<u>Multiple Choice Questions: 20 min, 15 points</u>

ANSWER ALL MULTIPLE CHOICE QUESTIONS ON PAGE 17.

1. Which of the following statements regarding liquidity and profitability is not true?

A. If a business is unable to pay its debts as they come due, it is operating unprofitably.

B. A business may be liquid, yet operate unprofitably for several years.

C. A business may operate profitably, yet be unable to meet its obligations.

D. In order to survive in the long run, a business must both remain liquid and operate profitably.

2. Which of the following is the primary objective of financial statements?

A. Providing managers with detailed information tailored to the managers' specific information needs.

B. Providing people outside the business organization with information about the company's financial position and operating results.

C. Reporting to the tax authority the company's taxable income.

D. Indicating to investors in a particular company the current market values of their investments.

3. The principle of adequate disclosure means that a company should disclose:

A. Only the important monetary information.

B. All confidential information regarding the company.

C. Any financial facts that a reasonable informed person would consider necessary for the proper interpretation of the financial statements.

D. Only subsequent events.

4. Retained earnings is:

A. The positive cash flows of a company.

B. Net worth of a company.

C. The equity that has accumulated as a result of profitable operations.

D. Equal to the total assets of a company.

5. Bob Bertolucci, owner of Bob's Bazaar, also owns a personal residence that cost $575,000, but has a market value of $725,000. During preparation of the financial statements for Bob's Bazaar, the accounting principle most relevant to the presentation of Bob's home is:

A. The concept of the business entity.

B. The cost principle.

C. The going-concern assumption.

D. The objectivity principle.

6. The amount of equity in a business is not affected by:
A. The percentage of total assets held in cash.
B. Investments made in the business by the owner.
C. The profitability of the business.
D. The amount of dividends paid to shareholders.

7. An asset purchased on January 1, 2006 for $60,000 that has an estimated life of 10 years will have a book value on December 31, 2009 of:

6000 /y.

A. $60,000.
B. $24,000.
C. $36,000.
D. $42,000.

8. On December 31, Louis Jeweler's made an adjusting entry to record $4,200 accrued interest payable on its Note Payable. On January 10, the Note Payable payment was made. This payment included interest charges of $6,300, $2,100 of which were applicable to the period from January 1 through January 10. In recording this Note Payable payment the accountant should:
A. Debit Interest Expense $2,100 and debit Accrued Interest Payable $4,200.
B. Debit Interest Expense $6,300.
C. Debit Accrued Interest Payable $6,300.
D. Debit Interest Expense $2,100 and credit Accrued Interest Payable $4,200.

Payal

9. The balance in Income Summary:
A. Should equal retained earnings.
B. Will always be equal to the increase in retained earnings.
C. Will equal profit less dividends.
D. Will equal profit or loss.

10. After preparing the financial statements for the current year, the accountant for Exquisite Gems closed the Dividends account at year-end by debiting Income Summary and crediting the Dividends account. What is the effect of this entry on current-year profit and the balance in the Retained Earnings account at year-end?
A. Profit is overstated and the balance in the Retained Earnings account is correct.
B. Profit is correct and the balance in the Retained Earnings account is correct.
C. Profit is understated and the balance in the Retained Earnings account is understated.

Problem 1: 10 minutes, 10 points

X+450 000 X-40

X+450000

(A.) During the current year, the assets of Duffy Stationery increased by $450,000, and the liabilities decreased by $40,000. What was the change in equity during the year?

Assets = Liabilities + Owners equity.
If Assets increase by $450,000 and liabilities decrease by $40,000
then the equity will increase by 450,000 + 40,000 = 490,000
So equity will increase by $490,000 ✓ (3)

(B.) The equity of Graham Interiors appears on the balance sheet as $720,000 and is equal to one-third of total assets. Compute the amount of total liabilities.

Assets = Liabilities + Owners equity.
Owners equity = 720,000. Assets = 3 x 720,000 = $2,160,000
Liabilities = Assets − Owners equity = 2,160,000 −
720,000 = $1,440,000 (3)

910

20 + 615000 = −405

(C.) At the end of 2009 the equity in Scott Mfg. amounted to $845,000. During 2009, the assets of the business increased by $615,000, and the liabilities increased by $405,000. The equity at the beginning of 2009 was how much?

X+615 = X+405 + X↑210 230 440 + 405 = 615

The equity at the beginning of 2009
was equal to Assets − Liabilies = 615,000
− 405,000 = $210,000 (2) then

Problem 2: 25 min, 20 points

The accountant for ABC Consulting prepared the following list of accounts and their **adjusted balances** at Dec 31, 2012, the first year of operations for consulting Co. All accounts are in their normal balance. The company adjusts monthly and closes once at year-end.

Account	Balance
Accumulated Depreciation: Office Equipment	900
Share Capital	25,000
Cash	3,750
Consulting Fees earned	25,150
Depreciation expense	900
Dividends	1,200
Office Equipment	27,000
Prepaid Rent	6,250
Rent Expense	1,950
Salaries Expense	6,400
Unearned Consulting Fees	1,600
Unexpired Insurance	3,500
Utilities Expense	1,700

44900

43300

29850

Instructions:

a. Prepare an Income Statement for the year ended Dec 31, 2012.
b. Prepare a Statement of Changes in Equity for the year ended Dec 31, 2012.
c. Prepare a Balance sheet at Dec 31, 2012.

ABC Consulting
Income statement
Dec, 31, 2012.

Revenues:

Consulting fees earned	25,150.
Expenses:	
Depreciation expense	900
Rent expense	1,950
Salaries expense	6,400.
Utilities expense	1,700.
	10,950
Profit:	14200.

ABC Consulting
Statement of changes in Equity
Dec 31, 2012.

