

The Spring 2015 Accounting Tribe
The Second Encounter

Rule:
No cheating

Makeup

Circle Instructor

Dr. Kirch

Mrs. Freeland

Dr. Garven

Name (Please Print)

PID

Days & Time of your class

Pledge: By signing my name below, I am promising that:

- 1) The work I complete is my own,
- 2) I did not and will not give aid to others,
- 3) I will not share any information about the examination with those who are taking it later, and
- 4) I will report any others that I observe violating these rules.

Signature

The following data is for Susie's Sauces, Inc.:

	Balance <u>12/31/12</u>	Balance <u>12/31/13</u>
Cash	10,900	99,600
Accounts Receivable	50,000	90,000
Allowance for Doubtful Accounts	5,000	14,000
Inventory	100,000	80,000
Prepaid Rent	2,600	3,600
Equipment	290,000	340,000
Accumulated Depreciation	20,000	80,000
Land		140,000
Patents	8,000	10,000
Accounts Payable	30,000	35,000
Wages Payable	10,000	8,000
Advertising Payable	4,000	10,000
Interest Payable	7,500	6,000
Taxes Payable	5,000	10,000
Note Payable	160,000	120,000
Common Stock (\$1 each)	150,000	300,000
Retained Earnings	70,000	180,200
Sales		1,400,000
Cost of Goods Sold		700,000
Wage Expense		340,000
Depreciation Expense		60,000
Advertising Expense		54,000
Rent Expense		48,000
Bad Debt Expense		10,000
Interest Expense		14,000
Income Tax Expense		52,200

All of the common stock was sold on October 1, 2013 for \$1 per share. The company did not sell any equipment during the year. All equipment purchased during the year was purchased for cash. The balance in retained earnings for each year is **after all closing entries** have been made. The Note Payable requires payments of \$40,000 principal plus interest at 10% on June 30th of each year.

The only item that will be graded is the scantron or bubble sheet. Therefore, you do not need to worry about the format of your financial statements since they will not be graded. It is highly recommended that you do the income statement, balance sheet and cash flow statement to be sure they balance and tie together before you answer the questions about them.

Multiple Choice Circle answer on exam AND bubble in on scan sheet. (6 points each)

The next 14 questions refer to Susie's Sauces Company financial statements.

1) The Total Assets at December 31, 2013 was:

- A. \$ 669,200
- B. \$ 465,500
- C. \$ 627,500
- D. \$ 615,500
- E. None of the above

2) The Total Current Liabilities at December 31, 2013 was (be careful!)

- A. \$ 69,000
- B. \$ 109,000
- C. \$ 185,000
- D. \$ 665,200
- E. None of the above

3) The Operating Income was

- A. \$ 190,000
- B. \$ 52,200
- C. \$ 174,200
- D. \$ 188,000
- E. None of the above

4) The EPS was

- A. \$0.77
- B. \$ 1.35
- C. \$ 1.09
- D. \$ 0.65
- E. None of the above

5) The "Supplemental Cash Flow Information" section of the Cash Flow Statement for Susie's would include

- A. Cash Paid for Working Capital, Cash Paid for Land, and Interest Expense
- B. Cash paid for Interest, Cash paid for Taxes, and Cash received from sale of stock
- C. Cash Paid for Interest, Cash Paid for Taxes
- D. Cash paid for Interest, Cash Paid for Taxes and Cash Paid for Land
- E. None of the above describes what would be included in this section

6) The cash paid for wages in 2013 was:

- A. \$ 338,000
- B. \$ 342,000
- C. \$ 324,000
- D. \$ 238,000
- E. None of the above

