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

__ 1. In a limited partnership the general partner has unlimited liability.

__ 2. Partners in a partnership are taxed on the amounts they withdraw from the partnership, not the partnership income.

__ 3. Common shareholders always share equally with all other shareholders in all dividends.

__ 4. A stock split is the distribution of additional shares of stock to shareholders according to their percent of ownership.

__ 5. The legal contract between the issuing corporation and the bondholders is called the bond indenture.

__ 6. An advantage of bonds is that interest does not have to be paid.

__ 7. To prepare consolidated financial statements when a company has an international subsidiary, the international subsidiary’s financial statements must be translated into U. S. dollars.

__ 8. Investments in trading securities are always short-term investments.

__ 9. Internal users of the statement of cash flows often use cash flow information to plan day-to-day operating activities and make long-term investment and financing activities.

__ 10. Cash dividends received and interest received are shown under investing activities on the cash flow statement.

__ 11. The building blocks of financial statement analysis include liquidity, solvency, and profitability.

__ 12. An advantage of common-size statements is that they reflect the relative sizes of different companies under analysis.

__ 13. The return on common stockholders’ equity measures a company’s success in reaching the goal of earning net income for its owners.

__ 14. A variable cost changes in proportion to changes in the volume of activity.
15. Indirect materials are accounted for as factory overhead because they are not easily traced to specific units or batches of production.


17. A company that uses a cost accounting system normally has only two inventory accounts: Finished Goods Inventory and Goods in Process Inventory.

18. The predetermined overhead allocation rate is used to apply overhead costs to products.

19. The Factory Overhead account will have a credit balance at the end of a period if overhead applied during the period is greater than the overhead incurred.

20. The process cost summary is an important managerial accounting report produced by a process cost accounting system.

21. Equivalent units of production are always the same as the total number of physical units finished during the period.

22. A rolling budget is a specific budget application relevant only to a merchandising company.

23. The selling expenses budget is normally prepared before the sales budget because selling expenses affect the amount of sales.

24. The budget process is a continuous activity of planning, revising, and evaluating business activities.

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

1. List two characteristics of a partnership that are considered to be advantages. ______

2. Provide two reasons for a partnership to dissolve. ______

3. Why might a corporation declare stock dividends instead of cash dividends? ______

4. What advantage does common stock have over preferred stock? ______
5. Explain why a corporation might retire a bond issue early, which is before its maturity date.

6. The primary advantage to a corporation of using bonds to raise money instead of selling stock is

7. When companies have subsidiaries abroad, they experience major accounting challenges. Discuss.

8. When preparing a Statement of Cash Flows, what is the first step?

9. List two of the standards of comparison when interpreting measures from financial statement analysis.

10. Distinguish between direct material and indirect material in manufacturing.

11. Why is the job cost sheet so important in job order costing?

12. The main focus in process cost accounting is not on the job but on the

13. Why is the sales budget so important in the budgeting process?

14. A budget is defined as
15. What topic area in Accounting II will be the most beneficial to you in the future and why?

III. Select the best answer to the following statements.

   _1. A partnership agreement:
      a. is not binding unless it is in writing
      b. is the same as a limited liability partnership
      c. is binding even if it is not in writing
      d. does not generally address the issue of the rights and duties of the partners
      e. is also called the articles of incorporation

   _2. Stockholders’ equity consists of:
      a. long-term assets
      b. paid-in capital and retained earnings
      c. paid-in capital and par value
      d. retained earnings and cash
      e. premiums and discounts

   _3. A dividend preference for preferred stock means that:
      a. preferred stockholders are allocated their dividends before dividends are allocated to
         common shareholders
      b. preferred stockholders are guaranteed dividends
      c. dividends are paid quarterly
      d. preferred stockholders prefer dividends more than common stockholders
      e. dividends must be declared on preferred stock

   _4. A bondholder that owns a $1,000, 10%, 10-year bond has:
      a. ownership rights
      b. the right to receive $10 per year until maturity
      c. the right to receive $1,000 at maturity
      d. the right to receive $10,000 at maturity
      e. the right to receive dividends of $1,000 per year

