PRINCIPLES OF ACCOUNTING FINAL EXAMINATION BSA 201
Chapters 1 – 11
December 10, 2008
Name__________________________

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

__ 1. The accounting equation can be restated as: Assets – Liabilities = Owner’s Equity.

__ 2. The income statement shows the financial position of a business on a specific date.

__ 3. Credits increase asset and expense accounts.

__ 4. If insurance coverage for the next two years is paid for in advance, the amount of the payment is debited to an asset account called Prepaid Insurance.

__ 5. Adjusting entries are designed primarily to correct accounting errors.

__ 6. Accumulated depreciation is shown on the balance sheet as a subtraction from the cost of an asset.

__ 7. The Income Summary account is a permanent account that will be carried forward period after period.

__ 8. The seller is responsible for paying shipping charges and bears the risk of danger or loss in transit if goods are shipped FOB factory.

__ 9. In a period of rising prices, LIFO usually gives a lower taxable income and therefore yields a tax advantage.

__10. Monthly or quarterly statements are called interim statements because they are prepared between the traditional annual statements.

__11. A perpetual inventory system requires updating of the inventory account only at the beginning of an accounting period.

__12. The general journal is used for transactions not covered by special journals and for regular, adjusting, closing, and correcting entries.

__13. To check for accuracy after posting: first a trial balance is completed, then, the subsidiary ledgers are tested by preparing a schedule of the controlling account.

__14. Good internal control dictates that a person who controls an asset also maintains the asset’s accounting records.
15. To streamline a voucher system, procedures for purchasing, receiving and paying for merchandise can be performed by one department or individual.

16. An invoice with terms of 2/10, n/30 implies that a buyer has an opportunity to save $24 if the invoice is paid within 10 days.

17. The person that borrows money and signs a promissory note is called the maker.

18. Under the allowance method of accounting for uncollectible accounts receivable, no attempt is made to predict bad debts expense.

19. An asset's cost includes all normal and reasonable expenditures necessary to get the asset in place and ready for its intended use.

20. An accelerated depreciation method yields smaller depreciation expense in the early years of an asset's life and larger depreciation in later years.

21. The state unemployment tax rates applied to an employer are adjusted according to an employer's merit rating.

22. Employers must pay FICA taxes equal in amount to the FICA taxes withheld from their employees.

23. Required employee payroll deductions include income taxes, Social Security taxes, pension and health contributions, union dues and charitable contributions.

24. A lawsuit is an example of a contingent liability for the defendant.

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

1. The revenue recognition principle states that

2. List two types of accounts that normally have credit balances.

3. What is the purpose of the general ledger?

4. A natural business year is described as
5. Provide an example of an unearned revenue in a business.

6. What is the purpose of closing entries at the end of a company's year?

7. If the terms of a sale for goods are 1/10, n/60, what amount will be paid by the customer who takes advantage of the sales discount on a sale of $3,200?

8. The GAAP principle of consistency requires

9. What is the role of an accounts receivable subsidiary ledger?

10. List two of the important principles of internal control.

11. Large companies often use the voucher system. What is the main purpose of this system?

12. If a $3,000, 7%, 60 day note is dishonored on the maturity date, what amount will be debited to Accounts Receivable by the payee?

13. If a company uses the allowance for doubtful accounts method of estimating bad debts, what is the journal entry recorded at the end of each year? Debit ________ and Credit ________

14. List two ways a company can dispose of a plant or capital asset. ________ and ________
15. Depreciation is defined as __________________________
                                             __________________________
                                             __________________________

16. What are the matching payroll taxes? __________________________
                                             __________________________
                                             __________________________

17. SUTA taxes are paid by the employer in Montana. How are these taxes used by the state?
                                             __________________________
                                             __________________________
                                             __________________________

18. What was your favorite topic area in Principles of Accounting I and why? _________
                                             __________________________
                                             __________________________
                                             __________________________
                                             __________________________

III. Select the best answer to the following statements.

   __ 1. Accounting is an information and measurement system that:
       a. records business activities
       b. identifies business activities
       c. communicates business activities
       d. helps people make better decisions
       e. all of the above

   __ 2. Double-entry accounting is an accounting system:
       a. that records each transaction twice
       b. in which each transaction affects and is recorded in two or more accounts but that
          could include two debits and no credits
       c. that records the effects of transactions and other events in at least two accounts with
          equal debits and credits
       d. that ensures that errors never occur
       e. that may only be used if T-accounts are used

   __ 3. A company had no office supplies available at the beginning of the year. During
       the year, the company purchased $250 worth of office supplies. On December 31, $75
       worth of office supplies remained. How much should the company report as office
       supplies expense for the year?
       a. $325    b. $250    c. $175    d. $125    e. $75
4. A trial balance prepared after the closing entries have been journalized and posted is the:
   a. unadjusted trial balance
   b. general ledger
   c. adjusted trial balance
   d. post-closing trial balance
   e. work sheet

5. The operating cycle of a merchandising company:
   a. begins with the purchase of merchandise
   b. ends with the collection of cash from the sale of merchandise
   c. can vary in length among different merchandising companies
   d. sometimes involves accounts receivable
   e. all of the above

6. The invoice valuation method that identifies the invoice cost of each item in ending inventory to determine the cost assigned to the inventory is the:
   a. weighted-average inventory method
   b. first-in, first-out
   c. last-in, first-out
   d. specific identification
   e. retail inventory method

7. A book of original entry that is used to record and post transactions of a similar type is a:
   a. schedule
   b. columnar ledger
   c. special journal
   d. general journal
   e. subsidiary ledger

