University of Waterloo
Final Examination

Term: Fall Year: 2005

Student Name **Solution**

UW Student ID Number

Course Abbreviation and Number	AFM 101
Course Title	Core Concepts of Accounting Information
Section(s)	001, 002, 003, 004
Instructor	Duane Kennedy

Date of Exam	Wednesday, December 14, 2005		
Time Period	Start time: 4:00 pm	End time: 6:30 pm	
Duration of Exam	2.5 hours		
Number of Exam Pages (including this cover sheet)	25		
Exam Type	Special Materials		
Additional Materials Allowed	Cordless calculators may be used. The calculator must be standalone with no communication or data storage features. Both the examination paper and multiple choice card must submitted.		

Marking Scheme:

Question	Score	Question	Score
1 (14 marks)		6 (8 marks)	
2 (10 marks)		7 (8 marks)	
3 (8 marks)		8 (12 marks)	
4 (4 marks)		9 (8 marks)	
5 (8 marks)		10 (35 marks)	
		Total score: 115 marks	

Question 1 (14 Marks)

Required:

Answer the following independent questions.

A) King Limited issued $1,000,000, 10 percent, 10 year bonds dated July 1, 2005. Interest is paid semi-annually on June 30 and December 31. The issue price was $1,135,903 based on a market interest rate of 8 percent. The company uses the effective interest rate method of amortization. Complete the following table:

Date	Interest Payment	Interest Expense	Amortization of Discount or Premium	Book Value
July 1, 2005	---	---	---	$1,135,903
Dec. 31, 2005	**$50,000**	**$45,436.12**	**$4,563.88**	**$1,131,339.12**

Interest Payment = $1,000,000 * 10% / 2 = $50,000
Interest Expense = $1,135,903 * 4% = $45,436.12
Amortization of Premium = $50,000 -45,436.12 = $4,563.88
Book Value = $1,135,903 - 4,563.88 = $1,131,339.12

B) Columbia Corporation issued 3,000, 10 year bonds at 103 on November 1, 2005, which results in an effective interest rate of 8%. The bonds have a $1,000 face value and a 9% stated interest rate. Interest is payable annually on October 31. The company uses the straight-line amortization method. Record the payment of interest on October 31, 2006.

Issue price = 3,000 * $1,000 * 1.03% = $3,090,000
Total premium = $3,090,000 – 3,000,000 = $90,000

Amortization = $90,000 / 10 years = $9,000 / year

Interest Expense	**$261,000**	
Premium on Bonds Payable	**9,000**	
Cash ($3,000,000 * 9%)		**$270,000**

C) Weber Company issued $5,000,000, 8 percent, 10 year bonds dated May 1, 2005. Interest is paid semi-annually on October 31 and April 30. The market rate of interest was 6 percent. Record the sale of the bonds on May 1, 2005.

Present value of principal	**= $5,000,000 * PV(n=20, i=3%)**
	= $5,000,000 * 0.554
	= $2,770,000
Present value of interest	**= $5,000,000 * 4% * PV(annuity, n=20, i=3%)**
	= $200,000 * 14.877
	= $2,975,400
Issue price	**= $2,770,000 + 2,975,400**
	= $5,745,400

Cash	**$5,745,400**	
Premium on Bonds Payable		**$745,400**
Bonds Payable		**$5,000,000**

Note: if a financial calculator or formulas are used:

Present value of principal	**$2,768,378.77**
Present value of interest	**$2,975,494.97**
Issue price	**$5,743,873.74**

Question 2 (10 Marks)

The records of Shorter Company reflected the following for the month of February:

Date	Transaction	Number of Units	Unit Cost
Feb. 1	Beginning inventory	600	$3
Feb. 2	Purchase	500	$4
Feb. 5	Sale (selling price $12/unit)	700	
Feb. 12	Purchase	600	$5
Feb. 15	Sale (selling price $13/unit)	700	
Feb. 23	Purchase	900	$6
Feb.28	Ending inventory	?	

