## Analysis of Review

<table>
<thead>
<tr>
<th>Number</th>
<th>Topic</th>
<th>Chap.</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Inventories—Cost basis</td>
<td>8</td>
<td>c</td>
</tr>
<tr>
<td>2.</td>
<td>Standards</td>
<td>1</td>
<td>c</td>
</tr>
<tr>
<td>3.</td>
<td>Conceptual Framework</td>
<td>2</td>
<td>d</td>
</tr>
<tr>
<td>4.</td>
<td>Accounting Cycle</td>
<td>3</td>
<td>d</td>
</tr>
<tr>
<td>5.</td>
<td>Accounting Cycle</td>
<td>3</td>
<td>c</td>
</tr>
<tr>
<td>6.</td>
<td>Accounting Cycle</td>
<td>3</td>
<td>a</td>
</tr>
<tr>
<td>7.</td>
<td>Conceptual Framework</td>
<td>2</td>
<td>b</td>
</tr>
<tr>
<td>8.</td>
<td>Income Statement</td>
<td>4</td>
<td>a</td>
</tr>
<tr>
<td>9.</td>
<td>Income Statement</td>
<td>4</td>
<td>c</td>
</tr>
<tr>
<td>10.</td>
<td>Income Statement</td>
<td>4</td>
<td>c</td>
</tr>
<tr>
<td>11.</td>
<td>Balance Sheet</td>
<td>5</td>
<td>b</td>
</tr>
<tr>
<td>12.</td>
<td>Cash and Receivables</td>
<td>7</td>
<td>b</td>
</tr>
<tr>
<td>13.</td>
<td>Cash and Receivables</td>
<td>7</td>
<td>b</td>
</tr>
<tr>
<td>14.</td>
<td>Cash and Receivables</td>
<td>7</td>
<td>b</td>
</tr>
<tr>
<td>15.</td>
<td>Cash and Receivables</td>
<td>7</td>
<td>a</td>
</tr>
<tr>
<td>16.</td>
<td>Inventories—Cost Basis</td>
<td>8</td>
<td>a</td>
</tr>
<tr>
<td>17.</td>
<td>Inventories—Cost Basis</td>
<td>8</td>
<td>a</td>
</tr>
<tr>
<td>18.</td>
<td>Inventories—Cost Basis</td>
<td>8</td>
<td>c</td>
</tr>
<tr>
<td>19.</td>
<td>Inventories—Cost Basis</td>
<td>8</td>
<td>b</td>
</tr>
<tr>
<td>20.</td>
<td>Inventories—Additional Issues</td>
<td>9</td>
<td>b</td>
</tr>
<tr>
<td>21.</td>
<td>Inventories—Additional Issues</td>
<td>9</td>
<td>b</td>
</tr>
<tr>
<td>22.</td>
<td>Inventories—Additional Issues</td>
<td>9</td>
<td>a</td>
</tr>
<tr>
<td>23.</td>
<td>Inventories—Additional Issues</td>
<td>9</td>
<td>c</td>
</tr>
<tr>
<td>24.</td>
<td>Property, Plant and equipment</td>
<td>10</td>
<td>b</td>
</tr>
<tr>
<td>25.</td>
<td>Property, Plant and Equipment</td>
<td>10</td>
<td>c</td>
</tr>
<tr>
<td>26.</td>
<td>Property, Plant and Equipment</td>
<td>10</td>
<td>b</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Not used S2010</td>
</tr>
<tr>
<td>27.</td>
<td>Depreciation and Depletion</td>
<td>11</td>
<td>b</td>
</tr>
<tr>
<td>28.</td>
<td>Depreciation and Depletion</td>
<td>11</td>
<td>d</td>
</tr>
<tr>
<td>29.</td>
<td>Depreciation and Depletion</td>
<td>11</td>
<td>b</td>
</tr>
<tr>
<td>30.</td>
<td>Depreciation and Depletion</td>
<td>11</td>
<td>a</td>
</tr>
<tr>
<td>31.</td>
<td>Long-Term Liabilities</td>
<td>14</td>
<td>a</td>
</tr>
<tr>
<td>32.</td>
<td>Long-Term Liabilities</td>
<td>14</td>
<td>d</td>
</tr>
<tr>
<td>33.</td>
<td>Long-Term Liabilities</td>
<td>14</td>
<td>a</td>
</tr>
<tr>
<td>34.</td>
<td>Long-Term Liabilities</td>
<td>14</td>
<td>b</td>
</tr>
<tr>
<td>35.</td>
<td>Long-Term Liabilities</td>
<td>14</td>
<td>a</td>
</tr>
<tr>
<td>36.</td>
<td>Long-Term Liabilities</td>
<td>14</td>
<td>c</td>
</tr>
<tr>
<td>37.</td>
<td>Long-Term Liabilities</td>
<td>14</td>
<td>b</td>
</tr>
<tr>
<td>38.</td>
<td>Long-Term Liabilities</td>
<td>14</td>
<td>a</td>
</tr>
<tr>
<td>39.</td>
<td>Stockholders’ equity</td>
<td>15</td>
<td>b</td>
</tr>
<tr>
<td>40.</td>
<td>Stockholders’ equity</td>
<td>15</td>
<td>d</td>
</tr>
</tbody>
</table>
### Accountancy 321 Review—Spring 2010