8. A check that was outstanding on last period’s bank reconciliation was not among the cancelled checks returned by the bank this period. As a result, in preparing this period’s reconciliation, the amount of this check should be:
   a. added to the book balance of cash
   b. deducted from the book balance of cash
   c. added to the bank balance of cash
   d. deducted from the bank balance of cash
   e. ignored in preparing the period’s bank reconciliation

9. The materiality principle:
   a. requires use of the allowance method for bad debts
   b. requires use of the direct write-off method
   c. states that bad debts not be written off
d. states that an amount can be ignored if its effect on financial statements is unimportant to user's business decisions

10. The amount of bad debt expense can be estimated by:
   a. the percent of sales method
   b. the percent of accounts receivable method
   c. the aging of accounts receivable method
   d. only b and c
   e. all of the above

11. Obsolescence:
   a. occurs when an asset is at the end of its useful life
   b. refers to the insufficient capacity of a company's plant assets to meet the company's productive demands
   c. occurs when an asset's salvage value is less than its replacement cost
   d. refers to a plant asset that is no longer useful in producing goods and services
   e. does not affect plant assets

12. A company purchases property for $100,000. The property included a building, a parking lot, and land. The building was appraised at $62,000; the land at $45,000; and the parking lot at $18,000. The value of the land to be recorded in the accounting records is:
   a. $0  b. $36,000  c. $42,000  d. $45,000  e. $100,000

13. In the accounting records of a company, lawsuits:
   a. are estimated liabilities
   b. should always be recorded
   c. should always be disclosed
   d. should be recorded if payment for damages is probable and the amount can be reasonably estimated
   e. should never be recorded

14. The current FUTA tax rate is 0.8% and the SUTA tax rate is 5.4%. Both taxes are applied to the first $7,000 of an employee's pay. Assume that an employee earned $8,900. What is the amount of total unemployment taxes the employer must pay on this employee's wages?
   a. $322
   b. $434
   c. $480.60
   d. $551.80
   e. Zero, since the employee's wages exceed the maximum of $7,000

15. Employer payroll taxes
   a. are an added expense beyond the wages and salaries earned by employees
b. represent the federal taxes withheld from employees

c. represent the social security taxes withheld from employees

d. are paid by the employee

e. all of the above

IV. Essay
1. Describe the employer’s responsibilities for reporting payroll taxes.

2. What is a short-term note payable? Explain the accounting for the note when it is issued and then when it is paid.

V. Depreciation Methods
On January 4, 2007, North Pole Express purchased a new sleigh for $45,000. It was estimated to have an 8 year life, a $15,000 salvage value and to be used for 500,000 miles. The actual miles driven in 2007 were 37,000 miles and in 2008 were 42,000 miles. Determine the amount of depreciation expense under each of the following assumptions for both 2007 and 2008.

1. Straight-line depreciation
   2007 $___________  2008 $___________

2. Units-of-production
   2007 $___________  2008 $___________

3. Double declining-balance
   2007 $___________  2008 $___________

SHOW SUPPORTING CALCULATIONS BELOW!
VI. The Christmas Store is a new company which began business in November, 2008. The following purchases and sales were made during the first month of business.

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
<th>Quantity</th>
<th>Price per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov 1</td>
<td>purchased</td>
<td>295 units</td>
<td>$35 each</td>
</tr>
<tr>
<td>7</td>
<td>purchased</td>
<td>170 units</td>
<td>$36 each</td>
</tr>
<tr>
<td>14</td>
<td>sold</td>
<td>310 units</td>
<td>$75 each</td>
</tr>
<tr>
<td>22</td>
<td>purchased</td>
<td>220 units</td>
<td>$37 each</td>
</tr>
<tr>
<td>30</td>
<td>sold</td>
<td>245 units</td>
<td>$75 each</td>
</tr>
</tbody>
</table>

There was no beginning inventory, but the ending inventory consisted of 130 units. Determine the cost of the ending inventory under the three inventory cost flows listed below. Assume the company used a perpetual inventory system.

1. FIFO (first-in, first-out) $ 
2. LIFO (last-in, last-out) $ 
3. Weighted average $ 

SHOW SUPPORTING CALCULATIONS BELOW!
VII. On December 12, 2008, Santa’s Work Shoppe traded in an old machine that had originally cost $49,500 and had been depreciated $38,000. The new machine has a cash price of $52,400.

a. Record the entry for the exchange under the assumption that a $10,000 trade-in allowance was received and the balance paid in cash.

b. Record the entry assuming that the old machine was sold for $13,000.

VIII. Mistletoe Boutique established a petty cash fund on December 1, 2008, and incurred the following transactions affecting the petty cash fund during December.

Dec 1 Established a $150 petty cash fund
    7 Paid $15 for office supplies
    12 Paid a COD charge on merchandise received, $40
    18 Paid $65 for postage
    22 Paid $25 mileage to the office manager

31 While sorting the petty cash receipts in order to replenish the fund, the custodian found $145 in receipts and $4.00 in cash.

Prepared a journal entry to establish the fund and a journal entry to reimburse the fund and increase the size to $200 on December 31, 2008
IX. Bank Reconciliation
At December 31, 2008, Frosty’s Fun Store had a book balance of $1,355 and a bank balance of $1,865.

a. A debit memo from the bank indicated that the bank charged $45 in fees
b. Outstanding checks totaled $930
c. A credit memo from the bank indicated that the bank collected a note receivable of $2,500 and deducted a $30 fee.
d. On December 31 cash receipts of $2,755 were placed in the bank’s night depository on that date but did not appear on the bank statement
e. It was found that check #4045 was correctly written and drawn for $258 in payment of advertising expense but was erroneously recorded as $285.
f. Another debit memo from the bank listed a NSF check from Gil Grinch for $117

1. Prepare a bank reconciliation as of December 31, 2008.
2. Prepare the adjusting entries necessary to adjust the accounting records based upon the bank reconciliation.