Shorter Company uses a periodic inventory system.

Required:

Complete the following table for February:

		Inventory Method		
	Number of Units	FIFO	LIFO	Weighted Average
Revenue	**1,400**	**$17,500**	**$17,500**	**$17,500**
Cost of Goods Sold	**1,400**	**5,300**	**7,900**	**6,569**
Gross Margin	**1,400**	**12,200**	**9,600**	**10,931**
Cost of Ending Inventory	**1,200**	**6,900**	**4,300**	**5,631**

Cost of goods available for sale = 600 * $3 + 500 * $4 + 600 * 5 + 900 * $6
= $12,200
Number of units available for sale = 2,600 units

Revenue = 700 * $12 + 700 * $13 = $17,500

COGS FIFO = 600 * $3 + 500 * $4 + 300 * $5 = $5,300
COGS LIFO = 900 * $6 + 500 * $5 = $7,900
COGS weighted average = ($12,200 / 2,600 units) * 1,400 units
= $4.69 * 1,400 units
= $6,569.23

Ending inventory
FIFO = $12,200 – 5,300 = $6,900
LIFO = $12,200 – 7,900 = $4,300
Weighted average = 1,200 * $4.69 = $5,630.77

Question 3 (8 Marks)

Reba Company reported net income of $10,000 for 2005. Additional 2005 information is as follows:

Expenditure for the purchase of equipment	$6,000
Amortization expense for plant and equipment	2,000
Dividends paid on common stock	900
Net increase in accounts payable	400
Net decrease in inventory	200
Purchase of computer equipment in exchange for note payable	1,500
Amortization of patent	100
Net decrease in accounts receivable	300
Cash received from sale of equipment (net book value $2,800)	3,500

Required:

Prepare the operating activities section of the statement of cash flows for Reba Company for 2005 using the indirect method. *Please use the following table to complete this question.*

Reba Company

Statement of Cash Flows

For the Year Ended December 31, 2005

Operating Activities:	
_Net Income_______________	**$10,000**
_Amortization of plant and equipment	**2,000**
_Amortization of patent__	**100**
_Net increase in accounts payable	**400**
_Net decrease in inventory	**200**
_Net decrease in accounts receivable	**300**
_Gain on sale of equipment	**(700)**
___________________________	_____________
___________________________	_____________
Net cash flow from operating activities	**$12,300**

Question 4 (4 Marks)

Regan, Inc., has the following share capital:

Common shares, 100,000 shares authorized, 20,000 shares outstanding
Preferred shares, $4, 10,000 shares authorized, 3,500 shares outstanding

The company declared a cash dividend of $40,000 in 2005. No dividends were declared or paid during 2004. Dividends were paid on preferred and common shares in 2003.

Required:

Compute the amount of cash that would be paid to each stockholder group in 2005 under each assumption:

	Cash Dividends Paid To:	
Assumption:	**Preferred Shareholders**	**Common Shareholders**
Preferred shares are cumulative	**3,500 * $4 * 2 years = $28,000**	**$12,000**
Preferred shares are non-cumulative	**3,500 * $4 = $14,000**	**$26,000**

Question 5 (8 Marks)

Red Company received the following October 31, 2005, bank statement:

	Transactions	Balance
Balance, September 30		$18,000
Deposits recorded during October	$40,000	58,000
Customer note collected for Red Company (including $120 interest)	2,520	60,520
Cheques cleared during October	(38,300)	22,220
NSF cheque (given to Red Company by a customer)	(100)	22,120
Bank service charges	(15)	22,105
Balance, October 31		$22,105

The cash account (in Red Company's ledger) reflected the following for October:

September 30 balance	$20,500
October cash deposits	41,000
October cheques written	(38,600)
October 31 balance	$22,900

The September 30 bank reconciliation showed outstanding cheques of $500 and deposits in transit of $3,000.