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Page</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>41</td>
<td>Stockholders’ equity</td>
<td>15</td>
<td>c</td>
</tr>
<tr>
<td>42</td>
<td>Stockholders’ Equity</td>
<td>15</td>
<td>a</td>
</tr>
<tr>
<td>43</td>
<td>Stockholders’ Equity</td>
<td>15</td>
<td>b</td>
</tr>
<tr>
<td>44</td>
<td>Inventories—Additional Issues</td>
<td>9</td>
<td>a</td>
</tr>
<tr>
<td>45</td>
<td>Current liabilities</td>
<td>13</td>
<td>d</td>
</tr>
</tbody>
</table>
1. Which of the following is not true in regard to the LIFO inventory cost flow assumption?

a. If a company uses LIFO for tax purposes, it must also use LIFO for external financial reporting purposes.

b. For income statement purposes, the more recent costs are matched against the current revenues under the LIFO assumption.

c. For balance sheet purposes, the cost of inventory will approximate the current replacement cost under the LIFO assumption.

d. The LIFO cost flow assumption does not normally reflect the normal physical flow of inventory units.
2. The purpose of Statements of Financial Accounting Concepts is to

a. establish GAAP.
b. modify or extend the existing FASB Standards Statement.
c. form a conceptual framework for solving existing and emerging problems.
d. determine the need for FASB involvement in an emerging issue.
3. Generally, revenue from sales should be recognized at a point when

   a. management decides it is appropriate to do so.
   b. the product is available for sale to the ultimate consumer.
   c. the entire amount receivable has been collected from the customer and there remains no further warranty liability.
   d. none of these.
4. When an item of revenue has been earned but not yet collected it is normally called a(n) __________ revenue or expense.

   a. prepaid
   b. adjusted
   c. estimated
   d. accrued
5. Which type of account is always debited during the closing process?

a. Dividends.
b. Expense.
c. Revenue.
d. Retained earnings.
6. Pappy Corporation received cash of $13,500 on September 1, 2007 for one year’s rent in advance and recorded the transaction with a credit to Unearned Rent. The December 31, 2007 adjusting entry is

a. debit Unearned Rent and credit Rent Revenue, $4,500.
b. debit Rent Revenue and credit Unearned Rent, $9,000.
c. debit Rent Revenue and credit Unearned Rent, $4,500.
d. debit Unearned Rent and credit Rent Revenue, $9,000.
7. The matching principle requires that expenses be recognized

a. in the same period as the costs expire or assets are used.
b. in the same period in which the revenues are recognized that the expenses help to produce.
c. when the costs are paid by the entity
d. in the same period that the revenue is received that the expenses help to produce.
8. An income statement shows “income before income taxes and extraordinary items” in the amount of $2,055,000. The provision for income tax for the year is $1,080,000, including $360,000 that is applicable to an extraordinary gain. Thus, the “income before extraordinary items” is

a. $1,335,000.
b. $615,000.
c. $1,395,000.
d. $975,000.
9. Comprehensive income includes all of the following except

a. dividend revenue.
b. losses on disposal of assets.
c. investments by owners.
d. unrealized holding gains.
10. For Merando Company, the following information is available:

