Brooklyn College

Koppelman School of Business

Accounting 2001

PRACTICE FINAL EXAM

ACCOUNTING 1 PRACTICE FINAL EXAM

1. Which of the following forms of business organizations protect the personal assets of the owners from creditors of the business?
   a. corporation b. partnership c. proprietorship d. corporation and partnership

2. If the debit amount of an entry to record the purchase of supplies on account was not posted:
   a. liabilities would be understated
   b. assets would be understated
   c. stockholders equity would be understated
   d. expenses would be overstated

3. In accrual accounting revenue should be recorded when:
   a. the cash is received
   b. the job is more than 50% complete
   c. the contract is signed
   d. it has been earned

4. The prepaid adjusting entry to record the use of supplies is:
   a. debit Accrued Supplies, credit Supplies Expense
   b. debit Depreciation Expense, credit Supplies
   c. debit Supplies Expense, credit Supplies
   d. debit Supplies Expense, credit Unearned Supplies

5. The balance of the income summary account after all revenues and expenses have been closed into it is equal to:
   a. the retained earnings balance less the dividends account balance
   b. the retained earnings account balance at the end of the closing process
   c. net income or loss for the period
   d. net income of loss for the period less the dividends account balance

6. Which of the following are contra accounts to sales revenue?
   a. sales discounts c. both a and b
   b. sales returns and allowances d. neither a nor b

7. The term which governs when legal title to the goods passes from seller to buyer is:
   a. COD b. ASAP c. FOB d. BYOB

8. In a perpetual inventory system, the entries to record a $4,500 cash sale when the cost of the merchandise is $2,700 include a:
   a. credit to sales revenue of $1,800
   b. credit to inventory of $2,700
   c. debit to cash of $1,800
   d. debit to inventory of $4,500

9. Under the allowance method, the entry to record uncollectible accounts expense has the following effect on the financial statements:
   a. increases expenses and increases stockholders equity
   b. decreases stockholders equity and decreases assets
   c. decreases assets and increases net income
   d. decreases net income and increases liabilities

10. Under the allowance method, the entry to write off an account as uncollectible has the following effect on the financial statements:
    a. decreases net income and decreases assets
    b. decreases assets and decreases stockholders equity
    c. increases expenses and decreases a contra asset
    d. has no effect on net income or net assets

11. Net Accounts Receivable is calculated as:
    a. Accounts Receivable plus Uncollectible Accounts Expense
    b. Accounts Receivable less Allowance for Uncollectible Accounts
    c. Accounts Receivable plus Credit Card Expense
    d. Accounts Receivable less Notes Receivable

12. Andover Industries accepted an 8-month, $6,000 note receivable, with 7% interest, from Reading Corporation on August 1, 2001. Andover's year end is December 31. The amount of interest to be accrued on December 31, 2001 is:
    a. $210 b. $420 c. $175 d. no interest needs to be accrued

13. If ending inventory for the current accounting period is understated by $4,700:
    a. beginning inventory for the next period will be overstated by $4,700
    b. net income for the current period will be overstated by $4,700
    c. cost of goods sold for the current period will be overstated by $4,700
    d. stockholders equity at the end of the next accounting period will be understated by $4,700

14. If a company uses a perpetual inventory system, which of the following entries are required to record the sale of merchandise on credit?
    a. debit accounts receivable, credit sales revenue
    b. debit cost of goods sold, credit inventory
    c. debit cost of goods sold, credit purchases
    d. both a and b are necessary entries

15. When the FIFO method is used, ending inventory is assumed to consist of:
    a. the most recently purchased units
    b. the oldest units
    c. the units with the highest per unit cost
    d. the units with the lowest per unit cost

16. Given the following data for the Golden Oak antique shop for the first month of the current fiscal year:

Beginning inventory	$73,250
Net purchases	57,650
Net sales revenue	85,500
Normal gross margin rate	40%

What is the company's estimate Cost of Goods Sold for the month?
a. $34,200 b. $51,300 c. $79,600 d. $96,700

17. When inventory prices are rising, the LIFO costing method will generally result in:
   a. a lower inventory value than under FIFO
   b. a higher gross margin than under FIFO
   c. a higher stockholders equity balance than under FIFO
   d. a lower cost of goods sold than under FIFO

18. Which of the following is NOT acceptable cost method for valuation of year-end inventory?
a. next-in, first-out
b. first-in, first-out
c. last-in, first-out
d. specific unit cost

19. The depreciation method that initially ignores residual value is:
a. straight-line
b. double-declining balance
c. production
d. none of the above

20. The Patriot Company acquired land and buildings for $1,350,000. The land is appraised at $475,000 and the buildings are appraised at $775,000. The debit to the buildings account will be:
a. $837,000 b. $775,000 c. $712,500 d. $675,000

21. The cost of paving a parking lot should be added to:
a. land
b. a natural resource
c. land improvements
d. repairs and maintenance expense