- 7) On the Cash Flow Statement, the Cash Flow from (Used by) Operations was
- A. \$ 182,300
 - B. \$ 184,500
 - C. \$ 166,700
 - D. \$ 121,800
 - E. None of the above
- 8) On the Cash Flow Statement, the Cash Flow from (Used by) Investing Activities was
- A. (\$ 192,000)
 - B. (\$ 92,000)
 - C. (\$ 140,000)
 - D. (\$ 188,000)
 - E. None of the above
- 9) On the Cash Flow Statement, the Cash Flow from (Used by) Financing Activities was
- A. (\$ 47,000)
 - B. \$ 47,000
 - C. (\$ 48,400)
 - D. \$ 98,400
 - E. None of the above
- 10) In the "Supplemental Cash Flow Information" section, the Cash Paid for Interest was
- A. \$ 7,500
 - B. \$ 13,500
 - C. \$ 14,000
 - D. \$ 15,500
 - E. None of the above
- 11) In the "Supplemental Cash Flow Information" section, The Cash Paid for Taxes was
- A. \$ 55,800
 - B. \$ 47,200
 - C. \$ 60,300
 - D. \$ 50,800
 - E. None of the above
- 12) The Net Fixed Assets at December 31, 2013 was
- A. \$ 260,000
 - B. \$ 480,000
 - C. \$ 400,000
 - D. \$ 560,000
 - E. None of the above

13) Financing Activities include

- A. Payment of Interest (\$ 15,500)
- B. Issuances of Common Stock \$ 150,000
- C. Payment on Note Payable (\$ 50,000)
- D. Issuances of Common Stock \$ 90,000
- E. None of the above

14) Investing Activities include

- A. Purchase of land (\$ 90,000)
- B. Purchase of land (\$ 50,000)
- C. Purchase of land (\$140,000)
- D. Increase in Accumulated Depreciation \$60,000
- E. None of the above

15) An increase in accumulated depreciation

- A. increases the current assets
- B. decreases total assets.
- C. decreases the accounts receivable turn.
- D. increases total assets.
- E. both B and C are correct.

16) On a statement of cash flows, depreciation expense is treated as an adjustment to net income because depreciation expense

- A. reduces reported income but does not involve an outflow of cash.
- B. reduces reported income because it involves an outflow of cash.
- C. is a direct source of cash.
- D. is an inflow of cash to an account set up for the replacement of assets.
- E. None of the above

17) On July 10, Cindy's Company made a \$100,000 credit sale under the terms 2/10, n/30. If Cindy receives full payment of the account on July 18, the amount of cash received is

- A. \$ 98,000
- B. \$ 99,900
- C. \$ 99,800
- D. \$ 90,000
- E. \$100,000

18) "Current Portion of Long-Term Debt" is

- A. the total payment on a loan due in the next 12 months
- B. an example of a significant non-cash investing and financing transaction
- C. subtracted from current assets to get the book value of the long-term debt
- D. the principal payment on a loan due in the next 12 months
- E. None of these

- 19) According to the article “What It Takes to be Great”, the best people in any field
- devote the most hours to “deliberate practice”
 - need about 10 years of hard work to become world-class
 - are “naturals” in their field and don’t need to practice as much as others
 - Need to find a good mentor
 - A and B are true
- 20) Allowance for Doubtful Accounts is a(an)
- expense account.
 - liability account.
 - contra account.
 - revenue account.
 - owners’ equity account
- 21) You want to withdraw \$100,000 per year for the next four years starting in one year. If you deposit your money in a bank which pays interest at 8%, how much do you need to deposit to accomplish your goal?
- \$ 400,000.00
 - \$ 156,500.05
 - \$ 994,806.78
 - \$ 331,212.68
 - None of the above
- 22) The world is moving toward a common set of accounting rules. These rules are known as:
- The World Wide Financial Standards
 - GAAP
 - International Generally Accepted Accounting Principles
 - The Commonality Initiative
 - IFRS
- 23) Aisha’s Corporation is buying all the assets and assuming all the liabilities of John’s Barbeque Company. The following information is available for John’s at the date of the purchase:

Accounts Receivable	250,000	Accounts payable	150,000
Inventory	100,000	Note Payable	100,000
Land	300,000	Common Stock	200,000
		Retained Earnings	400,000

The accounts receivable are worth \$200,000, the inventory is worth \$75,000 and the land is worth \$600,000. All liabilities are worth their book value. Aisha will pay \$800,000 for John's. How much of the purchase price will Long debit to goodwill?