   Cost of goods sold $ 90,000
   Dividend revenue 4,000
   Income tax expense 9,000
   Operating expenses 35,000
   Sales 150,000

In Merando’s multiple-step income statement, gross profit

a. should not be reported
b. should be reported at $20,000.
c. should be reported at $60,000.
d. should be reported at $64,000.
11. The basis for classifying assets as current or noncurrent is conversion to cash within

a. the accounting cycle or one year, whichever is shorter.

b. the operating cycle or one year, whichever is longer.

c. the accounting cycle or one year, whichever is longer.

d. the operating cycle or one year, whichever is shorter.
12. Which of the following is a generally accepted method of determining the amount of the adjustment to bad debt expense?

a. A percentage of sales adjusted for the balance in the allowance
b. A percentage of sales not adjusted for the balance in the allowance
c. A percentage of accounts receivable not adjusted for the balance in the allowance
d. An amount derived from aging accounts receivable and not adjusted for the balance in the allowance
13. Before year-end adjusting entries, Bass Company's account balances at December 31, 2007, for accounts receivable and the related allowance for uncollectible accounts were $600,000 and $45,000, respectively. An aging of accounts receivable indicated that $62,500 of the December 31 receivables are expected to be uncollectible. The net realizable value of accounts receivable after adjustment is

a. $582,500.
b. $537,500.
c. $492,500.
d. $555,000.
14. A trial balance before adjustments included the following:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$425,000</td>
</tr>
<tr>
<td>Sales returns</td>
<td>$14,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>43,000</td>
</tr>
<tr>
<td>Allowance for doubtful</td>
<td>760</td>
</tr>
<tr>
<td>accounts</td>
<td></td>
</tr>
</tbody>
</table>

If the estimate of uncollectibles is made by taking 2% of net sales, the amount of the adjustment is

a. $6,700.
b. $8,220.
c. $8,500.
d. $9,740.
15. A trial balance before adjustments included the following:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$425,000</td>
</tr>
<tr>
<td>Sales returns</td>
<td>$14,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>43,000</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>760</td>
</tr>
</tbody>
</table>

If the estimate of uncollectibles is made by taking 10% of gross account receivables, the amount of the adjustment is

a. $3,540.
b. $4,300.
c. $4,224.
d. $5,060.
16. Assuming no beginning inventory, what can be said about the trend of inventory prices if cost of goods sold computed when inventory is valued using the FIFO method exceeds cost of goods sold when inventory is valued using the LIFO method?

a. Prices decreased.
b. Prices remained unchanged.
c. Prices increased.
d. Price trend cannot be determined from information given.
17. Goods in transit which are shipped f.o.b. destination should be

a. included in the inventory of the seller.
b. included in the inventory of the buyer.
c. included in the inventory of the shipping company.
d. excluded from inventory.
18. JSmith Manufacturing Company has the following account balances at year end:

Office supplies $ 4,000  
Raw materials $ 27,000  
Work-in-process $ 59,000  
Finished goods $ 92,000  
Prepaid insurance $ 6,000

What amount should JSmith report as inventories in its balance sheet?

a. $92,000.  
b. $96,000.  
c. $178,000.  
d. $182,000.
19. Carr Co. adopted the dollar-value LIFO inventory method on December 31, 2007. Carr's entire inventory constitutes a single pool. On December 31, 2007, the inventory was $320,000 under the dollar-value LIFO method. Inventory data for 2008 are as follows:

12/31/08 inventory at year-end prices $440,000
Relevant price index at year end (base year 2007) 110

Using dollar value LIFO, Carr's inventory at December 31, 2008 is:

a. $352,000.
b. $408,000.
c. $400,000.
d. $440,000.
20. When the conventional retail inventory method is used, markdowns are commonly ignored in the computation of the cost to retail ratio because

a. there may be no markdowns in a given year.
b. this tends to give a better approximation of the lower of cost or market.
c. markups are also ignored.
d. this tends to result in the showing of a normal profit margin in a period when no markdown goods have been sold.
The following data concerning the retail inventory method are taken from the financial records of Stone Company.