	Share capital	Retained Earnings.
Balance	25,000	25,150.
- Dividends	- 1,200	
	23,800.	25,150.

Total = 48,950 $

ABC Consulting.
Financial position
Dec 31, 2012.

Assets :

Office equipment	$27,000	
Accumulated Depreciation : Office equipment		- $900.
	$26,100	
Cash	3,750	
	29,850	

Liabilities :

[illegible]

Owners equity :

Share capital	$ 25,000
Retained earning :	

4

roblem 3:20 min, 20 points

Omega Company adjusts its accounts at the end of each month. The following information has been assembled in order to prepare the required adjusting entries at December 31, year 1:

(1) A one-year bank loan of $720,000 at an annual interest rate of 12% had been obtained on October 1, year1. The Principal and interest are due for payment on Sept 30, year 2

806600

733,090

(2) The company's pays all employees each Friday $3,000 for a five-day week. However, December 31, year 1, fell on Tuesday.

(3) On Nov 1, year 1 rent on the office building of $5,000 was paid for four months.

(4) Depreciation of office equipment is based on a lifetime of six years. The balance in the Office Equipment account is $9,360; no change has occurred in the account during the year.

(5) Fees of $9,800 were earned during December year 1 for clients who had paid in advance.

806 600 | 11

733

) Record the payment of Salaries on Friday Jan 3, year 2.

Salaries expense 3,000

Salaries payable 3,000 X

3) Determine the balance of Prepaid Rent that would appear in Balance sheet on Dec 31, year 1.

$\frac{5000}{4} = 1250$

Prepaid rent would appear in balance as 1250 $ X

4) Determine the amount of Interest Payable that would appear in the Balance Sheet dated Dec 31, year 1.

2. Assume that the correct entries were not recorded; determine the effect of the accounting clerk's errors on the following accounts: Determine the $ amount by which computing the accounts are overstated (more than they should be) or understated (less than they should be). SHOW YOUR COMPUTATIONS

a. Accounts Receivable

Overstated.

b. Inventory

c. Account Payable

Understated.

d. Sales

Understated

e. Cost of Goods Sold.

2

Purchaser + seller.

Problem 4: 20minutes, 19 points

Queen Company is a furniture wholesaler. Queen hired a new accounting clerk on Jan 1 of the current year. The new cleck does not understand accrual accounting and recorded the transactions below based on when cash is collected and paid rather than at the time the transaction occurred. Queen uses a perpetual inventory system, and its policy to record inventory purchases NET of any discount.

net cost.

7 Jan	Paid Hardwoods Forever Company \$ 49,000 for furniture that it received on 20 December. This purchase was recorded as a Debit to Inventory and Credit to Accounts Payable on 20 Dec of last year, but the accounting clerk ignored that fact and recorded the purchase of inventory upon payment.
23 Dec	Received furniture from N&W Co. for \$100,000; terms 2/10, n/30.
26 Dec	Sold furniture to Beige Chipmunk Co. for \$150,000; terms 1/10,n/30. The Cost of Goods Sold was \$122,500.

Instructions:

1. Record the correct Journal entries that should have been recorded for the above in the General Journal. (Omit Explanations)

General journal.

		Debit	Credit
20 Dec	Inventory	49,000	
	Accounts Payable		49,000
7 Jan	Cash	~~49,000~~	
	~~Accounts~~ recievable		49,000
23 Dec	Accounts ~~recievable~~	98,000 $\left(\frac{100000 \times 2}{100}\right)$	
	~~Cash~~		98,000
26 Dec	Accounts recievable $\left(150,000 - \frac{150000 \times 1}{100} = 148,500\right)$		
	Sales	148,500	
	Cost of goods sold		122,500
	Inventory		122,500

Problem 5: 10 minutes, 6points

On September 1, 2010, Dental Equipment Corporation sold equipment priced at $350,000 in exchange for a six-month note receivable with an annual interest rate of 12%, all due at maturity.

(a.) Prepare the December 31, 2010 (fiscal year-end), adjusting entry made by Dental with regard to this note receivable. (Omit Explanations)

Note recievable 350, 000

Sales 350, 000

(b.) Prepare the entry made by Dental on March 1, 2011(maturity date of note), to record collection of note and interest. (Omit Explanations)

Interest payable $\times \left(\frac{350,000 \times 12}{100} + 350000 \right) = 392,000$

Note recievable 350,000

Interest recievable 42,000 X

(c.) Assume that on March 1, 2011, the maker of the note defaults and Dental does not collect the note.

Prepare the entry to be made to Dental on March 1, 2011, in this situation.

Impairment loss of recievable 392,000

Allowance impairment 392,000

Problem 6: 15 minutes, 10points

At the end of the year the unadjusted trial balance of Angel Provisions included the following accounts:

	Debit	Credit
Sales (80% represent credit sales		$780,575
Accounts Receivable	$101,475	
Allowance for Impairment		$1,218

694

1) If Angel uses the balance sheet approach to estimate uncollectible accounts expense, and aging the accounts receivable indicates the estimated uncollectible receivables to be $6,075:

a) Determine the Impairment loss on Accounts Receivable for the year.

6,075 $ X

b) Determine the estimated collectible Accounts Receivable reported on the Balance Sheet at year-end.

101,475 - 6,075 = 95,400 $

1.5

2) If the income statement approach to estimating uncollectible accounts expense is followed, and uncollectible accounts expense is estimated to be 1% of net credit sales:

a) Determine the Impairment loss on Accounts Receivable for the year.

$\frac{101,475 \times 1}{100}$ = 1014.75 $

b) Determine the estimated collectible Accounts Receivable reported on the Balance Sheet at year-end.

101,475 - 1014.75 = 100,460.25