22. In early January 2001, Abbott Realty purchased a $32,000 Cadillac to chauffer clients to prospective homes. Abbott plans on driving the Cadillac for 4 years or 100,000 miles. Expected residual value is $6,000. Using the double-declining-balance method, the depreciation expense for 2001 is:
a. $8,000 b. $13,000 c. $16,000 d. $6,500

23. Referring to the above question, if Abbott drove the Cadillac 23,000 miles in 2003, then the depreciation expense for 2003 using the production method is:
a. $7,360 b. $6,500 c. $8,000 d. $5,980

24. In early 2001, Bithe Smarney & Co. purchased $35,500 worth of office equipment with an estimated useful life of 7 years and an estimated residual value of $4,000. Bithe Smarney uses the straight-line method of depreciation for all office equipment. At the beginning of 2004, Bithe Smarney revised its estimate of the useful life of the office equipment to a total of 9 years with a residual value of $2,500. The 2004 depreciation expense is:
a. $3,250 b. $4,500 c. $2,167 d. $3,667

25. The entry to record the issuance of 12,300 shares of no-par common stock at $6 per share includes a:
   a. credit to retained earnings for $73,800
   b. credit to additional paid-in capital for $61,500
   c. credit to common stock for $73,800
   d. debit to paid-in capital in excess of par of $32,000

26. The entry to record the issuance of 8,000 shares of $5 par value common stock at $9 per share includes a:
   a. credit to common stock of $40,000
   b. debit to cash of $32,000
   c. credit to common stock of $72,000
   d. debit to paid-in capital in excess of par of $32,000

27. Meteor Corporation has had 7,500 shares of 6%, $50 par, cumulative preferred stock outstanding as well as 28,000 shares of $10 par common stock since it was incorporated. During the first, second and third years of operations, $15,000, $18,000, and $50,000 in dividends, respectively, were paid. The dividends paid to the COMMON STOCKHOLDERS in year THREE amounted to:
a. $27,500 b. $0 c. $15,500 d. cannot be determined

28. The entry to record the declaration of a cash dividend includes a:
   a. debit to cash dividends declared
   b. credit to cash
   c. debit to dividends payable
   d. no entry is made on the declaration date

29. Stock dividends:
   a. are distributions of cash to the stockholders
   b. have no effect on total stockholders equity
   c. reduce the total assets of the company
   d. increase total liabilities upon declaration

30. The entry to record the sale of treasury stock above cost includes a:
   a. credit to paid-in capital from treasury stock transactions
   b. debit to treasury stock
   c. credit to gain on sale of treasury stock
   d. debit to retained earnings

31. In a 2-for-1 stock split:
   a. the number of issued shares is doubled
   b. the par value of the stock is doubled
   c. the number of authorized shares is cut in half
   d. both b and c are correct

32. The entry to record the declaration of a stock dividend includes a:
   a. debit to stock dividends declared
   b. credit to dividends payable
   c. debit to common stock dividends distributable
   d. credit to common stock

33. The treasury stock account is shown on the balance sheet as a(an):
   a. asset
   b. subtraction from stockholders equity
   c. contra asset
   d. it is not shown on the balance sheet

34. Given a market interest rate of 7.5%, and a stated interest rate of 6.75%, the bonds will be issued at:
   a. par
   b. a premium
   c. a discount
   d. cannot be determined

35. A $1,000 bond quoted at 97 ¾ is selling for:
   a. $977.50   b. $970.75   c. $907.75   d. $973.40

36. Amortizing the premium on bonds payable:
   a. increases the amount of interest expense
   b. reduces the semiannual cash payment for interest
   c. reduces the carrying value of bonds payable
   d. both a and c are correct

37. Ogden Industries needs to raise capital for expansion purposes. Management is considering issuing $1,000,000 of 7.5%, 20-year bonds dated June 1, 2001, with interest payment dates of June 1 and December 1. Ogden's year end is December 31. If the bonds were issued on June 1, 2001 at 103 7/8, and the company uses the straight-line method of amortization, the semiannual cash payment for interest on December 1, 2001 would include a:
   a. debit to interest expense for $36,531
   b. credit to cash for $75,000
   c. debit to premium on bonds payable for $969
   d. both a and c are correct

C

38. The current ratio is calculated as:
   a. (total current liabilities)/(total current assets)
   b. (cash + short term investments + net receivables) divided by total current liabilities
   c. (cash + short term investments + net receivables) divided by total current assets
   d. (total current assets)/(total current liabilities)

39. The quick ratio is calculated as:
   a. (total current assets) divided by (total current liabilities)
   b. (cash + inventory + short term investments) divided by total current liabilities
   c. (cash + net receivables + long term receivables) divided by total current liabilities
   d. (cash + short term investments + net receivables) divided by total current liabilities

