Accounting 284 Final Exam Review

Supplemental Instruction

Note: The final exam will cover more material than what is listed here on the sample exam. Study your notes, homework, and textbook to cover all material from the semester.

Objective of financial accounting (1)
1. The primary objective of financial reporting is to:
   a. Provide accurate historical information.
   b. Provide useful information to external decision makers.
   c. Provide operating information to managers.
   d. Meet legal requirements.

Purpose and content of financial statements (1)
2. Which of the financial statements reflects the financial position of a company on a given date?
   a. Income Statement
   b. Balance Sheet
   c. Cash Flows Statement
   d. Statement of Retained Earnings

Financial statement equations (2)
3. XYZ Corp reports total revenue of $1,000,000 and total expenses of $550,000 for 2011. Retained earnings at the beginning of 2011 was $300,000. At the fiscal year end the company reported total contributed capital of $900,000, and total liabilities of $2,500,000. In 2011, XYZ Corp paid $125,000 in dividends. What are XYZ Corp’s total assets at the end of 2011?
   a. $4,025,000
   b. $3,725,000
   c. $3,850,000
   d. $4,150,000
Use the following information to answer the question below:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets, 12-31-09</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Liabilities, 12-31-09</td>
<td>$400,000</td>
</tr>
<tr>
<td>Contributed Capital, 12-31-09</td>
<td>$300,000</td>
</tr>
<tr>
<td>Dividends for 2009</td>
<td>$50,000</td>
</tr>
<tr>
<td>Operating Expenses in 2009</td>
<td>$140,000</td>
</tr>
</tbody>
</table>

4. How much was ending Retained Earnings on December 31, 2009?
   a. $800,000
   b. $500,000
   c. $450,000
   d. $310,000

Transaction analysis (2)
5. What is the ultimate effect of purchasing a piece of equipment on account?
<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
<th>Stockholders' Equity</th>
</tr>
</thead>
</table>
   a. increase | increase | increase |
   b. increase | increase | decrease |
   c. increase | increase | no effect |
   d. decrease | decrease | increase |

6. Company A purchased new tractor for $75,000, paying $65,000 in cash and putting the rest on account. How does this transaction affect the accounting equation?
   a. Assets increase $75,000, liabilities increase $10,000, and stockholders’ equity increases by $65,000.
   b. Assets increase $10,000 and liabilities increase $10,000.
   c. Assets decrease $65,000 and liabilities increase $10,000.
   d. Liabilities increase $10,000 and stockholders’ equity decreases $10,000.
Principles/assumptions of accounting (1)
7. Choose the correct vocabulary term for the following definition: “Assets are recorded at their original cost on the transaction date”
   a. Cost principle
   b. Matching principle
   c. Monetary unit
   d. Time period

Adjusting entries (2)
8. On July 1st, 2012 a company paid $12,000 for a three-year property insurance policy. Coverage begins on the day of purchase. What is the adjusting entry on December 31, 2012?
   a. Insurance Expense + $2,000
      Cash - $2,000
   b. Prepaid Insurance + $4,000
      Insurance Expense - $4,000
   c. Insurance Expense + $2,000
      Prepaid Insurance - $2,000
   d. Insurance Expense + $4,000
      Prepaid Insurance - $4,000

9. At the beginning of the period supplies were equal to $3,000. Purchases were equal to $210 and $300. The ending balance was $1,500. What was supplies expense for the year?
   a. $2,000
   b. $2,010
   c. $1,100
   d. $1,860

Multiple step income statement (1)
10. A company has revenue of $18,000; COGS of $8,000. Operating income of $4,000; Income before tax of $4,000; Tax expense of $500. What is the company’s net income and Selling, General & Admin expense?
    a. $5,800 & $4,000
    b. $10,000 & $6,000
    c. $3,500 & $10,000
    d. $3,500 & $6,000
Internal control and bank recs (1)

11. Jane Smith is preparing a bank reconciliation for Robinson Company for the month of January. Jane Smith has the following information gathered:

- Balance per bank statement: $11,215
- Balance per company records: $11,617.50
- Bank Service Charge: $25
- Deposits in Transit: $1,097
- Interest earned on checking account: $19.50
- NSF Check from customer Matt Crook: $125
- Outstanding checks: $825

What is the reconciled cash balance?
- a. $11,487
- b. $11,215
- c. $11,617.50
- d. $12,312

Inventory (2)

12. SI Inc. reported the following regarding its inventory in the month of December:

- Beginning balance: 1,500 units @ $8.00
- December 10th purchase: 2,000 units @ $8.50
- December 15th purchase: 1,200 units @ $9.50
- December 20th purchase: 3,000 units @ $10.00

During December 5,525 units were sold. If the company uses FIFO, what was the cost of goods sold for December?
- a. $52,662.50
- b. $21,750
- c. $48,650
- d. $55,023.50
13. Assume that Kawabata Corp. has in its warehouse on December 31, 2012 1,000 units of inventory costing $10 each. The market value per unit of inventory is $9.50 on December 31st. What should be the write down to inventory, if any on December 31, 2012?
   a. $0
   b. $500
   c. $9,500
   d. $950

**Bad Debt Accounting (1)**

14. Use the chart to answer the following question. Using the aging of accounts receivable method, what is the 2016 bad debt expense? The 12/31/2015 allowance for doubtful accounts totaled $1,250. There were write-offs of $317 for 2016.