Required:

Prepare the bank reconciliation using the following table:

Red Company
Bank Reconciliation
October 31, 2005

Company's Books		Bank Statement	
Ending cash balance per books	**$22,900**	Ending cash balance per bank statement	**$22,105**
Additions		Additions	
Collection of customer note	**2,520**	**Deposits in transit ($41,000 + 3,000 – 40,000)**	**4,000**
Deductions		Deductions	
NSF cheque	**(100)**		
Bank service charges	**(15)**	**Outstanding cheques ($38,600 + 500 – 38,300)**	**(800)**
Ending correct cash balance	**$25,305**	Ending correct cash balance	**$25,305**

Question 6 (8 marks)

Duval Company acquired a machine on January 1, 2004, at a cost of $2,700. The machine had an estimated useful life of five years and an estimated residual value of $200. Duval Company estimates that the machine can be used to produce 10,000 units over its lifetime. Actual production was 1,000 units in 2004 and 1,200 units in 2005. The fiscal year end is December 31.

Required:

Complete the following schedule using the three methods of amortization: (a) straight-line, (b) units-of-production, and (c) declining-balance at 150% acceleration rate.

Method	Amortization Expense for 2005	Accumulated Amortization at December 31, 2005
Straight-line	**$500**	**$1,000**
Units-of-production	**$300**	**$550**
Declining-balance	**567**	**$1,377**

Straight-line: ($2,700 – 200) / 5 years = $500 / year

Units-of-production: ($2,700 – 200) / 10,000 units = $0.25 / unit
Amortization expense = 1,200 units * $0.25 / unit = $300
Accumulated amortization = (1,000 + 1,200 units) * $0.25 / unit = $550

Declining-balance:
Rate = 20% * 150% = 30%
2004: $2,700 * 30% = $810
2005:
Amortization expense = ($2,700 - 810)* 30% = $1,890 * 30% = $567
Accumulated amortization = $810 + 567 = $1,377

Question 7 (8 marks)

The following transactions were completed during 2005 by Groundhog Limited. The annual accounting period ends December 31.

Required:

A) Groundhog Limited made a lump sum purchase of an office building, including the land and some fixtures, for cash of $160,000. The tax assessments for the past year reflected the following: Land, $22,500; Building, $58,500; and Fixtures, $9,000. Record the purchase.

Land ($22,500 / $90,000) * $160,000	**$40,000**	
Building ($58,500 / $90,000) * $160,000	**104,000**	
Fixtures ($9,000 / $90,000) * $160,000	**16,000**	
Cash		**$160,000**

B) Unpaid wages for the last two days of December 2005, amounting to $3,200, have not been recorded. Provide the adjusting entry required at December 31, 2005, or explain why no entry is required.

Wages Expense	**$3,200**	
Wages Payable		**$3,200**

C) On December 1, 2005, rent revenue of $600 was collected for December and January. Rent revenue was credited for a total of $600 on December 1. Provide the adjusting entry required at December 31, 2005, or explain why no entry is required.

Rent Revenue	**$300**	
Unearned Rent Revenue		**$300**

D) Groundhog Limited signed a $4,000, six month, 10% interest bearing note payable on October 1, 2005. Provide the adjusting entry required at December 31, 2005, or explain why no entry is required.

Interest Expense	**$100**	
Interest Payable		**$100**
($4,000 * 10% * 3/12)		

Question 8 (12 marks)

The following information was taken from the financial statements of Lawrence Company for the years 2005 and 2004 (amounts in thousands):

Income Statement	**2005**	**2004**
Net operating revenues	$ 19,805	$ 18,813
Cost of goods sold	6,009	5,562
Gross profit	13,796	13,251
Selling, administrative and general expenses	9,001	8,211
Other operating charges	813	73
Operating income	3,982	4,967
Other revenues (expenses) including interest expense of $337 ($277) in 2005 (2004)	(163)	231
Income before taxes	3,819	5,198
Income tax expense (tax rate 36.3% (32.0%) in 2005 (2004))	1,388	1,665
Net income	$2,431	$3,533