   _5. Bonds can be issued:
      a. at par
      b. at a premium
      c. at a discount
      d. between interest payment dates
      e. all of the above
6. Held-to-maturity securities are:
   a. always classified as Long-Term liabilities
   b. part of equity
   c. debt securities that a company intends and is able to hold to maturity
   d. equity securities that a company intends and is able to hold to maturity
   e. equity securities that have a maturity value greater than cost

7. The statement of cash flows reports:
   a. cash flows from operating activities
   b. cash flows from financing activities
   c. cash flows from investing activities
   d. significant noncash financing and investing activities
   e. all of the above

8. Which of the following is representative of typical cash flows from operating activities?
   a. proceeds from collecting the principal amount of loans
   b. repayment of principal on loan
   c. proceeds from the issuance of bonds and notes payable
   d. payments by a merchandiser to acquire equity securities of other companies
   e. receipts of cash sales

9. Three of the most common tools of financial statement analysis are:
   a. financial reporting, ratio analysis, vertical analysis
   b. ratio analysis, horizontal analysis, financial reporting
   c. horizontal analysis, vertical analysis, ratio analysis
   d. trend analysis, financial reporting, ratio analysis
   e. vertical analysis, political analysis, horizontal analysis

10. Current assets minus current liabilities is:
    a. profit margin
    b. financial leverage
    c. current ratio
    d. working capital
    e. quick assets

11. Period costs for a manufacturing company would flow directly to:
    a. factory overhead
    b. the current balance sheet
    c. job cost sheet
    d. the current income statement
    e. the current manufacturing statement

12. The three major cost components of manufactured products are:
    a. marketing, selling and administrative costs
b. indirect labor, indirect materials, and miscellaneous factory expenses

c. direct materials, direct labor and factory overhead

d. differential costs, opportunity costs and sunk costs

e. general, selling and administrative costs

13. A company that uses the job order cost accounting system would make the following entry to record the flow of direct materials into production:
   a. debit Work in Process, credit Cost of Goods Sold
   b. debit Work in Process, credit Materials
   c. debit Work in Process, credit Factory Overhead
   d. debit Factory Overhead, credit Materials
   e. debit Finished Goods, credit Materials

14. Equivalent units of production are equal to:
   a. the number of units that could have been completed if all effort had been applied to units that were started and completed that period
   b. the number of finished units actually produced that period
   c. the number of units introduced into the process that period
   d. the number of units still in process that period
   e. physical units that were completed this period from all effort being applied to them

15. Which of the following is a benefit derived from budgeting?
   a. budgeting focuses management's attention on the future
   b. budgeting provides coordination of departments
   c. budgeting provides a basis for evaluating performance
   d. budgeting provides motivation for managers and employees
   e. all of the above

16. Preparing the budget is usually the responsibility of:
   a. the company CEO
   b. the marketing department
   c. the budget committee
   d. the chief financial officer (CFO)
   e. lower level management

IV. Essay
1. What is a sales budget and how is it prepared?
2. Explain what a predetermined overhead allocation rate is, how it is calculated, and why it is used.

V. Renee and Rocky invested $225,000 and $175,000, respectively, in a partnership they began on January 2, 2008. Assuming that the partnership earned $132,000 during 2008, show below the share of net income each partner should receive under the different assumptions:

1. Based on the ratio of their original capital investments
   Renee’s Share  $       Rocky’s Share  $ 

2. Based on salary allowances of $60,000 to Renee and $40,000 to Rocky, and any balance shared in a 1 : 2 ratio
   Renee’s Share  $       Rocky’s Share  $ 

3. Based on salary allowance of $50,000 to Renee and $45,000 to Rocky, interest allowances of 5% on the partners’ investments, and the balance shared equally
   Renee’s Share  $       Rocky’s Share  $ 

SHOW SUPPORTING CALCULATIONS BELOW!

VI. Transformers, Inc. issued $3,500,000 of par value bonds for $3,200,000. The contract rate of interest is 7% while the market rate of interest is 8%. Record the sale of the bonds on July 1, 2009, and the first interest payment on January 1, 2009.

**GENERAL JOURNAL**

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Titles and Explanation</th>
<th>Post Ref.</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>
VII. Stock and Cash Dividends
Please prepare journal entries for the following transactions:

1. Declared a $0.90 per share cash dividend on 475,000 shares of common stock outstanding on April 9, 2009.

2. Paid the cash dividend on April 30 to the stockholders of record on April 18.

3. Declared and distributed a 9% stock dividend on 650,000 shares of common stock outstanding on May 12, 2009. Market price on the date of declaration was $35 per share and the par value of the stock was $20 per share. Date of distribution was May 29, 2009.