<table>
<thead>
<tr>
<th>Age Category</th>
<th>Amount</th>
<th>Probability of Noncollection</th>
<th>Uncollectible Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-20 days</td>
<td>$64,200</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>20-40 days</td>
<td>11,900</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>40-60 days</td>
<td>5,200</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>60-80 days</td>
<td>350</td>
<td>12%</td>
<td></td>
</tr>
</tbody>
</table>

a. $1,233
b. $916
c. $2,166
d. $599

**Extra Practice**

Accounting Co. Had credit sales of 5,375,000 and cash sales of $200,000. Of those credit sales, Accounting Co. collected $230,000. This is its first year of operations, so there are no beginning balances. Accounts receivable for the first year totaled $5,720,000. Allowance for doubtful accounts totaled $692,000. What was the bad debt expense for the year?

**Answer:** $1,267,000
PPE and Depreciation (2)

15. Which method of depreciation will give you the largest amount of depreciation expense in the first year?
   a. Straight Line
   b. Double Declining Balance
   c. Units of Production
   d. FIFO

16. A piece of equipment costing $820,000 was purchased in 2012. The equipment has an estimated useful life of 6 years or 1,000,000 units. The estimated residual value is $110,000. Using units of production method, find the book value of the asset in 2015. The following units were used in 2012-2017, respectively. 167,000, 150,000, 180,000, 160,000, 175,000, and 168,000.
   a. $466,470
   b. $113,600
   c. $353,530
   d. $467,130

Workspace for table:

Hint: Don't forget to practice all three methods
Bonds (2)

A bond was issued at $1,815,085 on January 2014. The bond must be repaid in 6 years for $2,000,000. It pays interest payments at 6% of par and the market rate is 8%.

17. What is the interest expense recorded in 2017?
   a. $145,207
   b. $147,223
   c. $151,753
   d. $120,000

18. What is the book value in 2018?
   a. $1,928,669
   b. $1,962,963
   c. $2,000,000
   d. $1,815,085

Workspace for Table:
**Stockholders’ Equity (2)**

19. Accounting Co. had 2 billion shares authorized and 4,300,000 shares issued. The par value is $.50 per share. In 2012, Accounting Co. bought back 600,000 shares at a cost of $15 per share. What is the correct journal entry to record the treasury stock?

- **a.** Cash $9,000,000
- Common Stock 300,000
- APIC – Treasury Stock 8,700,000

- **b.** Cash $9,000,000
- Treasury Stock 9,000,000

- **c.** Treasury Stock $9,000,000
- Cash 9,000,000

- **d.** Treasury Stock $300,000
- APIC – Treasury Stock 8,700,000
- Cash 9,000,000

20. Accounting Co. has 1,600,000 shares outstanding at a par value of $.50. In addition, Accounting Co. has retained earnings of $550,000, additional paid in capital of $320,000, and treasury stock worth $57,000. Find the new value of common stock for both of the following scenarios:

   (1) A 4:1 stock split
   (2) A 50% stock dividend

   - **a.** 4:1: 800,000 Stock dividend: $1,200,000
   - **b.** 4:1: 800,000 Stock Dividend: 800,000
   - **c.** 4:1: 1,600,000 Stock dividend: 2,400,000
   - **d.** 4:1: 6,400,000 Stock dividend: 2,400,000
Extra Practice:

| Preferred Stock, $20 par, 10,000 shares authorized, 8,000 shares issued and outstanding | $160,000 |
| Common Stock, $10 par, 100,000 shares authorized, 70,000 shares issued and outstanding | 700,000 |
| Total Paid in Capital | 860,000 |
| Retained Earnings | 640,000 |
| **Total Stockholder’s Equity** | **1,500,000** |

Management declared a dividend of $70,000. Dividends on preferred stock are 6% of par value and have been paid each year except for the past year. Calculate the amount of dividend allocated to preferred and common shareholders for (1) preferred stock is noncumulative, and (2) preferred stock is cumulative

**Answer:** Noncumulative – 9,600 to preferred and 60,400 to common. Cumulative – 19,200 to preferred and 50,800 to common.

**Statement of Cash Flows (3)**

21. A payment of a dividend would be classified as which of the three cash flow statement activities?
   a. Positive financing activity
   b. Negative financing activity
   c. Positive investing activity
   d. Negative investing activity

22. Sale of investments would be classified as which of the three cash flow statement activities?
   a. Positive financing activity
   b. Negative financing activity
   c. Positive investing activity
   d. Negative investing activity
23. In the cash flows from operations section of the cash flow statement for the year 2016, there was a $5,000 increase in accounts receivable, a $7,000 increase in accounts payable, and depreciation of $6,000. What would be the net cash flow from operations for 2016?
   a. $4,000
   b. $(8,000)
   c. $(4,000)
   d. $8,000

**Horizontal/Vertical Analysis (1)**
24. In 2015, net income for Netflix was 122.64 million. In 2016, net income was 186.68 million. How had net income changed from this year to the previous year?
   a. 52.2%
   b. 34.3%
   c. 32.02%
   d. None of the above

**Ratio Analysis (1)**
25. Which of the following ratios would be useful in analyzing a company’s solvency?
   a. Profit Margin
   b. Current Ratio
   c. Quick Ratio
   d. Times Interest Earned Ratio