Balance Sheet		
Cash and cash equivalents	$ 1,611	$ 1,648
Marketable securities	201	159
Trade accounts receivables, net of allowance for doubtful accounts of $101 ($89) in 2005 (2004)	1,798	1,666
Inventories	1,076	890
Prepaid expenses and other assets	1,794	2,017
Total current assets	6,480	6,380
Total investment assets	8,916	8,549
Property, plant and equipment, net of accumulated amortization of $3,126 ($2,887) in 2005 (2004)	4,267	3,669
Goodwill and other intangible assets	1,960	547
Total assets	$21,623	$19,145
Current liabilities	9,856	8,640
Long-term debt	854	687
Other liabilities and deferred taxes	1,400	1,415
Total liabilities	12,110	10,742
Total stockholders' equity	9,513	8,403
Total liabilities and stockholders' equity	$21,623	$19,145

Required:

Calculate the following ratios for 2005:

A) Times interest earned ratio

$$= \frac{\$2,431 + 337 + 1,388}{337}$$

= $4,156 / $337

= 12.33

Accounts receivable turnover ratio

$$= \frac{\$19{,}805}{\tfrac{1}{2}(\$1{,}798 + 1{,}666)}$$

$$= \frac{\$19{,}805}{\$1{,}732}$$

= 11.43

B) Return on assets

$$= \frac{\$2{,}431}{\tfrac{1}{2}(\$21{,}623 + 19{,}145)}$$

$$= \frac{\$2{,}431}{\$20{,}384}$$

= 11.93%

C) Debt to equity ratio

$$= \frac{\$12{,}110}{\$9{,}513}$$

= 1.27

D) Current ratio

$$= \frac{\$6{,}480}{\$9{,}856}$$

= 0.66

E) Return on equity

$$= \frac{\$2{,}431}{\tfrac{1}{2}(\$9{,}513 + 8{,}403)}$$

$$= \frac{\$2{,}431}{\$8{,}958}$$

= 27.14%

Question 9 (8 marks)

The answers to the following questions must appear in the space provided.

A) What are the advantages of issuing common stock instead of issuing corporate bonds to raise needed funds?

- lower financial risk since bonds require the payment of interest and principal
- avoids constraints on management actions that arise from debt covenants

B) Briefly define the term “short selling.”

Short selling is borrowing shares from a broker and then selling the shares. The shares must be repurchased at some time in the future and returned to the broker.

C) Briefly discuss the impact on the financial statements if a long-term lease is classified as an operating lease rather than a capital lease.

If a lease is classified as an operating lease then the company shows rent expense on the Income Statement and shows the future lease payments in a footnote to the financial statements. If a lease is classified as a capital lease then an asset and corresponding liability are shown on the Balance Sheet.

D) The article “Stock Options: So Who’s Counting?” argues that many companies are trying to minimize the impact of options on their financial statements. Briefly discuss reasons for this behaviour.

Companies try to minimize the impact of options because they do not want their net income reduced by the option expense and they do not want to record a large liability for outstanding options.

(Answers written below this line will not be graded)

Question 10 (35 marks)

Choose the correct response from the answers provided. There is no mark penalty for incorrect responses. Mark the correct responses by completing the University of Waterloo answer card, using a black lead HB pencil only. Write your name and student number on the answer card and **mark your student number in the appropriate ovals**. You **do not** need to complete the section number and card number. **Answers recorded on the following pages will not be marked.**

1. The records of Pam Company showed the following about a machine on January 1, 20H:

   Purchased 1/1/20E for $35,000
   Accumulated amortization at January 1, 20H, $26,400

   On July 1, 20H, the machine was sold for $7,000. Amortization for the first six months of 20H was $1,467. The gain or loss on disposal would be

A) $1,600 gain.
B) $ 133 gain.
C) $1,600 loss.
D) $ 133 loss.
E) None of the amounts is correct.

