**1. If a company purchases equipment for $65,000 by issuing a note payable:
A. Total assets will increase by $65,000.
B. Total assets will decrease by $65,000.
C. Total assets will remain the same.
D. The company's total owners' equity will decrease.**

**2. Which of the following is not a generally accepted accounting principle relating to the valuation of assets?
A. The cost principle - in general, assets are valued at cost, rather than at estimated market values.
B. The objectivity principle - accountants prefer to use objective, rather than subjective, information as the basis for accounting information.
C. The safety principle - assets are valued at no more than the value for which they are insured.
D. The going-concern assumption - one reason for valuing assets such as buildings and equipment at cost rather than at their current market values is the assumption that the business will use these assets rather than sell them.**

**3. Decreases in owners' equity are caused by:
A. Purchases of assets and payment of liabilities.
B. Purchases of assets and incurrence of liabilities.
C. Payment of liabilities and unprofitable operations.
D. Distributions of assets to the owner and unprofitable operations.**

**4. A trial balance consists of:
A. A two-column schedule of all debit and credit entries posted to ledger accounts.
B. A two-column financial statement intended for distribution to interested parties outside the business.
C. A two-column schedule showing the totals of all debits and of all credits made in journal entries.
D. A two-column schedule listing names and balances of all ledger accounts.**

**5. In February of each year, the Carlton Hotel holds a very popular wine tasting event. Tickets must be ordered and paid for in advance, and are typically sold out by November of the preceding year. The realization principle indicates that the revenue from these ticket sales should be recognized in the period in which the:
A. Order is placed.
B. Wine tasting is held.
C. Payments are received.
D. Expenses associated with the wine tasting are paid in full.**

**6. On June 18, Baltic Arena paid $6,600 to Marvin Maintenance, Inc. for cleaning the arena following a monster truck show held on June 9th. This transaction:
A. Is recorded by debiting the Retained Earnings account.
B. Is recorded by debiting Cash and crediting Cleaning Expense.
C. Causes a decrease in owners' equity by increasing expenses for June.
D. May not be recorded until all revenue generated from the monster truck show has been collected in cash.**

**7. Which of the following businesses is likely to have the shortest operating cycle?
A. A food store.
B. A department store.
C. An art store.
D. A car store.**

**8. Gross profit is the difference between:
A. Net sales and the cost of goods sold.
B. The cost of merchandise purchased and the cost of merchandise sold.
C. Net sales and net income.
D. Net sales and all expenses.**

**9. Hicksville's Department Store uses a perpetual inventory system. At year-end, the balance in the Inventory controlling account is $1,200,000. Assuming that the inventory records have been maintained properly, a year-end physical inventory:
A. Is unnecessary.
B. Is needed to establish the ending inventory, as the $1,200,000 balance in the Inventory controlling account represents the beginning inventory.
C. Probably will indicate more than $1,200,000 in merchandise on hand.
D. Probably will indicate less than $1,200,000 in merchandise on hand.**

**10. When a bank reconciliation has been satisfactorily completed, the only related entries to be made in the depositor's records are:
A. To correct errors made by the bank in recording the dollar amounts of cash transactions during the period.
B. To reconcile items that explain the difference between the balance per the books and the balance per the bank statement.
C. To record outstanding checks and bank service charges.
D. To record items that explain the difference between the balance per the accounting records and the adjusted cash balance.**

**11. The purpose of establishing a petty cash fund is to:
A. Achieve internal control over small cash disbursements not made by check.
B. Keep track of expenditures paid out of cash receipts from customers prior to deposit.
C. Ensure that the amount of cash in the bank does not become excessive.
D. Keep enough cash on hand in the office to cover all normal operating expenses of the business for a period of time.**

**12. The valuation principle of "mark-to-market" applied to investments classified as available for sale securities:
A. Affects the current period income statement, but not the balance sheet.
B. Enhances usefulness of the balance sheet in evaluating solvency of a business.
C. Applies to marketable securities and inventories.
D. Requires a corporation to adjust its capital stock account to reflect current market value of its outstanding capital stock.**

**13. During periods of inflation, when comparing LIFO with FIFO:
A. LIFO inventory and cost of sales would be higher.
B. LIFO inventory and cost of sales would be lower.
C. LIFO inventory would be lower and cost of sales would be higher.
D. LIFO inventory would be higher and cost of sales would be lower.**

**14. Which of the following will cause net income to be overstated for the following year?
A. Current year's ending inventory is understated.
B. Current year's ending inventory is overstated.
C. Next year's beginning inventory is overstated.
D. Next year's ending inventory is understated.**

**15. The lower-of-cost-or-market rule:
A. Is used in conjunction with the other inventory cost flow assumptions.
B. Cannot be used if LIFO or FIFO are also used.
C. Can be used in conjunction with LIFO but not FIFO.
D. Can only be used with the specific identification cost flow assumption.**

