Accounting 201 – Final Exam Fall 04

Name KEY

Problem I – 20 points

Below is a list of accounts for Dragonfly Enterprises. Prepare a $\boxed{\text{multi-step income}}$ statement in good form for 2005. Dragonfly Enterprises is a calendar year company.

B/S - Balance Sheet
RE - Retained Earnings

	Account	**$**	**Account**	**$**	
B/S	~~Accounts Payable~~	~~68,430~~	~~Bonds Payable~~	~~189,000~~	B/S
B/S	~~Additional Paid in Capital~~	~~250,361~~	~~Treasury Stock~~	~~125,300~~	B/S
	Miscellaneous Expenses	3,878	~~Common Stock~~	~~522,000~~	B/S
	Interest Expense	2,600	Gain on Equipment Sale	10,256	
	Selling Expense	30,010	Marketing Expense	20,007	
RE	~~Dividends~~	~~28,200~~	~~Retained Earnings~~	~~261,345~~	B/S & RE
	Cost of Goods Sold	316,657	Administrative Expense	70,100	
B/S	~~Prepaid Rent~~	~~6,327~~	Sales Revenue	523,496	
B/S	~~Cash and Cash Equivalents~~	~~118,532~~	~~Inventory~~	~~48,253~~	B/S
		Other important information			
	Income Tax	35%	Outstanding shares	58,825	

Dragonfly Enterprises
Income Statement
For the year ended 12/31/05

Sales Revenue	$ 523,496
Cost of Goods Sold	<316,657>
Gross Profit	206,839
Selling Expenses	<30,010>
Marketing Expenses	<20,007>
Administrative Expenses	<70,100>
Misc Expenses	< 3,878>
Operating Income	82,844
Gain on Equipment Sale	10,256
Interest Expense	<2,600>
Income before taxes	90,500
Income taxes (90,500 * .35)	<31,675>
Net Income	$ 58,825
EPS ($58,825 / 58,825 shares)	$ 1.00/share

Problem II – 30 points

Hunter Jackson Enterprises issued on January 1, 2005, \$280,000 of 8%, ten year bonds to raise funds to buy some special machinery. The bonds were sold to yield 6% return compounded semi-annually. Hunter Jackson uses the straight-line method to amortize bond discounts/premiums.

$n = 20$

$i = .03$

1. What is the issuance price
2. Prepare journal entries to record the issuance and the first bond interest payment

Part 1

0.553368

$$280{,}000\left(\frac{1}{(1+.03)^{20}}\right) = \$155{,}029$$ PV of lump sum

$+$

$$11{,}200\left[\frac{1-\left(\frac{1}{(1+.03)^{20}}\right)}{.03}\right] = \$166{,}628$$ PV of an annuity

14.87747

$=$

\$321,657 issuance price

Part 2

1/1/05	Cash	\$321,657	
	Premium on Bonds		\$41,657
	Bonds Payable		\$280,000
	note: issuance of 10 year bonds		
6/30/05	Interest Expense	\$9,117	
	Premium on Bonds	\$2,083	
	Cash		\$11,200
	note: 1st interest payment on 10 year bond		

EQUATIONS GIVEN!

PV factor for lump sum and annuity

PV factor for a lump sum $= \dfrac{1}{(1+i)^N}$

PV factor for an annuity $= \dfrac{1-\left(\dfrac{1}{(1+i)^N}\right)}{i}$

Problem III
Multiple Choice – circle the correct answer – worth 1 point each

1. Loss on sale of equipment
   a. Balance Sheet and asset account
   b. Balance Sheet and liability account
   c. Balance Sheet and stockholders' equity account
   d. Income Statement

2. Depreciation – office equipment
   a. Balance Sheet and asset account
   b. Balance Sheet and liability account
   c. Balance Sheet and stockholders' equity account
   d. Income Statement

3. Bonds Payable
   a. Balance Sheet and asset account
   b. Balance Sheet and liability account
   c. Balance Sheet and stockholders' equity account
   d. Income Statement

4. Interest Expense
   a. Balance Sheet and asset account
   b. Balance Sheet and liability account
   c. Balance Sheet and stockholders' equity account
   d. Income Statement

5. Cost of Goods Sold
   a. Balance Sheet and asset account
   b. Balance Sheet and liability account
   c. Balance Sheet and stockholders' equity account
   d. Income Statement

6. Retained Earnings
   a. Balance Sheet and asset account
   b. Balance Sheet and liability account
   c. Balance Sheet and stockholders' equity account
   d. Income Statement

7. Additional Paid in Capital
   a. Balance Sheet and asset account
   b. Balance Sheet and liability account
   c. Balance Sheet and stockholders' equity account
   d. Income Statement

8. Treasury Stock
   a. Balance Sheet and asset account
   b. Balance Sheet and liability account
   c. Balance Sheet and stockholders' equity account
   d. Income Statement

9. Allowance for Uncollectibles
   a. Balance Sheet and asset account
   b. Balance Sheet and liability account
   c. Balance Sheet and stockholders' equity account
   d. Income Statement

10. Accounts Receivable
   a. Balance Sheet and asset account
   b. Balance Sheet and liability account
   c. Balance Sheet and stockholders' equity account
   d. Income Statement

Problem IV

Multiple Choice questions – circle the correct answer – worth 2 points each

Identify the internal control principle related to the question below

11. Cash shortages are not discovered because there are no daily cash counts by supervisors
   a. Establishment of responsibility
   b. Segregation of duties
   c. Physical, mechanical, and electronic control devices
   d. Documentation procedures
   e. Independent internal verification