2. Belmont Corporation made a basket purchase of land, a building and equipment, paying a total of $1,500,000. Market values for the assets were not available, but the appraised values were $300,000 for the land, $900,000 for the building, and $600,000 for equipment. What amounts should be recorded in the Land, Building, and Equipment accounts, respectively?

A) $300,000, $900,000, and $600,000.
B) $1,500,000, $ -0-, and $ -0-.
C) $250,000, $750,000, and $500,000.
D) $500,000, $500,000, and $500,000.
E) $ -0-, $1,500,000, and $ -0-.

3. The following information was taken from the 20B income statement of Milburn Company: Pretax income, $12,000; Total operating expenses, $20,000; Sales revenue, $120,000. Compute cost of goods sold.

A) $ 88,000.
B) $100,000.
C) $108,000.
D) $112,000.
E) None of the amounts listed.

4. On July 1, 20A, Wilson Company issued $300,000, five-year, 9% bonds at 103. The reason Wilson issued the bonds at a premium was
A) the stated rate of interest was higher than the rate being paid on investments with comparable risk.
B) the stated rate of interest was the same as the rate being paid on investments with comparable risk.
C) the stated rate of interest was lower than the rate being paid on investments with comparable risk.
D) the bonds were callable.
E) None of the responses is correct.

5. In 2001, DAL Co. had a ***fixed*** asset turnover of 1.63 compared to ABC Co. of 1.10. What is the most likely cause of DAL Co.'s higher ratio?
A) DAL Co. is less efficient in generating net sales from its operational assets.
B) DAL Co. is more efficient at generating net income from employing its operational assets.
C) DAL Co. is able to generate greater sales from its operational assets.
D) DAL Co. is able to generate less net income from its operational assets.

6. On December 15, 20A, Toby Company accepted delivery of merchandise which it purchased on credit. As of December 31, 20A, the company had neither recorded the transaction nor included the merchandise in its inventory because the seller's invoice had not been received. The effect of this omission on its balance sheet at December 31, 20A, (end of the accounting period) was that
A) assets and shareholder's equity were overstated but liabilities were not affected.
B) shareholder's equity was the only item affected by the omission.
C) assets and liabilities were understated but shareholders' equity was not affected.
D) assets and shareholders' equity were understated but liabilities were not affected.
E) the balance sheet was correct because the invoice had not been received.

7. Angstrom Corporation purchased a truck at a cost of $60,000. It has an estimated useful life of five years and estimated residual value of $5,000. At the beginning of year three, Angstrom's managers concluded that the total useful life would be four years, rather than five. There was no change in the estimated residual value. What is the amount of amortization that Angstrom should record for year 3 under the straight-line method?
A) $15,500.
B) $ 8,250.
C) $11,000.
D) $16,500.
E) $15,000.

8. A company acquires land by issuing 10,000 shares of its common stock currently trading at $20 per share and the appraised value of the land is $250,000. We would record the land by
A) Using its appraised value of $250,000 and recognize a gain of $50,000 since we are issuing stock only currently worth $200,000.
B) Record the land at the value of the consideration given up, $200,000.
C) Record the land at the average of its appraised value of $250,000 and the $200,000 value of the stock issued, thereby recognizing a $25,000 gain.
D) All of the responses are acceptable methods of assigning a value to the land.

9. The main purpose of recording amortization is to
A) allocate the cost of a tangible asset to the periods in which its use contributes to earning revenue.
B) estimate the remaining useful life of the asset.
C) report the asset on the balance sheet at the estimated amount for which the asset could be sold on the balance sheet date.
D) estimate the current replacement cost of the asset.
E) give the bookkeeper something to do.

10. Callable bonds may be
A) turned in for early retirement at the option of the bondholder.
B) converted to common stock at the option of the bondholder.
C) called for early retirement at the option of the issuer.
D) converted to registered bonds at the option of the company president.
E) None of the responses is correct.