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Titles and Explanation</th>
<th>Post Ref.</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
</table>

VIII. Prairie Productions, Inc. is preparing a cash budget for the month of May, 2009.
The following data have been forecasted:

<table>
<thead>
<tr>
<th></th>
<th>April</th>
<th>May</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$150,000</td>
<td>$157,500</td>
</tr>
<tr>
<td>Merchandise Purchases</td>
<td>107,000</td>
<td>112,400</td>
</tr>
<tr>
<td>Operating Expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll</td>
<td>13,600</td>
<td>14,280</td>
</tr>
<tr>
<td>Advertising</td>
<td>5,400</td>
<td>5,700</td>
</tr>
<tr>
<td>Rent</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Depreciation</td>
<td>7,500</td>
<td>7,500</td>
</tr>
<tr>
<td>End of April balances:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Bank loan payable</td>
<td>16,000</td>
<td></td>
</tr>
</tbody>
</table>

Additional Data:
1. Sales are 40% cash and 60% credit. The collection pattern for credit sales is 50% in
the month following the sale and 50% in the month thereafter. Total sales in March were $125,000.

2. Purchases are all on credit, with 40% paid in the month of purchase and the balance paid in the following month.

3. Operating expenses are paid in the month they are incurred.

4. A minimum cash balance of $40,000 is required at the end of each month.

5. Loans are used to maintain the minimum cash balance. At the end of each month, interest of 1% per month is paid on the outstanding loan balance as of the beginning of the month. Repayments on the loan are made whenever excess cash is available.

Prepare the company’s cash budget for May.

<table>
<thead>
<tr>
<th>Cash Budget</th>
<th>Month of</th>
</tr>
</thead>
<tbody>
<tr>
<td>For</td>
<td></td>
</tr>
</tbody>
</table>
IX. Selected year-end financial statements of Steele Corporation follow. (Note: all sales are on credit; selected balance sheet amounts at December 31, 2009, were inventory, $55,900; accounts receivable, 27,000; total assets, $249,400; common stock, $105,000; and retained earnings, $17,748.)

**STEELE CORPORATION**

**Income Statement**
For Year Ended December 31, 2009

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$447,600</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>298,150</td>
</tr>
<tr>
<td>Gross profit</td>
<td>149,450</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>98,500</td>
</tr>
<tr>
<td>Interest expense</td>
<td>4,600</td>
</tr>
<tr>
<td>Income before taxes</td>
<td>46,350</td>
</tr>
<tr>
<td>Income taxes</td>
<td>18,672</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 27,678</td>
</tr>
</tbody>
</table>

**STEELE CORPORATION**

**Balance Sheet**
December 31, 2009

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities and Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$8,000</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>8,000</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>28,800</td>
</tr>
<tr>
<td>Notes receivable (trade)*</td>
<td>8,000</td>
</tr>
<tr>
<td>Merchandise inventory</td>
<td>34,150</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>2,750</td>
</tr>
<tr>
<td>Plant assets, net</td>
<td>150,300</td>
</tr>
<tr>
<td>Total assets</td>
<td>$240,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>25,500</td>
</tr>
<tr>
<td>Accrued wages payable</td>
<td>3,000</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>5,400</td>
</tr>
<tr>
<td>Long-term note payable, secured</td>
<td>63,400</td>
</tr>
<tr>
<td>by mortgage on plant assets</td>
<td></td>
</tr>
<tr>
<td>Common stock, $5 par value</td>
<td>195,800</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>27,748</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>$223,500</td>
</tr>
</tbody>
</table>

* These are short-term notes receivable arising from customer (trade) sales.

**SHOW YOUR FORMULAS AND CALCULATIONS:**

1. Current ratio

2. Quick ratio

3. Days’ sales uncollected

4. Accounts receivable turnover

5. Merchandise inventory turnover

6. Days’ sales in inventory

7. Debt-to-equity ratio

8. Profit margin ratio

9. Return on total assets

10. Return on common stockholders’ equity