- A. \$ 175,000
- B. \$ 125,000
- C. \$ 117,790
- D. \$ 120,196
- E. Some other number which is not here

24) Go back to problem 23, what would be the debit to Goodwill if the Note Payable debt is payable interest only at 10% per year for the next 10 years and then the principal is due. The current interest rate for similar debt is 12%.

- A. \$ 125,000.00
- B. \$ 186,399.45
- C. \$ 163,699.55
- D. \$ 175,633.55
- E. Some other number which is not here

25) Sarah Co. had a beginning balance (1/01/13) in Accounts Receivable of \$800,000 and a beginning credit balance in the Allowance for Doubtful Accounts of \$20,000. During 2013 she sold \$700,000 of goods on credit and collected \$600,000. If Sarah estimates that 4% of her ending accounts receivable will eventually not be collected, her adjusting journal entry for the bad debt expense will include a credit to allowance for doubtful accounts of

- A. \$ 8,000
- B. \$ 16,000
- C. \$ 36,000
- D. \$ 26,000
- E. None of the above

26) Still Sarah Co. - If Sarah had written off \$5,000 of accounts receivable during 2013, the debit to bad debt expense would have been

- A. \$ 2,800
- B. \$ 35,800
- C. \$ 28,000
- D. \$ 20,800
- E. None of the above

27) CoJo had a flood. His ending inventory last year was \$700,000. Up to the day of the flood he had purchased \$500,000 in goods. His sales to the date of the flood were \$1,400,000. He marks up the inventory 120%. How much did CoJo lose in the flood?

- A. \$ 33,333
- B. \$ 563,636
- C. \$ 636,364
- D. \$1,166,667

E. None of the above is close.

28) A 50 year, \$1,000,000 zero coupon bond is priced to yield 10%. The amount the issuing company will receive when it is issued is

- A. \$ 851,855.00
- B. \$ 1,000,000.00
- C. \$ 8,518.55
- D. \$ 783,500.61
- E. \$ 385,543.34

29) When a business issues bonds for cash, which of the following occurs?

- A. A revenue account increases and an asset account increases
- B. An asset account increases and a liability account decreases
- C. An expense account increases and an asset account decreases
- D. An asset account decreases and a liability account increases
- E. An asset account increases and a liability account increases

30) Billy-Bob is buying a new Truck from Linda-Lee's Pretty Good Value Truck Sales. The deal is that the total cost of the truck is \$70,000. Billy-Bob will put \$10,000 down. Linda-Lee will charge Billy-Bob only 2% interest!! Billy-Bob will make 5 annual interest only payments (he will send her 2% at the end of each year) and then at the end of the fifth year, along with the last interest payment, he also sends the remaining \$60,000. Billy-Bob called the bank and they told him that they would charge him 12% for a truck loan at this time. How much is Billy-Bob really paying for the truck?

- A. \$ 39,092.30
- B. \$ 48,371.34
- C. \$ 38,371.34
- D. \$ 49,092.30
- E. None of the above

31) Still on Billy-Bob, he purchased the truck under the stated deal. If he amortized the deal correctly, what would be the principal balance after the first annual interest payment?

- A. \$ 41,775.90
- B. \$ 29,138.99
- C. \$ 34,813.25
- D. \$ 44,813.25
- E. None of the above

32) Still on Billy-Bob. If the original purchase was for \$70,000, no money down, payable in five **equal annual payments** which include interest at 2% and the bank would charge him 12% for a truck loan, how much would the payments be on the truck?

