I. Please answer the following statements as True or False.

_ 1. If a credit card sale is made, the seller can either debit Cash or debit Accounts Receivable at the time of the sale.

_ 2. The person that borrows money and signs a promissory note is called the payee.

_ 3. Receivables can be used to obtain cash by either selling them or using them as security for a loan.


_ 5. A maker who dishonors a note is one who does not pay it at maturity.

_ 6. Depreciation is the process of allocating the cost of a plant asset to expense in the accounting periods benefiting from its use.

_ 7. It is not necessary to report both the cost and the accumulated depreciation of plant assets in the financial statements.

_ 8. Revenue expenditures are additional costs of plant assets that materially increase the asset's life or productive capabilities.

_ 9. If a plant asset is sold above its book value, the selling company records a loss on the sale.

_ 10. Plant assets can be disposed of by discarding, selling, or exchanging them.

II. Complete the following sentences with the proper word(s).

1. What amount is paid on the maturity date of a note? ____________________________

2. When is a note dishonored? ____________________________

3. The materiality principle is defined as ____________________________
4. Why might a company prefer a notes receivable to an accounts receivable?

5. When discussing net realizable value of accounts receivable, it is the amount

6. What is the difference between land and land improvements?

7. Provide an example of an extraordinary repair.

8. Inadequacy refers to

9. Which depreciation method is classified as an accelerated method?

10. The useful or service life of a capital asset is

III. Select the best answer to the following statements.

_ 1. Sellers allow customers to use credit cards:
   a. to avoid having to evaluate a customer’s credit standing for each sale
   b. to lessen the risk of extending credit to customers who cannot pay
   c. to speed up receipt of cash from the credit sale
   d. to increase total sales volume
   e. all of the above

_ 2. A promissory note:
   a. is a short-term investment for the maker
   b. is a written promise to pay a specified amount of money at a certain date
   c. is a liability to the payee
   d. is another name for an installment receivable
   e. cannot be used in payment of an account receivable

_ 3. The matching principle requires:
a. that expenses be ignored if their effect on the financial statements are less important than revenues to the financial statement user.
b. the use of the direct write-off method for bad debts
c. the use of the allowance method of accounting for bad debts
d. that bad debts be disclosed in the financial statements
e. that bad debts not be written off

_4. The amount due on the maturity date of a $6,000, 60-day 8%, note receivable is:
a. $6,000  b. $6,480  c. $5,520  d. $6,080  e. $5,920

_5. Montana Recording Studio purchased $7,800 in electronic components from Tech Com. Montana Recording signed a 60-day, 10% promissory note for $7,800. If the note is dishonored, what is the amount due on the note?
a. $130  b. $7,800  c. $7,930  d. $8,050  e. $8,130

_6. Once the estimated depreciation expense for an asset is calculated:
a. it cannot be changed due to the historical cost principle
b. it may be revised based on new information
c. any changes are accumulated and recognized when the asset is sold
d. the estimate itself cannot be changed; however, new information should be disclosed in financial statement footnotes
e. it cannot be changed due to the consistency principle

_7. Revenue expenditures:
a. are known as balance sheet expenditures
b. extend the asset’s useful life
c. substantially benefit future periods
d. are additional costs of plant assets that do not materially increase the asset’s life or its productive capabilities
e. are debited to asset accounts

_8. Amortization:
a. is the process of allocating to expense the cost of a plant asset to the accounting periods benefiting from its use
b. is the process of allocating the cost of natural resources to periods when they are consumed
c. is the systematic allocation of the cost of an intangible asset to expense over its estimated life
d. is an accelerated form of expensing an asset’s cost
e. is also called depletion

_9. Ordinary repairs
a. are expenditures to keep an asset in normal operating condition
b. are necessary if an asset is to perform to expectations over its useful life
c. are treated as expenses
d. include cleaning, lubricating, and normal adjusting  
e. all of the above

10. A method that allocates an equal portion of the total depreciable cost for a plant asset to each unit produced is called: 
   a. accelerated depreciation  
   b. declining-balance depreciation  
   c. straight-line depreciation  
   d. units-of-production depreciation  
   e. modified accelerated cost recovery system (MACRS) depreciation

IV. Essay

1. Define a note receivable and explain how to calculate the interest due on a short-term note receivable.

2. Explain the difference between revenue expenditures and capital expenditures and how they are recorded in the accounting system.
V. Depreciation Methods

Yellowstone Kelly Catering purchased and placed in service a delivery van with a cost of $45,000. The company estimated the van’s useful life to be five years or 80,000 miles with an estimated salvage of $15,000. During 2007 12,500 miles were driven and 15,400 were driven in 2008. Compute the depreciation expense for 2007 and 2008 using the following depreciation methods:

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<th>2007</th>
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<td>1. Straight-line</td>
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<td>2. Double-declining balance</td>
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<td>3. Units-of-production</td>
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SHOW SUPPORTING CALCULATIONS BELOW!
VI. Lump-sum Purchase

Stillwater Company paid $1,895,200 plus $8,000 in closing costs for property that included land appraised at $1,450,000; land improvements appraised at $285,000; and a building appraised at $520,000

Prepare the journal entry to record the acquisition.

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<th>Date</th>
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VII. On December 31 Bad Route Associates reported the following:

Total sales for the year: $876,400, which included $305,000 in cash sales.  
Accounts Receivable at December 31, 2008: $173,200  
Allowance for Doubtful Accounts at December 31, 2008: $4,200 debit balance

Prepare the necessary adjusting entries to record bad debts expense assuming this company's bad debts are estimated to equal:

a. 2.75% of credit sales  
b. 4.90% of accounts receivable at year end.
VIII. Prepare the journal entries for the following transactions of Fall Festivities Company, assuming it uses the allowance method to account for the uncollectible accounts.

Oct 1  Sold $4,000 of merchandise to Tom Co., receiving a 7%, 60-day, $4,000 note

31  Wrote off $345 in an accounts receivable owned by Stuffing, Inc.

Nov 2  Received a $2,875, 8%, 90-day, note receivable from Cranberry Co. as an exchange for its $2,875 accounts receivable

30  The note from Tom Co was collected in full

Dec 5  Stuffing Co. paid $250 of the amount written off on October 31

31  Estimated Bad Debts Expense for the year at $7,050 using the allowance for doubtful accounts method

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IX. On January 5, 2003, Prairie Company purchased a tractor for $68,500. On December 29, 2007, the company sold the old tractor for $28,300 in cash. The old tractor had accumulated depreciation of $46,400.

Prepare the journal entry to record the sale.

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On January 18, 2004, Big Sky Sports purchased a van for $45,700. On December 29, 2008, the company exchanged the old van for a similar new van with a price of $50,890. The old van had accumulated depreciation of $39,900. A trade-in allowance of $12,000 was given by the dealer.

Prepare the journal entry to record the exchange.

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