Final Exam

ACC300

Class ending June 29, 2009

Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. A business organized as a corporation

a. is not a separate legal entity in most states.

b. requires that stockholders be personally liable for the debts of the business.

c. is owned by its stockholders.

d. has tax advantages over a proprietorship or partnership.

2. Which of the following is the most appropriate and modern definition of accounting?

1. The information system that identifies, records, and communicates the economic events of an organization to interested users
2. A means of collecting information
3. The interconnected network of subsystems necessary to operate a business
4. Electronic collection, organization, and communication of vast amounts of information.

3. The right to receive money in the future is called a(n)

1. account payable.
2. account receivable.
3. liability.
4. revenue.

4. An income statement

a. summarizes the changes in retained earnings for a specific period of time.

b. reports the changes in assets, liabilities, and stockholders’ equity over a period of time.

c. reports the assets, liabilities, and stockholders’ equity at a specific date.

d. presents the revenues and expenses for a specific period of time.

5. An intangible asset

a. derives its value from the rights and privileges it provides the owner.

b. is worthless because it has no physical substance.

c. is converted into a tangible asset during the operating cycle.

d. cannot be classified on the balance sheet because it lacks physical substance.

**Use the following information to answer questions 6:**

Acme Auto Supplies

Balance Sheet

December 31, 2007

Cash $ 60,000 Accounts Payable $ 65,000

Prepaid Insurance 40,000 Salaries Payable 10,000

Accounts Receivable 50,000 Mortgage Payable 90,000

Inventory 70,000 Total Liabilities $165,000

Land held for investment 80,000

Land 95,000

Building $100,000 Common Stock $120,000

Less Accumulated Retained Earnings 250,000

Depreciation (30,000) 70,000 Total stockholders’ equity $370,000

Trademark 70,000 Total Liabilities and

Total Assets $535,000 Stockholders’ Equity $535,000

6. The total dollar amount of assets to be classified as current assets is

a. $220,000.

b. $150,000.

c. $300,000.

d. $180,000.

**Use the following information to answer question 7–8:**

Cain Auto Supplies

Balance Sheet

December 31, 2007

Cash $ 50,000 Accounts Payable $ 55,000

Prepaid Insurance 30,000 Salaries Payable 10,000

Accounts Receivable 40,000 Mortgage Payable 90,000

Inventory 70,000 Total Liabilities $155,000

Land held for investment 80,000

Land 75,000

Building $110,000 Common Stock $120,000

Less Accumulated Retained Earnings 250,000

Depreciation (20,000) 90,000 Total stockholders’ equity $370,000

Trademark 70,000 Total Liabilities and

Total Assets $525,000 Stockholders’ Equity $525,000

7. The total amount of working capital is

a. $205,000.

b. $125,000.

c. $50,000.

d. $80,000.

8. The current ratio is

a. 1.85 : 1.

b. 2.92 : 1.

c. 4.15 : 1.

d. 1.07 : 1.

9. The revenue recognition principle dictates that revenue should be recognized in the accounting records

a. when cash is received.

b. when it is earned.

c. at the end of the month.

d. in the period that income taxes are paid.

10. Under the accrual basis of accounting

a. cash must be received before revenue is recognized.

b. net income is calculated by matching cash outflows against cash inflows.

c. events that change a company's financial statements are recognized in the period they occur rather than in the period in which cash is paid or received.

d. the ledger accounts must be adjusted to reflect a cash basis of accounting before financial statements are prepared under generally accepted accounting principles.

Use the following information to answer questions 11 and 12.

Sheepskin Company had the following transactions during 2006.

* Sales of $4,500 on account
* Collected $2,000 for services to be performed in 2007
* Paid $625 cash in salaries
* Purchased airline tickets for $250 in December for a trip to take place in 2007

11. What is Sheepskin’s 2006 net income using accrual accounting?

* 1. $3,875
  2. $5,875
  3. $5,625
  4. $3,625

12. What is Sheepskin’s 2006 net income using cash basis accounting?

* + 1. $5,875
    2. $1,375
    3. $5,625
    4. $1,125

13. When a perpetual inventory system is used, which of the following is a purpose of taking a physical inventory?

1. To check the accuracy of the perpetual inventory records
2. To determine cost of goods sold for the accounting period
3. To compute inventory ratios
4. All are a purpose of taking a physical inventory when a perpetual inventory system is used.

**Use the following information for question 14.**

A company just starting business made the following four inventory purchases in June:

June 1 150 units $ 825

June 10 200 units 1,120

June 15 200 units 1,140

June 28 150 units 885

$3,970

A physical count of merchandise inventory on June 30 reveals that there are 250 units on hand.

14. Using the FIFO inventory method, the amount allocated to ending inventory for June is

a. $1,385.

b. $1,425.

c. $1,455.

d. $1,475.

15. The selection of an appropriate inventory cost flow assumption for an individual company is made by

a. the external auditors.

b. the SEC.

c. the internal auditors.

d. management.

16. Isaac Company developed the following information about its inventories in applying the lower of cost or market (LCM) basis in valuing inventories:

Product Cost Market

A $55,000 $60,000

B 40,000 38,000

C 80,000 81,000

If Isaac applies the LCM basis, the value of the inventory reported on the balance sheet would be

a. $175,000.

b. $171,000.

c. $173,000.

d. $181,000.

17. If a check correctly written and paid by the bank for $626 is incorrectly recorded on the company's books for $662, the appropriate treatment on the bank reconciliation would be to

a. add $36 to the book's balance.

b. subtract $36 from the book's balance.

1. deduct $36 from the bank's balance.
2. deduct $626 from the book's balance.

18. The following information was taken from Chavez Company cash budget for the month of November:

Beginning cash balance $48,000

Cash receipts 58,000

Cash disbursements 80,000

If the company has a policy of maintaining an end-of-the-month cash balance of $40,000, the amount the company would have to borrow is

1. $22,000.
2. $0.
3. $14,000.
4. $40,000.

19. Which one of the following would be classified as an extraordinary item?

a. Expropriation of property by a foreign government

b. Losses attributed to a labor strike

c. Write-down of inventories

d. Gains or losses from sales of equipment

20. Wonka Candy Company sold its lollipop division resulting in a loss of $30,000. Assuming a tax rate of 25%, the loss on this disposal will be reported on the income statement at what amount?

a. $37,500

b. $7,500

c. $30,000

d. $22,500