

**Accounting 201
TEST III
Spring 2008**

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> D </u> | 12. <u> C </u> |
| 3. <u> C </u> | 13. <u> B </u> |
| 4. <u> A </u> | 14. <u> C </u> |
| 5. <u> B </u> | 15. <u> B </u> |
| 6. <u> D </u> | 16. <u> C </u> |
| 7. <u> A </u> | 17. <u> B </u> |
| 8. <u> B </u> | 18. <u> B </u> |
| 9. <u> A </u> | 19. <u> C </u> |
| 10. <u> B </u> | 20. <u> D </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. One of the following statements about depreciation is false. Which statement is false?
 - a. Depreciation is a process of allocating the cost of a plant asset over its useful life.
 - b. The cost of a plant asset minus accumulated depreciation equals the asset's book value.
 - c. Recording depreciation creates a fund to replace the asset at the end of its useful life.**
 - d. 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.

2. 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 3 thru 6:

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

3. 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. \$1,550
 - b. \$750
 - c. \$50**
 - d. \$800

4. Using the percentage-of-receivables method, the balance of the Allowance account after the adjusting entry would be
 - a. \$800**
 - b. \$750
 - c. \$1550
 - d. \$50

5. Assuming the percentage-of-receivables method is used, the net realizable value of accounts receivable on the 12/31/X3 balance sheet would be:
 - a. \$8,000
 - b. \$7,200**
 - c. \$7,250
 - d. \$7,950

6. A consequence of separation of duties is that
- theft by employees becomes impossible.
 - operations become extremely inefficient because of constant training of employees.
 - more employees will need to be bonded.
 - theft is possible only when several employees are involved.**
7. Prior to the write off of a \$30 customer account, Kraft Kompany had the following account balances:
- | | |
|---------------------------------|----------|
| Accounts receivable | \$ 9,800 |
| Allowance for Doubtful accounts | 500 |
- The net realizable value of the receivables before and after the write-off was:
- | | Before | After |
|--------------------|----------------|-------|
| (1) \$9,300 | \$9,300 | |
| (2) \$9,300 | \$9,270 | |
| (3) \$9,800 | \$9,770 | |
| (4) \$9,800 | \$9,800 | |
8. The receivable that is usually evidenced by a formal instrument of credit is a(n)
- trade receivable.
 - note receivable.**
 - accounts receivable.
 - income tax receivable.
9. Suppose FedEx pays \$60 million to buy Lone Star Overnight. Lone Star's assets are valued at \$70 million, and its liabilities total \$20 million. How much goodwill did FedEx purchase in its acquisition of Lone Star Overnight? (pp. 390-391)
- \$10 million**
 - \$20 million
 - \$30 million
 - \$40 million
10. The reconciliation of the cash register tape with the cash in the register is an example of
- other controls.
 - independent internal verification.**
 - establishment of responsibility.
 - segregation of duties.
11. Why would a business select an accelerated method of depreciation for tax purposes?
- MACRS depreciation follows a specific pattern of depreciation.
 - Accelerated depreciation generates a greater amount of depreciation over the life of the asset than does straight-line depreciation.
 - Accelerated depreciation is easier to calculate because salvage value is ignored.
 - Accelerated depreciation generates higher depreciation expense immediately, and therefore lower tax payments in the early years of the asset's life.**

12. Which of the following is *not* a capital 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.
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 requirement to place in service. What does Edmonds record as the cost of the new van?
- \$53,540
 - \$53,420**
 - \$52,000
 - \$51,420
14. Which of the following combinations of turnover ratios indicates a company which has the longest operating cycle
- Coastal Beverage/ inventory turnover 15, receivable turnover 20.
 - Harley Davidson/ inventory turnover 12, receivable turnover 20.
 - Miller Brewing/ inventory turnover 8, receivable turnover 10.**
 - McDonalds/ inventory turnover 720, receivable turnover infinite.
15. Hamilton Company purchased a machine for \$8,800 on January 1, 20X6. The machine has been depreciated using the straight-line method over an 8-year life and \$800 residual value. Hamilton sold the machine on January 1, 20X8, for \$7,500. What gain or loss should Hamilton record on the sale?
- Gain, \$500
 - Gain, \$700**
 - Loss, \$1,300
 - Gain, \$1,500
16. 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.
17. In comparing tangible assets to intangible assets, which of the following is false?
- 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 intangible assets than for tangible assets.
 - Hiring an engineer to help build a building is usually added to the cost of a building but hiring and engineering would be expensed when developing a patent.

