers more quickly than Walmart.
 - Kmart moves $\frac{1}{4}$ of its inventory each year.
 - On average, an inventory item takes 60 days to sell at Walmart and 90 days at Kmart.**
 - Kmart sells inventory faster than Walmart.
15. In comparing tangible assets to intangible assets, which of the following is true?
- Tangible assets physically exist whereas intangible assets represent legal rights.**
 - Patents are usually depreciated over a longer life than buildings.
 - Impairment is a larger accounting concern for tangible assets than for intangible assets.
 - Hiring an engineer to help develop a patent is usually added to the cost of a patent.
16. The direct writeoff method of recording bad debts is most appropriate for which of the following entities?
- American Express credit card company.
 - Carolina Power and Light.
 - Wachovia Bank, consumer credit department.
 - Coastal Beverage.**
17. If you purchased a profitable company and paid an amount in excess of the fair market value of tangible assets such as property, that cost would be classified on the balance sheet as
- A copyright.
 - Property.
 - Goodwill.**
 - Organization costs.

18. Straight-line depreciation is used for reporting purposes by many companies because:
- it is always the best measure of the assets used up in the production process during the period.
 - it represents a systematic allocation of the cost of assets over their expected economic lives and is simple.**
 - tax laws require use of straight-line depreciation for most tangible assets.
 - noncurrent assets are used up so quickly that it makes little difference which depreciation method is used.
19. Which of the following would **not** be included in the Equipment account?
- Installation costs.
 - Freight costs.
 - Cost of trial runs.
 - Electricity used by the machine.**
20. K Corp recently purchased a new robotics production system which has unlimited production capability and will be used for at least the next three years to produce computer chips. The field is changing rapidly and new production processes are being developed each year. The company should use which of the following methods of treating asset costs?
- Straight-line depreciation.
 - Double declining balance depreciation.**
 - Units of production method.
 - Charge the full cost of the assets to expense in the year of purchase.

Problem I (25 points)

Barlowe Corporation purchased a piece of equipment on January 1, 2007 for \$24,000. The equipment has an estimated life of eight 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 2007, 2008, and 2009 using the methods indicated below. Show calculations.

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Annual Expense			
Straight-line	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>
Cost - residual <u>24,000 - 8,000</u> 8			
= 2,000			
Units of Production (actual production)	<u>3,840</u> (12,000) X .32	<u>5,760</u> (18,000) x .32	<u>6,400</u> (25,000) x.32
Step I:			
<u>24,000 - 8,000</u> 50,000			
= .32			
Double-declining-balance	<u>6,000</u>	<u>4,500</u>	<u>3,375</u>
2/8 x Book Value	1/4 x 24,000	1/4 (24,000-6,000) 1/4 x 18,000	1/4 (24,000-10,500)

Problem II (20 points)

On March 31, 2007, Dezelle Company had a cash balance per books of \$5,274.20. The statement from Riverside Bank on that date showed a balance of \$5,941.40. A comparison of the bank statement with the cash account revealed the following facts.

1. The bank service charge for March was \$28.
2. The bank collected a note receivable of \$2,000 for Dezelle Company on March 15, plus \$115 of interest. The bank made a \$20 charge for the collection. Dezelle has not accrued any interest on the note.
3. The March 31 receipts of \$1,681.60 were not included in the bank deposits for March. These receipts were deposited by the company in a night deposit vault on March 31.
4. Company check No. 1245 issued to B. Solveson, a creditor, for \$672 that cleared the bank in March was incorrectly entered in the cash payments journal on March 8 for \$627.
5. Checks outstanding on March 31 totaled \$1,360.00.
6. On March 31 the bank statement showed an NSF charge of \$1,033.20 for a check received by the company from Z. Fowler, a customer, on account.

Instructions

Prepare a bank reconciliation for the Dezelle Company at March 31, 2007.

Balance per Bank	\$5,941.40	Balance per Books	\$5,274.20
+Deposit in Transit	1,681.60	less: Service Charges	(28.00)
Less: Outstanding checks	<u>(1,360.00)</u>	add: Note collected	2,095.00
		less: Error	(45.00)
		NSF Check	<u>(1033.20)</u>
Adjusted Balance	<u>\$6,265.00</u>	Adjusted Balance	<u>\$6,625.00</u>

b. Prepare the General Journal entries required:

Date	Description	Debit	Credit
	Service Charge Exp	28.00	
	Cash		28.00
	Cash	2,095.00	
	Service Charge Exp	20.00	
	Interest Income		115.00
	Note Receivable		2,000.00
	Accounts Payable	45.00	
	Cash		45.00
	AR	1,033.20	
	Cash		1,033.20

Problem III (15 points) Internal Controls

State University's Accounting Club decided to sell coupon books as a fund-raising activity. The books allow users to enjoy restaurants, entertainment, and services such as oil changes, at substantial discounts. The club bought 100 books for \$16 each, and members will sell them for \$20. About 20 members attended the last club meeting, and most took one or two books to sell. Since the club had already paid for the books and didn't have other immediate cash needs, members do not have to pay for the books until they sell them.

Extra books are stored on a book shelf in the club's on-campus office. The office is in a great location with plenty of student traffic. It is shared with the Marketing and Information Systems clubs. Each club has four sets of keys that are used by its officers and members.

As students sell books, they bring the cash or checks to the club's office. Students with unusual class schedules who arrive when the office is locked can put payments under the door. Payments are stored in a desk drawer until the treasurer has time to make a bank deposit. Students can pick up more books to sell as needed.

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	None – Too many people handle cash & Books	Weakness
2. Segregation of duties	Too many handle cash & books	Weakness
3. Physical, mechanical, and electronic control	No cash seg	
4. Independent internal Verification	None	Weakness
5. Documentation Procedures	No list of books or Cash receipts	Weakness
6. Other Controls	No insurance	Weakness