

Part I (15 min., 20 pts.)

Circle the letter of the best answer.

1. In 19x1, Murray Corporation developed a new product that will be marketed in 19x4. In connection with the development of this product, the following costs were incurred in 19x1:

Research and development departmental costs	\$200,000
Materials and supplies consumed	50,000
Compensation paid to research consultants	<u>60,000</u>
	\$310,000

It is anticipated that these costs will be recovered in 19x4. What is the amount of research and development costs that Murray should record in 19x1 as expense?

- A. \$ 60,000
B. \$ 0
C. \$250,000
D. \$310,000
E. none of the above
2. Marco Island Hotel recognizes revenue at the time that guests place reservations, which often is four to six months in advance. This practice
- A. is consistent with generally accepted accounting principles
B. violates the stable-dollar assumption
C. violates the revenue principle
D. violates the objectivity principle
3. The accountant for the Orion Sales Company is preparing the income statement for 19x6 and the balance sheet at December 31, 19x6. The January 1, 19x6 merchandise inventory balance will appear
- A. only as an asset on the balance sheet
B. as an addition in the cost of goods sold section of the income statement and as a current asset on the balance sheet
C. only in the cost of goods sold section of the income statement
D. as a deduction in the cost of goods sold section of the income statement and as a current asset on the balance sheet
4. Under current GAAP, the maximum period over which an intangible asset can be amortized is
- A. 28 years
B. 40 years
C. unspecified
D. 99 years
E. none of the above

Part I (continued)

5. On January 1, 19x5, Justine Company's prepaid insurance account had a balance of \$3,750 representing 5 months insurance coverage (January through May 19x5). Late in May, Justine paid \$9,840 for 12 months insurance beginning June 1, debiting prepaid insurance and crediting cash for \$9,840. There were no other entries involving insurance during the year. On December 31, 19x5, Justine's adjustment is:
- | | | |
|----------------------|-------|-------|
| A. Insurance Expense | 9,490 | |
| Prepaid Insurance | | 9,490 |
| B. Insurance Expense | 6,090 | |
| Prepaid Insurance | | 6,090 |
| C. Prepaid Insurance | 420 | |
| Insurance Expense | | 420 |
| D. Prepaid Insurance | 4,100 | |
| Insurance Expense | | 4,100 |
| E. Insurance Expense | 9,000 | |
| Prepaid Insurance | | 9,000 |
6. The Dunnagin Company purchased a machine for \$18,000. Dunnagin paid \$6,000 in cash and gave a note payable for \$12,000 that is payable in installments over a four-year period. Dunnagin estimated that the machine could physically last for 12 years even though Dunnagin expects to use it in its business for only 9 years. The period of time to be used by Dunnagin for depreciation purposes is
- A. 4 years
 - B. 12 years
 - C. 5 years
 - D. 9 years
7. When using a perpetual inventory system,
- A. a Cost of Goods Sold account is used
 - B. no Purchases account is used
 - C. two entries are required to record a sale
 - D. all of these
8. Payton, Inc., uses the aging method to determine uncollectible account expense. For 19x5, Payton's accounting department determines that 2% of Payton's total accounts receivable will eventually be uncollectible. At the end of 19x5, Payton's total accounts receivable were \$140,000, and Payton's allowance for uncollectible accounts had a pre-adjustment debit balance of \$400. Payton's uncollectible account expense for 19x5 is:
- A. \$1,600
 - B. \$2,800
 - C. \$ 400
 - D. \$2,400

E. \$3,200

A201/E2/FII/A

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Part I (continued)

9. Which of the following costs incurred by Derek Company in connection with the acquisition of a machine should not be included as part of the cost of this asset?
- A. state sales tax based on the price of the machine
 - B. freight charges to have the machine delivered
 - C. installation charges
 - D. all of the above should be included
 - E. none of the above should be included
10. Indicate the false statement
- A. a business may use the LIFO flow assumption only if it actually sells its newest goods before it sells its older units of merchandise
 - B. in a periodic inventory system, understating the amount of ending inventory will cause an understatement of gross profit in the current year
 - C. if an accelerated depreciation method is used for an asset with a useful life of five years, more depreciation expense would be recorded in the third year than in the fifth year
 - D. it is an acceptable accounting practice to treat an expenditure which is not material in dollar amount as an expense of the current period even though the expenditure may benefit several periods

Part II (15 min., 20pts.)

The Crosby Company manufactures and sells a new product known as Correct Answers. The company's 19x2 annual report showed the following information (in thousands) regarding inventories:

Inventories:	September 30,	
	19x2	19x1
Materials	\$ 60,000	\$ 48,000
Work in process	355,000	245,000
Finished products	<u>545,000</u>	<u>540,000</u>
	\$960,000	\$833,000

The Company uses the last-in, first-out (LIFO) method of determining cost for a substantial portion of inventories in the United States. All other inventories are accounted for using the first-in, first-out (FIFO) method. Inventories valued under the LIFO method were \$730,000 in 19x2 and \$705,000 in 19x1. On a FIFO basis such inventories would have been higher by \$340,000 and \$295,000, respectively.