12. Retinal scans to obtain access to secured areas
   a. Establishment of responsibility
   b. Segregation of duties
   c. Physical, mechanical, and electronic control devices
   d. Documentation procedures
   e. Independent internal verification

13. All customers are given receipts for their purchases
   a. Establishment of responsibility
   b. Segregation of duties
   c. Physical, mechanical, and electronic control devices
   d. Documentation procedures
   e. Independent internal verification

14. The person who is authorized to sign the checks approves purchase orders for payment
   a. Establishment of responsibility
   b. Segregation of duties
   c. Physical, mechanical, and electronic control devices
   d. Documentation procedures
   e. Independent internal verification

15. Only one person opens the vault each morning
    a. Establishment of responsibility
    b. Segregation of duties
    c. Physical, mechanical, and electronic control devices
    d. Documentation procedures
    e. Independent internal verification

Problem V

Multiple choice – circle the best answer – 1.5 points each

16. The factor which determines whether or NOT goods should be included in a physical count of inventory is
    a. Physical possession
    b. Legal title
    c. Management's judgment
    d. Whether or not the purchase price has been paid

17. An overstatement of ending inventory in one period results in
    a. No effect on net income of the next period
    b. An overstatement of net income of the next period
    c. An understatement of net income of the next period
    d. An overstatement of the ending inventory of the next period

18. A very small company would have the most difficulty in implementing which of the following internal control activities?
    a. Separation of duties
    b. Limited access to assets
    c. Periodic independent verification
    d. Sound personnel procedures

19. The entry to record the annual lease payment on a capitalized lease includes a:
    a. Credit to lease obligation
    b. Debit to cash
    c. Credit to depreciation expense
    d. Debit to interest expense

20. Depreciation is the process of allocating the cost of a plant asset over its useful life in a(n)
    a. Equal and equitable manner
    b. Accelerated and accurate manner
    c. Systematic and rational manner
    d. Conservative market-based manner

21. An unearned revenue account is usually considered to be a(n):
    a. Liability
    b. Asset
    c. Revenue
    d. Expense

22. If the terms of shipping goods from seller to buyer indicates that the seller owns the goods until delivered to the buyer, this arrangement is known as:
    a. Goods in transit
    b. FOB shipping
    c. FOB destination
    d. FOB carrier

23. Which of the following is NOT a right or preference associated with preferred stock?
    a. The right to vote
    b. First claim to dividends
    c. Preference to corporate assets in case of liquidation
    d. To receive dividends in arrears before common stockholders receive dividends

24. Which of the following would not be included in the equipment account?
    a. Installation costs
    b. Freight cots
    c. Cost of trial runs
    d. Electricity used by the machine throughout the year

25. The amount of stock that may be issued according to the corporation's charter is referred to as the
    a. Authorized stock
    b. Issued stock
    c. Un-issued stock
    d. Outstanding stock

Problem VI

Multiple choice – circle the best choice – 3 points each

26. Boone Company purchased a piece of machinery on July 1, 2002 by paying $5,000 cash. In addition to the purchase price, the company incurred $100 freight charges. The machine has an estimated useful life of 5 years and will require $125 for insurance over that period. The machinery has a salvage value of $1,100 at the end of 5 years. Using the straight line method, the Depreciation expense at the end of 2002 will be recorded as:
    a. $400
    b. $500
    c. $825
    d. $1020

$$\left.\begin{array}{r}\$5000\\100\end{array}\right\}\text{cost}$$

<1,100> salvage value

$4000 / 5 years = $800 * 1/2 year

= 400

27. Saria Supply Printing Company, a calendar year corporation purchased a new delivery van for $32,000 on January 15, 2003. The van has a useful life of 150,000 miles and a salvage value of $2,000. In 2003 the van was driven a total of 10,000 miles, 2004 a total of 12,000 miles and 2005 a total of 11,500 miles. What depreciation expense was recorded in 2004 using the units of activity method.

   a. $2,400
   b. $2,300
   c. $2,000
   d. $1,200

$(32,000 - 2,000)/150,000 \overset{\$}{=} 0.2$

12,000 miles * 0.20

28. Compute the present value of $25,500 due in 6 years at 9% compounded annually

   a. $17,885
   b. $15,205
   c. $15,093
   d. $18,200

$25{,}500\left(\frac{1}{(1+.09)^6}\right) = 15{,}204.82$

$\sim 15{,}205$

29. A Company purchased land for $72,000 cash. Real estate brokers' commission was $5,000 and $7,000 was spent for demolishing an old building on the land before construction of a new building could start. Under the cost principle, the cost of land would be recorded at

   a. $79,000
   b. $72,000
   c. $77,000
   d. $84,000

72,000 cost
5,000 commission
7,000 get ready to use

30. Gordie Co. reported an Allowance for Uncollectibles of $20,000 (credit) at December 31, 2003, before performing an aging accounts receivable. As a result of the aging Gordie determined that an estimated $28,000 of the December 31, 2003, accounts receivable would prove uncollectible. The adjusting entry required at December 31, 2003, would be

a.	Bad Debt Expense	28,000	
	Allowance for Uncollectibles		28,000
b.	Bad Debt Expense	20,000	
	Accounts Receivable		20,000
c.	Allowance for Uncollectibles	8,000	
	Bad Debt Expense		8,000
d.	Bad Debt Expense	8,000	
	Allowance for Uncollectibles		8,000

Allowance for BD or Uncollectibles

	20,000 - 12/31/03
	8,000
	28,000 - EB