**16. Tomassi Company paid $450,000 to acquire a piece of real estate consisting of land and an office building with a parking lot. In this situation:
A. The purchase price should be apportioned among the Land, Land Improvement, and Building accounts.
B. The entire purchase price should be debited to the Plant and Equipment account.
C. Land, Land Improvement, and Building accounts should each be debited for the respective appraisal value of each item.
D. Allocation of the entire $450,000 to Land results in an understatement of net income in the current and future accounting periods.**

**17. Which of the following statements about MACRS is not correct?
A. MACRS is the only accelerated depreciation method that may be used on newly acquired assets for federal income tax purposes.
B. The method permits "depreciating" the asset to a tax basis of $0 over a specified recovery period.
C. If a company uses MACRS in its income tax returns, it also must use MACRS in its financial statements.
D. Most businesses would benefit from using MACRS rather than straight-line depreciation in their income tax returns.**

**18. Harvard Company purchased equipment having an invoice price of $11,500. The terms of sale were 2/10, n/30, and Harvard paid within the discount period. In addition, Harvard paid a $160 delivery charge, $185 installation charge, and $931 sales tax. The amount recorded as the cost of this equipment is:
A. $11,845.
B. $12,776.
C. $11,615.
D. $12,546**

**19. Ultimate Company is a defendant in a lawsuit alleging damages of $3 billion. The litigation is expected to continue for several years, and no reasonable estimate can be made at this time of Ultimate Company's ultimate financial responsibility. This situation is an example of:
A. Off-balance-sheet financing.
B. A loss contingency which should be disclosed in notes to Ultimate Company's financial statements.
C. An estimated liability which must appear in Ultimate Company's balance sheet.
D. A loss in purchasing power caused by inflation.**

**20. On November 1, Metro Corporation borrowed $55,000 from a bank and signed a 12%, 90-day note payable in the amount of $55,000. The November 30 adjusting entry will be: (assume 360 days in year)
A. Debit Interest Expense $550 and credit Notes Payable $550.
B. Debit Interest Expense $550 and credit Interest Payable $550.
C. Debit Discount on Notes Payable $1,100 and credit Interest Payable $1,100.
D. Debit Interest Expense $550 and credit Cash $550.**

**21. Stone Corporation has 25 employees and incurs total wages and salaries expense of $900,000 per year. The following table shows various payroll amounts as a percentage of this annual wage and salaries expense:
 

In addition, Stone provides group health insurance for its entire workforce. The cost of this insurance is $350 per month for each employee.**

**Refer to the above data. The company's annual payroll-related expenses amount to approximately:
A. $1,085,600.
B. $1,181,850.
C. $1,250,700.
D. Some other amount.**

**22.  Coronet Corp. has total stockholders' equity of $7,400,000. The company's outstanding capital stock includes 100,000 shares of $10 par value common stock and 20,000 shares of 6%, $100 par value preferred stock. (No dividends are in arrears.) The book value per share of common stock is:
A. $39.
B. $49.
C. $54.
D. $74.**

**23. On September 1, 2009, Maryland Corporation's common stock was selling at a market price of $200 per share. On that date, Maryland announced a 3 for 2 stock split. At what price would you expect the stock to trade immediately after the split goes into effect?
A. $100
B. $200.
C. $133.33.
D. $225.**

**24. The following two items are disclosed in the stockholders' equity section of Riverside Corporation's December 31, 2009, balance sheet:

 
If the company had reacquired 700 shares of treasury stock in February of 2009, then for what amount was the other treasury stock sold for during 2009?
A. $2 per share above its par value.
B. $2 per share.
C. $2 per share above its cost.
D. $22 per share above its cost.**

**25. The gross profit rate represents:
A. Total sales revenue.
B. The percentage change in net sales from the prior period.
C. The percentage of sales revenue remaining after providing for the cost of the merchandise sold.
D. Net income stated as a percentage of total sales revenue.**

**26. If a company has a current ratio of 2 to 1, and purchases inventory on credit, what will this do to its current ratio?
A. Increase the current ratio.
B. Decrease the current ratio.
C. Does not change the current ratio.
D. Cannot be determined.**

**27. During the years 2009 through 2011, Powers, Inc., reported the following amounts of net income (dollars in thousands):
 
Relative to the prior year, the percentage change in net income:
A. Was the same in 2010 and 2011.
B. Was larger in 2011 than in 2010.
C. Was smaller in 2011 than in 2010.
D. Cannot be determined without knowing how many shares of stock were outstanding.**

**28. Flynn Corporation purchased bicycles from a British manufacturer at a price of 45,000 British pounds on November 15, 2009, with payment due in 60 days. Using the following exchange rates, what gain or loss from currency fluctuations should be recognized in 2009 and 2010?
 