11. Martinelli Company recently purchased a truck. The price negotiated with the dealer was $85,000. Martinelli also paid sales tax of $6,000 on the purchase, shipping and preparation costs of $950, and insurance for the first year of operation of $2,000. For the truck, what amount should be debited to the asset account Vehicles?
A) $85,000.
B) $91,000.
C) $91,000.
D) $91,950.
E) $93,950.

12. When prices are rising:
A) LIFO will result in lower net income and a higher inventory valuation than will FIFO.
B) LIFO will result in higher net income and lower inventory valuation than will FIFO.
C) FIFO will result in lower net income and a lower inventory valuation than will LIFO.
D) FIFO will result in higher net income and a higher inventory valuation than will LIFO.
E) None of the responses is correct.

13. If merchandise for resale is purchased for $2,000, terms 2/10, n/30, the entry to record the purchase should (assuming a periodic inventory system and the gross method):

	Debit		Credit	
A)	Inventory	$2,000	Accounts payable	$1,960
B)	Accounts payable	$1,960	Inventory	$1,960
C)	Inventory	$1,960	Accounts payable	$2,000
D)	Purchases	$2,000	Accounts payable	$2,000
E)	Purchases	$1,960	Accounts payable	$1,960

14. Joe Company sold merchandise with an invoice price of $1,000 to Gibbs, Inc., with terms of 2/10, n/30. Which of the following is the correct entry (in Gibbs' accounting records) to record the payment by Gibbs within the 10 days if the company uses the periodic inventory system and the gross method to record purchases?

A)

Cash	980	
Sales Discount	20	
Accounts receivable		1,000

B)

Accounts Payable	1,000	
Cash		980
Purchases Discounts		20

C)

Accounts Payable	1,000	
Cash		1,000

D)

Purchases	980	
Cash		980

E) None of the above is correct.

15. In 20B, Gamma Company made an ordinary repair to a delivery truck at a cost of $300. Gamma's accountant debited the asset account, Delivery Vehicles. Was this treatment an error, and if so, what will be the effect on the financial statements of Gamma?

A) The repair was accounted for correctly.
B) The error increased assets and net income in 20B.
C) In the years following 20B, net income will be too high.
D) The error decreased net income in 20B.
E) Net income was correctly stated for 20B.

16. Which of the following statements is correct?

A) Bonds are always issued (sold) at their par value.
B) Bonds issued at more than par value are said to be issued at a discount.
C) Once bonds are issued, the bonds will trade in the bond market above or below par depending on changes in interest rates.
D) Bondholders must hold their bonds to maturity to receive cash for their investment.
E) None of the responses is correct.

17. Fabulous Corporation plans to raise $500,000 cash on January 1, 20A, by issuing either (not both) bonds payable (8% interest rate) or cumulative preferred stock (8% dividend rate). The accounting period ends December 31. How would the annual interest amount or annual dividend amount (if paid) affect the amount of net income for 20A?

A) Annual net income would be reduced by the annual interest and by the preferred stock dividends.
B) Annual net income would be reduced by the interest but not by the preferred stock dividends.
C) Annual net income would not be reduced by the annual interest nor by the preferred stock dividends.
D) Annual net income would be reduced by the preferred dividends but not by the interest
E) None of the statements is correct.

18. During 20A, Thomas Company recorded bad debt expense of $15,000 and wrote off an uncollectible account receivable amounting to $5,000. Assuming a January 1, 20A, balance in the allowance for doubtful accounts of $10,000, the December 31, 20A, balance in the allowance account would be

A) $25,000.
B) $20,000.
C) $15,000.
D) $ 5,000.
E) None of these amounts is correct.

Use the following information to answer questions 19 and 20.