- A. \$ 1,400.00
- B. \$ 12,729.50
- C. \$ 14,851.09
- D. \$ 10,607.92

E. None of the above

- 33)** Still Billy-Bob equal payments (problem 32, equal annual payments), how much is he really paying for the truck?
- A. \$ 63,534.85
 - B. \$ 53,534.85
 - C. \$ 41,976.12
 - D. \$ 51,976.12
 - E. None of the above

Use the following information for the next six questions: Freeland Follies, Inc. (FFI) issued a 10-year, \$1,000,000 face bond with a 10% interest rate. The bond pays the interest for 10 years and then pays the principal of \$1,000,000 at the end of the 10th year.

- 34)** If the market interest rate is 12% at the time of issue, on the date of issue, FFI will receive
- A. \$ 1,000,000.00
 - B. \$ 919,547.74
 - C. \$ 737,348.14
 - D. \$ 886,995.54
 - E. None of the above

- 35)** If the current market interest rate is 10% at the time of issue, on the date of issue, FFI will receive
- A. \$ 1,049,868.12
 - B. \$ 1,134,201.63
 - C. \$ 773,991.10
 - D. \$ 1,000,000.00
 - E. None of the above

- 36)** If the current market interest rate is 8% at the time of issue, on the date of issue, FFI will receive
- A. \$ 1,049,868.12
 - B. \$ 1,134,201.63
 - C. \$ 773,991.11
 - D. \$ 1,000,000.00
 - E. None of the above

- 37)** If the FFI bonds are sold to yield 8%, they will be said to be sold at
- A. a discount
 - B. a premium
 - C. par
 - D. the coupon rate
 - E. None of the above

- 38) If the FFI bonds are issued to yield 12%, the interest expense for the first year for FFI will be
- A. \$ 127,295.46
 - B. \$ 106,439.46
 - C. \$ 10,000.00
 - D. \$ 12,000.00
 - E. None of the above
- 39) If the FFI bonds are issued to yield 12%, the face interest rate of 10% is also known as
- A. The effective rate
 - B. The coupon rate
 - C. The premium rate
 - D. The discount rate
 - E. None of the above
- 40) You are buying a new BMW. The cost is \$50,000 with 0 down, payable in 60 equal monthly payments which include interest at an annual rate of 8%. You called the bank and they said that 8% was a fair interest rate for car loans at this time. What are the monthly payments?
- A. \$ 4,363.09
 - B. \$ 1,013.82
 - C. \$ 4,331.30
 - D. \$ 1,217.97
 - E. None of the above
- 41) Assume that a company issues a ten-year \$100,000, 6% bond to yield 10% for \$75,421.73 on January 1, 2012 and interest payments are due on December 31st of each year. The journal entry to record the first payment on December 31, 2012 will include
- A. a debit to interest expense of \$6,000.
 - B. a credit to bond payable of \$1,542.17.
 - C. a credit to bond premium of \$1,542.17.
 - D. a debit to bond discount of \$1,542.17.
 - E. a credit to bond discount of \$1,542.17.
- 42) The rules that govern accounting in the United States are known collectively as:
- A. GAAP
 - B. IFRS
 - C. FIFO
 - D. FASB
 - E. APB

- 43)** The matching concept is
- A. Debits = Credits
 - B. Assets = Liabilities + Owners' Equity
 - C. Revenues - Cost of Goods Sold = Gross Margin
 - D. Recording all expenses incurred in generating the revenues of the period
 - E. The same as the book value
- 44)** The accounting equation is
- A. Debits = Credits
 - B. Assets = Liabilities + Owners' Equity
 - C. Revenues - Cost of Goods Sold = Gross Margin
 - D. Recording all expenses incurred in generating the revenues of the period
 - E. The same as the book value
- 45)** Bad Debt Expense is:
- A) recognized as an expense in the year the sale was made
 - B) considered a normal cost of doing business
 - C) an operating expense
 - D) allow readers to see clearly how much is being written off
 - E) all of these