40. The dividend yield is calculated as:
   a. dividends per share/earnings per share of common stock
   b. dividends per share/book value per share of common stock
   c. dividends per share/market price per share of common stock
   d. dividends per share/number of shares of common stock

Use the data below for the following four questions:

The following data represents selected information from the comparative income statement and balance sheet for Lion King Company for the years ended December 31, 2000 and 2001:

	2001	2000
Net Sales (all on credit)	$370,000	$333,000
Cost of Goods Sold	160,000	150,000
Gross margin	210,000	183,000
Net Income	70,000	57,000
Cash	10,000	14,000
Accounts receivable, net	30,000	25,000
Inventory	43,000	40,000
Prepaid expenses	5,000	7,000
Total current assets	88,000	86,000
Total noncurrent assets	112,000	104,000
Total current liabilities	70,000	60,000
Total noncurrent liabilities	40,000	45,000
Common stock, no-par*	60,000	60,000
Retained earnings	30,000	25,000

*NOTE: 10,000 shares of common stock have been issued and outstanding since the company was established. They had a market value of $90 per share at 12/31/00, and they were selling for $91.50 per share at 12/31/01.

41. Referring to the above data, Lion King's book value per share of common stock at 12/31/01 was:
    a. $91.50 b. $9.00 c. $6.00 d. $3.00

42. Referring to the above data, Lion King's average days' sales uncollected for the year ended 12/31/01 was:
    a. 12.33 b. 27.14 c. 82.19 d. 75.34

43. Referring to the above data, Lion King's inventory turnover for the year ended 12/31/01 was:
    a. 8.92 b. 5.06 c. 3.72 d. 3.86

44. Referring to the above data, Lion King's rate of return on assets for the year ended 12/31/01 was:
    a. 0.515 b. 0.36 c. 0.475 d. 0.40

Accounting I Practice Final
Answer Key

1) A
2) B
3) D
4) C
5) C
6) C
7) C
8) B
9) B
10) D
11) B
12) C
13) C
14) D
15) A
16) B
17) A
18) A
19) B
20) A
21) C
22) C
23) D
24) A
25) C
26) A
27) C
28) A
29) B
30) A
31) A
32) A
33) B
34) C
35) A
36) C
37) D
38) D
39) D
40) C
41) B
42) B
43) D
44) B

JP

CASH FLOW STATEMENT

Name: ______________________ Date: ___________

1. Royer Corporation engaged in this transaction:

   Retired long-term debt with cash.

   Indicate which section, if any, each transaction would appear in, or relate to, on a statement of cash flows.
   A) Operating activities section
   B) Does not represent a cash flow
   C) Investing activities section
   D) Financing activities section

2. Royer Corporation engaged in this transaction:

   Paid interest on note.

   Indicate which section, if any, each transaction would appear in, or relate to, on a statement of cash flows.
   A) Financing activities section
   B) Schedule of noncash investing and financing transactions
   C) Investing activities section
   D) Operating activities section

3. Royer Corporation engaged in this transaction:

   Issued stock for equipment.

   Indicate which section, if any, each transaction would appear in, or relate to, on a statement of cash flows.
   A) Financing activities section
   B) Operating activities section
   C) Investing activities section
   D) Schedule of noncash investing and financing transactions

4. Royer Corporation engaged in this transaction:

   Transferred cash to money market account.

   Indicate which section, if any, each transaction would appear in, or relate to, on a statement of cash flows.
   A) Does not represent a cash flow
   B) Operating activities section
   C) Investing activities section
   D) Financing activities section

5. Royer Corporation engaged in this transaction:

   Purchased 30-day U.S. Treasury bill.

   Indicate which section, if any, each transaction would appear in, or relate to, on a statement of cash flows.
   A) Does not represent a cash flow
   B) Operating activities section
   C) Investing activities section
   D) Financing activities section

6. Royer Corporation engaged in this transaction:

   Depreciation on equipment. Assume use of the indirect approach.

   Indicate which section, if any, each transaction would appear in, or relate to, on a statement of cash flows.
   A) Financing activities section
   B) Operating activities section
   C) Schedule of noncash investing and financing transactions
   D) Investing activities section

7. The direct method of preparing a statement of cash flows
   A) is the overwhelming choice of most companies.
   B) begins with net income in the operating activities section.
   C) is more difficult to understand than the indirect method for the average reader.
   D) will produce the same net figure as the indirect method.

8. Assume the indirect method is used to compute net cash flows from operating activities. For this item extracted from the financial statements—Decrease in Prepaid Expenses—indicate the effect on net income in arriving at net cash flows from operating activities by choosing one of the following:
   A) Add to net income to arrive at net cash flows from operating activities
   B) Subtract from net income to arrive at net cash flows from operating activities
   C) Not used to adjust net income to calculate net cash flows from operating activities

Answer Key

1. D
2. D
3. D
4. A
5. A
6. B
7. D
8. A