Based on the information stated above, answer the following questions. **SHOW WORK!!**

- (a) What is the amount of the LIFO reserve at September 30, 19x2?
- (b) If Crosby Company had been using the FIFO cost method of valuing inventory, would the company's pre-tax income for fiscal year 19x2 have been higher or lower than that reported in fiscal year 19x1? By how much?
- (c) If the Crosby Company had been using the FIFO cost method of valuing inventory, what amount of ending inventory at September 30, 19x2 would have been reported by Crosby Company?

Part III (15 min., 20pts.)

The following data pertaining to the cash transactions and bank account of the Smith Company for June, 19x4 are available:

1. Cash balance per bank statement, to be determined by you.
2. Cash balance per ledger, \$10,000.
3. Checks no. 377 for \$490 and no. 381 for \$750, both drawn on June 30, were not among the cancelled checks returned with the June bank statement.
4. A stolen check lacking an authorized signature had been deducted from the company's account by the bank in error, \$375.
5. On May 31 the company deposited \$1,075 by mail. This deposit appeared on the bank statement on June 1. A mail deposit of \$635 was made on June 30 after banking hours.
6. The bank statement contained a deposit of \$1,035 in June, which was not recorded in the company's books. The amount represented a deposit made in the company's behalf by the bank for the collection of a \$1,000 note and interest.
7. Company checks no. 323 for \$535 and no. 317 for \$835 were outstanding on the May 31 bank reconciliation. Check no. 323 was returned with the June cancelled checks, but check no. 317 was not.
8. A check from Brosius Company, a customer of Smith Company, was returned by the bank marked NSF. No entry had been made on the books of the Smith Company to record the returned check. The check, in the amount of \$900 was originally received from Brosius Company in payment of its account. The bank charged an additional \$25 for handling the NSF check.

Required:

- a. On the paper provided, prepare a bank reconciliation.
- b. In the space below, prepare the journal entries required to adjust the ledger balance in Cash to the correct balance.

Part IV (15 min., 20pts.)

On January 1, 19x1, Strandes Company acquired some equipment for \$230,000. In addition the company paid \$3,000 freight and installation costs, \$2,000 for materials used during setup and initial testing, \$1,000 for a special safety device, and \$4,000 for insurance against fire and water damage for one year. The equipment has an estimated service life of 8 years and a residual value of \$37,760.

(a) Compute the machine's cost. **SHOW WORK!!**

(b) Compute the depreciation for the first and second years using the sum of the years' digits method. You might find the following formulas to be useful:

$$\frac{n(n+1)}{2}$$

$$1 - \sqrt[n]{\frac{S}{C}}$$

(c) Calculate the book value of the asset at the end of the second year. **SHOW WORK!!**

Part V (15 min., 20pts.)

The following are **separate and unrelated** situations. Provide the requested information or record, in general journal form, the entries necessary as a result of the transactions described. **SHOW WORK!!**

- (a) A business enterprise pays weekly salaries of \$15,000 on Friday for a five-day week ending on that day. Journalize the necessary adjusting entry at the end of the accounting period, assuming that the period ends on Tuesday.

- (b) The trial balance before adjustment for the Cenatus Company shows the following balances:

	<u>Debit</u>	<u>Credit</u>
Accounts Receivable	\$ 75,000	
Allowance for Doubtful Accounts	2,000	
Sales		\$800,000
Sales Returns and Allowances	3,000	

The company wants to maintain the Allowance for Doubtful Accounts at 4% of gross accounts receivable. Give the appropriate year-end journal entry required to accomplish this objective.

Part V (continued)

- (c) Aaron Sales Company provided the following information regarding their merchandise inventory for the year 19x3:

Beginning Inventory	30,000 units @ \$13 each
Purchase, 5/18/x9	66,000 units @ \$15 each
Purchase, 9/05/x9	24,000 units @ \$16 each

The company uses the weighted average method to value their inventory. There were 37,500 units in ending inventory. Present below, in good form, the cost of goods sold section of the income statement for the year 19x3 for Aaron Sales Company. **SHOW WORK!!**

Part V (continued)

- (d) The Edison Company, whose fiscal year is the calendar year, purchased a trademark at a cost of \$680,000 at the beginning of 1996. It was assumed that the trademark would be useful for 8 more years. At the beginning of 1999, the company paid \$204,000 in successfully prosecuting an attempted infringement of the trademark. Assuming the proper adjusting entries had been recorded in prior years, show the appropriate adjusting entry at the end of 1999 related to the amortization of the trademark.