Liberty Company estimates that its annual bad debts approximate 4% of credit sales. Liberty had the following balances at year-end prior to recording adjusting entries:

Credit Sales	$160,000
Accounts Receivable	30,000
Allowance for Doubtful Accounts	100 (debit)

19. Following the completion of an aging analysis, the accountant for Liberty estimated that $1,100 of the receivables would be uncollectible. The year-end adjusting entry to record bad debt expense would include a

A) credit to allowance for doubtful accounts of $1,100.
B) debit to bad debt expense of $1,000.
C) debit to bad debt expense of $900.
D) a credit to allowance for doubtful accounts of $1,200.

20. On Liberty's income statement for the year, bad debt expense using the percentage of sales method would amount to

A) $6,400.
B) $6,500.
C) $6,300.
D) $5,200.
E) None of the amounts is correct.

21. The article "Outside Audit: Goodyear and the Butterfly Effect" discusses the impact of interest (discount) rate assumptions on pension obligations. Which of the following statements is correct?

A) Changing the discount rate affects the Income Statement but has no impact on the Balance Sheet.
B) Changing the discount rate affects the Balance Sheet but has no impact on the Income Statement.
C) Changing the discount rate affects both the Balance Sheet and the Income Statement.
D) Changing the discount rate affects employee's pensions but has no impact on the Balance Sheet or Income Statement.
E) None of the statements is correct.

22. In 2000, W Co reported a dividend payout ratio of 16%. In 2001 and 2002, they reported payout ratios of 18% and 16% respectively. This fairly constant percentage of payout indicates

A) a stagnant market price for their stock
B) a policy of paying a certain percentage of the annual earnings out as dividends.
C) a stagnant level of operating income from year to year.
D) all of the responses are correct.

23. On December 15, 20B, the board of directors of Home Corporation declared a cash dividend, payable on January 8, 20C, of $2 per share on the 100,000 common shares outstanding. The accounting period ends December 31. Because of this action, on December 15, 20B, Home Corporation should

A) make no journal entry because the event had no effect on the corporation's financial position until 20C.
B) decrease retained earnings $200,000 and increase liabilities $200,000.
C) decrease retained earnings $200,000 and increase contributed capital $200,000.
D) decrease cash $200,000 and decrease retained earnings $200,000.
E) Increase contributed capital $200,000 and decrease liabilities $200,000.

24. A company had the following partial list of account balances at year-end:

Sales Returns and Allowances	$ 500
Accounts Receivable	9,000
Sales Discounts (a contra account)	700
Sales Revenue	57,200
Allowance for Doubtful Accounts	300

The amount of Net Sales shown on the income statement would be

A) $57,200.
B) $64,200.
C) $56,000.
D) $55,700.
E) None of the amounts is correct.

25. Credit terms of 2/10, n/30 indicate that a

A) two percent discount for early payment is available if the invoice is paid before the tenth day of the month following the month the sale.
B) two percent discount for early payment is available within ten days of the invoice date.
C) ten percent discount for early payment is available if the invoice is paid within two days of the date of the invoice.
D) two percent discount for early payment is available if the invoice is paid after the tenth day, but before the thirtieth day of the invoice date.
E) None of these responses is correct.

26. When preparing the monthly bank reconciliation, the accountant for Tiffany Toys noted that a check received from a customer last month for $89 was marked NSF and returned along with the bank statement. To correct the cash account balance, the accountant recorded an adjusting entry. This entry required a debit to
A) Cash.
B) Bad debt expense.
C) Accounts receivable.
D) Sales.
E) Allowance for doubtful accounts.

27. Which of the following statements is <u>true</u>?
A) An initial public offering (IPO) occurs when the company first offers their stock for sale to the public.
B) A seasoned new issue (seasoned equity offering) is the term used for any additional sales of new stock to the public after the IPO.
C) An underwriter, usually an investment banker, advises the corporation on matters concerning the sale of shares of stock and helps to market those shares for a fee.
D) All of the statements are true.