18. A company installs concrete traffic dividers and signs to direct traffic in its parking lot. In which account should the cost be recorded:
- Land.
 - Land Improvements.**
 - Equipment
 - Building.
19. 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?
- Sum of the digits
 - Double declining balance
 - Units of production**
 - Straight line
20. Under the *direct write-off* method of accounting for uncollectible accounts:
- The current year uncollectible accounts expense is less than the expense would be under the allowance approach.
 - The relationship between the current period net sales and current period uncollectible accounts expense illustrates the matching principle.
 - The Allowance for Doubtful Accounts is debited when specific accounts receivable are determined to be worthless.
 - Accounts receivable are not stated in the balance sheet at net realizable value, but at the balance of the Accounts Receivable control account.**

Problem I (25 points)

Barlowe Corporation purchased a piece of equipment on January 1, 2007 for \$81,000. The equipment has an estimated life of nine years, or 50,000 units of production and an estimated residual value of \$9,000. 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>8,000</u>	<u>8,000</u>	<u>8,000</u>
Cost Cost			
<u>81,000 – 9,000 = 8,000</u>			
9			
Units of Production	<u>17,280</u>	<u>25,920</u>	<u>28,800</u>
(actual production)	(12,000)	(18,000)	(25,000)
	Production	production	production
<u>81,000 – 9,000 = 1.44</u>	x 1.44	x 1.44	limited 20,000
50,000 units			
Double-declining-balance	<u>18,000</u>	<u>14,000</u>	<u>10,888</u>
Rate = $\frac{2}{9}$		Cost A/P	
	$\frac{2}{9} \times 81,000 = 18,000$	<u>(81,000 – 9,000)</u>	$\frac{2}{9} (81,000 –$
		x $\frac{2}{9}$	32,000)
		9	

Problem II (20 points)

A comparison of the balance in Joy Company's cash account (per its books) as of September 30, 2007, and the bank statement dated September 30, 2007, revealed the following information:

- (1) Ending Cash account balance per books (unadjusted)..... \$5,520
- (2) Ending Balance per bank statement..... 5,170
- (3) Customer's NSF check returned by bank
Shown on the September bank statement..... 300
- (4) Outstanding checks at end of September..... 870
- (5) Deposit in transit at end of September.....1,100
- (6) Error made by Joy in recording a check during September--\$550 was
credited to the Cash account when the proper amount was \$500; the
bank properly recorded the check \$500 when it cleared..... 50
- (7) Bank service charge for September..... 20
- (8) Proceeds of customer note collected by bank for Joy during September
(added to bank account)..... 150

Instructions

Prepare a bank reconciliation for the Joy Company at September 30, 2007.

Balance per bank	5,170	Balance per books	5,520
Less: outstanding checks	(870)	Less: NSF check	(300)
Add: deposit in transit	1,110	Add: check error	50
		Less: service charge	(20)
		Add: note proceeds	<u>150</u>
	<u>5,400</u>		<u>5,400</u>

b. Prepare the General Journal entries required:

Date	Description	Debit	Credit
	NSF receivable	300	
	Service charge expense	20	
	 Accounts payable		50
	 Note receivable		150
	 Cash		120

Problem III (15 points) Internal Controls

Buster Trust is the accountant for Wet N Wax Surf Shop which uses the perpetual inventory system. Burt Surfer owns the shop, and is always there overseeing operations. Buster Trust is the only employee. He records all sales using a cash register with an internal tape and dial which displays the amount run up. At the end of the day, Burt Surfer counts the drawer in the presence of Buster Trust, compares the balance to the register tape, and makes the deposits daily before he goes home. An independent accounts payable service, assembles the receiving report, vendor invoice, and prepares the checks. Burt Surfer approves and signs the checks and mails them. Burt Surfer orders all inventory, performs the year end count, but his wife reconciles the cash account. His CPA makes all necessary adjusting entries and prepares financial statements. Buster Trust is required to take a two week vacation and is bonded up to \$50,000.

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	All jobs clearly defined	Strength
2. Segregation of duties	Check preparation and signing separate	Strength
3. Physical, mechanical, and electronic control	Cash register with tape and dial	Strength
4. Independent internal verification	Burt Surfer checks out register at end of day or wife reconciles cash	Strength
5. Documentation procedures	Tape in register Proper documentation for disbursements	Strength
6. Other Controls	Vacation & bonded	Strength