A. A $2,250 loss in 2009 and a $900 gain in 2010.
B. No gain or loss in 2009 and a $1,350 loss in 2010.
C. A $2,250 gain in 2009 and a $900 loss in 2010.
D. No gain or loss in 2009 and a $1,350 gain in 2010.**

**29. Tuliptime, Inc. sold American fashions to a Japanese company at a price of 4 million yen. On the sale date, the exchange rate was $.0100 per Japanese yen, but when Tuliptime received payment from its customer, the exchange rate was $.0103 per Japanese yen. When the foreign receivable was collected, Tuliptime:
A. Credited Sales for $1,200.
B. Debited Cash for $40,000.
C. Credited Gain on Fluctuation of Foreign Currency for $1,200.
D. Debited Loss on Fluctuation of Foreign Currency for $1,200.**

**30. Gains and losses from fluctuations in exchange rates on transactions carried out in a foreign currency are reported in:
A. The balance sheet, as an adjustment to stockholders' equity.
B. The income statement.
C. The footnotes to the financial statements.
D. The statement of retained earnings.**

**31. In comparison with a financial statement prepared in conformity with generally accepted accounting principles, a managerial accounting report is less likely to:
A. Focus upon the entire organization as the accounting entity.
B. Focus upon future accounting periods.
C. Make use of estimated amounts.
D. Be tailored to the specific needs of an individual decision maker.**

**32. The following information is available about the August transactions of the Helpful Tool Co:
 
The product costs to be deducted from revenue in August amount to:
A. $493,000.
B. $737,000.
C. $718,000.
D. $739,000.**

**33. In a manufacturing company, the cost of finished goods manufactured is equal to:
A. The beginning inventory of finished goods, plus net purchases, less the ending inventory of finished goods.
B. The sum of the manufacturing costs charged (debited) to the Work in Process Inventory account during the period.
C. The costs of direct materials, direct labor, and manufacturing overhead incurred in manufacturing the goods sold during the period.
D. The beginning inventory of work in process, plus total manufacturing costs for the period, less the ending inventory of work in process.**

**34. Overhead costs are assigned to production using an overhead application rate, whereas no such "application rate" is used to assign the costs of direct materials and direct labor to production. The reason for this difference in procedures is that:
A. Overhead is an indirect cost which cannot be traced easily and directly to specific units of product.
B. Overhead is always larger in dollar amount than either direct materials or direct labor.
C. The amounts of direct material and direct labor applicable to each unit of production cannot be determined as easily as the amount of overhead.
D. Overhead is always equal to a constant percentage of direct labor costs.**

**35. Moran Company uses a job order cost system and has established a predetermined overhead application rate for the current year of 150% of direct labor cost, based on budgeted overhead of $900,000 and budgeted direct labor cost of $600,000. Job no. 1 was charged with direct materials of $36,000 and with overhead of $27,000. What is the total cost of job no. 1?
A. $64,000.
B. $81,000.
C. $91,000.
D. Cannot be determined without additional information.**

**36. Edwards Auto Body uses a job order cost system. Overhead is applied to jobs on the basis of direct labor hours. During the current period, Job No. 337 was charged $425 in direct materials, $475 in direct labor, and $190 in overhead. If direct labor costs an average of $16 per hour, the company's overhead application rate is:
A. $7.27 per direct labor hour.
B. $6.40 per direct labor hour.
C. $17.50 per direct labor hour.
D. $40 per direct labor hour.**

**37. If unit sales prices are $7 and variable costs are $5 per unit how many units would have to be sold to break-even if fixed costs equal $8,000?
A. 2,000
B. 3,000
C. 4,000
D. 3,800**

**38. If the unit sales price is $12, variable costs are $6 per unit and fixed costs are $26,000 what is the contribution ratio per unit?
A. 40%
B. 50%
C. 60%
D. 70%**

**39. A product sells for $125, variable costs are $80 and fixed costs are $45,000. If the selling price can be increased by 20% with a similar increase in variable costs, how many less units would have to be sold to earn $300,000?
A. 5595
B. 7667
C. 1278
D. 6389**

**40. The Fine Point Company currently produces all of the components for its one product; an electric pencil sharpener. The unit cost of manufacturing the motor for this pencil sharpener is:

 

The company is considering the possibility of buying this motor from a subcontractor and has been quoted a price of $3.60 per unit. The relevant cost of manufacturing the motor to be considered in reaching the decision is:
A. $4.75.
B. $4.15.
C. $3.55.
D. $4.05.**

**41. Seidman Company manufactures and sells 30,000 units of product X per month. Each unit of product X sells for $16 and has a contribution margin of $7. If product X is discontinued, $85,000 in fixed monthly overhead costs would be eliminated and there would be no effect on the sales volume of Seidman Company's other products. If product X is discontinued, Seidman Company's monthly income before taxes should:
A. Increase by $210,000.
B. Increase by $125,000.
C. Decrease by $210,000.
D. Decrease by $125,000.**