28. The article "Microsoft to pay out $75-billion of cash hoard" discusses Microsoft's dividend policy. Which of the following statements is correct?
A) This payment is a continuation of Microsoft's policy of paying regular dividends in order to maximize its share price.
B) Microsoft decided to pay out large dividends and repurchase shares to signal to the investment community that the company has matured and is no longer committed to growth.
C) Microsoft decided to pay out large dividends and repurchase shares to prevent a hostile takeover of the company.
D) Microsoft announced the large dividends in response to pressure from investors to either use excess cash to develop new products or return it to shareholders.
E) None of the statements is correct.

29. ABC Toys received an order from a customer on March 1. The toys were shipped on March 18. The customer sent a check for full payment on April 10. ABC received the check on April 12 and deposited it in the bank account. ABC should record sales revenue related to this series of transactions on
A) March 1.
B) March 18.
C) April 10.
D) April 12.
E) None of the dates is correct.

30. The effect of a stock split is to
A) reduce the amount of retained earnings and increase total contributed capital.
B) reduce the amount of retained earnings and reduce the amount of total assets.
C) reduce the amount of retained earnings and reduce total contributed capital.
D) reduce the amount of retained earnings and increase the balance in a liabilities accounts.
E) None of the responses is correct.

31. The article "Yahoo, Google and Internet Math" discusses the revenue recognition policies of Yahoo and Google when they place advertisements on other companies' Web sites. Yahoo records the gross revenue and books the selling cost as an expense while Google records net revenue. Which of the following statements is correct?
A) Yahoo's method makes its profit margin appear smaller while its revenue appears to be larger than would appear with the net method.
B) Yahoo's method results in higher revenue and higher net income than would be recorded with the net method.
C) Yahoo's method is not considered generally acceptable because it overstates revenue.
D) Google's method results in a higher profit margin and higher income than the gross method.
E) None of the statements is correct.

32. During 20C, Abby Corporation reacquired and cancelled some shares of its own common stock. What effect did this transaction have on 20C stockholders' equity and earnings per share, respectively?

	Stockholders’ Equity	Earnings per Share
A)	Decrease	No effect
B)	Increase	No effect
C)	Decrease	Decrease
D)	Increase	Decrease
E)	Decrease	Increase

33. Albert Company agreed to build a bowling complex for Pins R Us for a price of $2,000,000. The project is expected to take three years to complete. Albert estimated that the total cost of the project would be $1,600,000. During the first year, construction costs amount to $600,000. If Albert uses the percentage-of-completion method, the amount of revenue recognized for the first year will be
A) $750,000.
B) $150,000.
C) $600,000.
D) $0.
E) None of the amounts is correct.

34. Bateman Company reported total stockholders' equity of $58,000 on its balance sheet dated December 31, 20B. During 20B, it reported a net income of $4,000, declared and paid a cash dividend of $2,000, and issued additional capital stock of $20,000. Therefore, total stockholders' equity at January 1, 20B, was

A) $38,000.
B) $36,000.
C) $34,000.
D) $16,000.
E) None of the amounts is correct.

35. Pleasant Company has established a pension plan for its employees that operates as follows: Each year, Pleasant Company places a fixed dollar amount in a pension fund for each employee. The funds are then invested. Upon retirement, each employee is entitled to the cash value of the funds that have been invested in his/her name. This arrangement is an example of a

A) defined benefit program.
B) defined contribution program.
C) contingent program.
D) deferred timing program.

Have a good holiday!

Good luck next term!

Answers to Multiple Choice Questions

1. **D**
2. **C**
3. **A**
4. **A**
5. **C**
6. **C**
7. **D**
8. **B**
9. **A**
10. **C**
11. **D**
12. **D**
13. **D**
14. **B**
15. **B**
16. **C**
17. **B**
18. **B**
19. **D**
20. **A**
21. **C**
22. **B**
23. **B**
24. **C**
25. **B**
26. **C**
27. **D**
28. **D**
29. **B**
30. **E**
31. **A**
32. **E**
33. **A**
34. **B**
35. **B**