

**Accounting 201
TEST III
Spring 2009**

NAME _____

Section _____

MULTIPLE CHOICE (2 POINTS EACH):

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

| | |
|--------------------|------------|
| 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. 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.

2. Who should usually reconcile the bank account?
 - A. Chief accountant.
 - B. Cashier.
 - C. Check signer.
 - D. None on the above.

3. 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.

4. You have just received notice that Edgar Dupler, a customer of yours with an Accounts Receivable balance of \$200, has gone bankrupt and will not be making any future payments. Assuming you use the allowance method, the journal entry you make is to
 - A. Debit Allowance for Uncollectible Accounts and credit Accounts Receivable.
 - B. Debit Allowance for Uncollectible Accounts and credit Uncollectible Accounts Expense.
 - C. Debit Uncollectible Accounts Expense and credit Accounts Receivable.
 - D. Debit Uncollectible Accounts Expense and credit Allowance for Uncollectible Accounts.

5. 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

6. 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.

7. Laurs Company uses the percentage of receivables method for recording bad debts expense. The Accounts Receivable balance is \$200,000 and credit sales are \$1,000,000. Management estimates that 4% of accounts receivable will be uncollectible. What adjusting entry will Manning Company make if the Allowance for Doubtful Accounts has a credit balance of \$2,000 before adjustment?

| | | |
|---------------------------------------|--------|--------|
| A. Bad Debts Expense | 10,000 | |
| Allowance for Doubtful Accounts | | 10,000 |
| B. Bad Debts Expense | 8,000 | |
| Allowance for Doubtful Accounts | | 8,000 |
| C. Bad Debts Expense | 6,000 | |
| Allowance for Doubtful Accounts | | 6,000 |
| D. Bad Debts Expense | 12,000 | |
| Accounts Receivable | | 12,000 |

8. Under the allowance method, Bad Debt Expense is recorded

- when an individual account is written off.
- when the loss amount is known.
- for an amount that the company estimates it will not collect.
- several times during the accounting period.

9. Under the direct write-off method of accounting for uncollectible accounts

- the allowance account is increased for the actual amount of bad debt at the time of write-off.
- a specific account receivable is decreased for the actual amount of bad debt at the time of write-off.
- balance sheet relationships are emphasized.
- bad debt expense is always recorded in the period in which the revenue was recorded.

10. Stories Company purchased equipment and these costs were incurred:

| | |
|--------------------------|-----------------|
| Cash price | \$22,500 |
| Sales taxes | 1,800 |
| Insurance during transit | 320 |
| Installation and testing | <u>430</u> |
| Total costs | <u>\$25,050</u> |

Stories will record the acquisition cost of the equipment as

- \$22,500.
- \$24,300.
- \$24,620.
- \$25,050.

11. Allowance for Doubtful Accounts on the balance sheet

- is offset against total current assets.
- increases the cash realizable value of accounts receivable.
- appears under the heading "Other Assets."
- is deducted from accounts receivable.

12. 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.
13. 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.
14. Which of the following intangible assets generally has the longest legal life granted by the government?
- A. Patent.
 - B. Goodwill.
 - C. Trademark.
 - D. Copyright.
15. 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.
16. The book value of a plant asset is the difference between the
- A. replacement cost of the asset and its historical cost.
 - B. cost of the asset and the amount of depreciation expense for the year.
 - C. cost of the asset and the accumulated depreciation to date.
 - D. proceeds received from the sale of the asset and its original cost.
17. An aging of a company's accounts receivable indicates that \$4,000 are estimated to be uncollectible. If Allowance for Doubtful Accounts has a \$1,200 credit balance, the adjustment to record bad debts for the period will require a
- A. debit to Bad Debts Expense for \$4,000.
 - B. debit to Allowance for Doubtful Accounts for \$2,800.
 - C. debit to Bad Debts Expense for \$2,800.
 - D. credit to Allowance for Doubtful Accounts for \$4,000.

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 \$60,000 after the current year's depreciation of \$15,000 had been recorded. The company should recognize a
- A. \$100,000 loss on disposal.
 - B. \$40,000 gain on disposal.
 - C. \$40,000 loss on disposal.
 - D. \$25,000 loss on disposal.
19. When the allowance method is used to account for uncollectible accounts, Bad Debts Expense is debited when
- A. a sale is made.
 - B. an account becomes bad and is written off.
 - C. management estimates the amount of uncollectibles.
 - D. a customer's account becomes past due.
20. An expenditure for which of the following items would be considered a revenue expenditure?
- A. Plant asset
 - B. Ordinary repair
 - C. Addition
 - D. Improvements

Problem I (25 points)

Barlowe Corporation purchased a piece of equipment on January 1, 2008 for \$24,000. The equipment has an estimated life of four years, or 40,000 units of production and an estimated residual value of \$4,000. The company's fiscal year corresponds to the calendar year.

Required: Compute annual depreciation expense for 2008, 2009, and 2010 using the methods indicated below. Show calculations.

| | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|--|-------------|-------------|-------------|
| Annual Expense | | | |
| Straight-line | _____ | _____ | _____ |
| Units of Production (actual production) | _____ | _____ | _____ |
| | (12,000) | (8,000) | (10,000) |
| Double-declining-balance | _____ | _____ | _____ |

Problem II (20 points)

The following information pertains to the bank transactions of Crawford Company:

1. Cash on the books as of September 30 was \$719. Cash as shown on the bank statement for the same date was \$1,330.
2. A deposit of \$160, representing cash receipts of September 30, did not appear on the bank statement.
3. Outstanding checks totaled \$240.
4. Bank service charges for September amount to \$9.
5. The bank collected for Crawford Company \$840 (which includes \$40 interest) on a note left for collection.
6. An NSF check for \$80 from a customer, Jack Betz, was returned with the statement.
7. The bookkeeper erroneously posted a deposit of \$1,002 as \$1,222.

Instructions

a. Prepare the Bank Reconciliation at September 30:

b. Prepare the General Journal entries required:

| Date | Description | Debit | Credit |
|------|-------------|-------|--------|
| | | | |

Problem III (15 points) Internal Controls

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

1. Any employee may operate the cash register any time during the day.
2. Each cashier may approve refunds or returns under \$100
Refunds over \$100 must be approved by Remy before they are paid.
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. No bonding insurance is maintained on employees

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 | | |
| 2. Segregation of duties | | |
| 3. Physical, mechanical, and electronic control devices | | |
| 4. Independent internal verification | | |
| 5. Adequate documentation | | |
| 6. Other Controls | | |