**42. Speedy Co. manufactures four products. Direct materials and direct labor are available in sufficient quantities, but machine capacity is limited to 3,000 hours. Cost and revenue data for the four products are given below:

 

Of the four products which is the most profitable for Speedy Co.?
A. Product A.
B. Product B.
C. Product C.
D. Product D.**

**43. Wateredge Corporation has budgeted a total of $361,800 in costs and expenses for the upcoming quarter. Of this amount, $45,000 represents depreciation expense and $7,300 represents the expiration of prepayments. Wateredge's current payables balance is $265,000 at the beginning of the quarter. Budgeted payments on current payables for the quarter amount to $370,000. The company's estimated current payables balance at the end of the quarter is:
A. $179,500.
B. $204,500.
C. $203,500.
D. $310,000.**

**44. On October 1 of the current year, Molloy Corporation prepared a cash budget for October, November, and December. All of Molloy's sales are made on account. The following information was used in preparing estimated cash collections:
 
Approximately 60% of all sales are collected in the month of the sale, 30% is collected in the following month, and 10% is collected in the month thereafter.**

**Refer to the information above. Budgeted collections from customers in October total:
A. $39,000.
B. $27,000.
C. $31,000.
D. $110,000.**

**45. Skelton Corporation had planned to produce 50,000 units of product during the first quarter of the current year. The company prepared the following budget on May 1:

 
During the first quarter, Carson produced 60,000 units and incurred total manufacturing costs of $180,000.**

**Refer to the information above. Which of the following amounts should not be included in Skelton's flexible budget at a 60,000-unit level?
A. Direct materials used, $43,200.
B. Direct labor, $54,000.
C. Variable overhead, $27,000.
D. Fixed manufacturing overhead, $70,200.**

**Problem 1, 25 points**

**Maria Chavez owns a catering company that serves food and beverages at parties and business functions. Chavez’s business is seasonal, with a heavy schedule during the summer months and holidays and a lighter schedule at other times.**

**One of the major events Chavez’s customers request is a cocktail party. She offers a standard cocktail party and has estimated the cost per guest as follows:**

 **Food and beverages $15.00**

 **Labor (0.5 hrs. @ $10.00/hr) 5.00**

 **Overhead (0.5 hrs @ $13.98/hr) 6.99**

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 **Total cost per guest $26.99**

 **=====**

**The standard cocktail party lasts three hours and Chavez hires one worker for every six guests, so that works out to one-half hour of labor per guest. These workers are hired only as needed and are paid only for the hours they actually work.**

**When bidding on cocktail parties, Chavez adds a 15% markup to yield a price of about $31 per guest. She is confident about her estimates of the costs of food and beverages and labor but is not as comfortable with the estimate of overhead cost. The $13.98 overhead cost per labor hour was determined by dividing total overhead expenses for the last 12 months by total labor hours for the same period. Monthly data concerning overhead costs and labor-hours appear below:**

 **Month Labor hrs Overhead expenses**

 **January 2,500 $55,000**

 **February 2,800 59,000**

 **March 3,000 60,000**

 **April 4,200 64,000**

 **May 4,500 67,000**

 **June 5,500 71,000**

 **July 6,500 74,000**

 **August 7,500 77,000**

 **September 7,000 75,000**

 **October 4,500 68,000**

 **November 3,100 62,000**

 **December 6,500 73,000**

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 **Total 57,600 $805,000**

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**Chavez has received a request to bid on a 180-guest fund-raising cocktail party to be given next month by an important local charity. (The party would last the usual three hours.) She would really like to win this contract; the guest list for this charity event includes many prominent individuals she would like to land as future clients. Maria is confident that these potential customers would be favorably impressed by her company’s services at the charity event.**

**REQUIRED:**

1. **Estimate the contribution to profit of a standard 180-guest cocktail party if Chavez charges her usual price of $31 per guest. (In other words, by how much would her overall profit increase?)**
2. **How low could Chavez bid for the charity event in terms of a price per guest and still not lose money on the event itself?**
3. **The individual who is organizing the charity’s fund-raising event has indicated that he has already received a bid under $30 from another catering company. Do you think Chavez should bid below her normal $31 per guest price for the charity event? Why or why not?**

**Problem 2, 15 points**

Using the Adjusted Trial Balance shown below, prepare (a) an Income Statement and (b) a Statement of Retained Earnings for All Star Repairs.
 

**Problem 3, 15 points**

From the following accounts and amounts prepare a balance sheet for the Swell Company for December 31, 2010. You must compute the amount for retained earnings to complete the balance sheet.
 