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning inventory</td>
<td>$49,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>$224,000</td>
<td>$320,000</td>
</tr>
<tr>
<td>Freight-in</td>
<td>$6,000</td>
<td>—</td>
</tr>
<tr>
<td>Net markups</td>
<td>—</td>
<td>$20,000</td>
</tr>
<tr>
<td>Net markdowns</td>
<td>—</td>
<td>$14,000</td>
</tr>
<tr>
<td>Sales</td>
<td>—</td>
<td>$336,000</td>
</tr>
</tbody>
</table>

The ending inventory at retail should be

a. $74,000.
b. $60,000.
c. $64,000.
d. $42,000.
22. The following data concerning the retail inventory method are taken from the financial records of Stone Company.

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning inventory</td>
<td>$ 49,000</td>
<td>$ 70,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>$224,000</td>
<td>$320,000</td>
</tr>
<tr>
<td>Freight-in</td>
<td>$6,000</td>
<td>—</td>
</tr>
<tr>
<td>Net markups</td>
<td>—</td>
<td>$20,000</td>
</tr>
<tr>
<td>Net markdowns</td>
<td>—</td>
<td>$14,000</td>
</tr>
<tr>
<td>Sales</td>
<td>—</td>
<td>$336,000</td>
</tr>
</tbody>
</table>

If the ending inventory is to be valued at approximately the lower of cost or market, the calculation of the cost to retail ratio should be based on goods available for sale at (1) cost and (2) retail, respectively of

a. $279,000 and $410,000.
b. $279,000 and $396,000.
c. $279,000 and $390,000.
d. $273,000 and $390,000.
23. The following data concerning the retail inventory method are taken from the financial records of Stone Company.

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning inventory</td>
<td>$49,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>$224,000</td>
<td>$320,000</td>
</tr>
<tr>
<td>Freight-in</td>
<td>$6,000</td>
<td>—</td>
</tr>
<tr>
<td>Net markups</td>
<td>—</td>
<td>$20,000</td>
</tr>
<tr>
<td>Net markdowns</td>
<td>—</td>
<td>$14,000</td>
</tr>
<tr>
<td>Sales</td>
<td>—</td>
<td>$336,000</td>
</tr>
</tbody>
</table>

Assuming no change in the price level, if the LIFO inventory method were used in conjunction with the data, the ending inventory at cost would be

a. $40,829.
b. $41,227.
c. $42,000.
d. $42,331.
24. Newman exchanged a used machine with a book value of $64,000 and a fair market value of $80,000 for a similar asset with a fair market value of $60,000. Newman also received $20,000 in cash. The gain that Newman should recognize from this transaction for financial reporting purposes is

a. $0
b. $4,000
c. $16,000
d. $25,000
25. The cost of land typically includes the purchase price and all of the following costs except

a. grading, filling, draining, and clearing costs.
b. street lights, sewers, and drainage systems cost.
c. private driveways and parking lots.
d. assumption of any liens or mortgages on the property.
26. Construction of an asset qualifying for interest capitalization is started on April 1 and finished on December 1. The fraction used to multiply an expenditure made on April 1 to find weighted-average accumulated expenditures is 

a. 8/8. 
b. 8/12. 
c. 9/12. 
d. 11/12.
27. During 2007, Bolton Corporation acquired a mineral mine for $1,500,000 of which $200,000 was ascribed to land value after the mineral has been removed. Geological surveys have indicated that 10 million units of the mineral could be extracted. During 2007, 1,500,000 units were extracted and 1,200,000 units were sold. What is the amount of depletion expensed for 2007?

a. $130,000.
b. $156,000.
c. $180,000.
d. $195,000.
28. McCartney Company purchased a depreciable asset for $250,000 on April 1, 2005. The estimated salvage value is $25,000, and the estimated useful life is 5 years. The straight-line method is used for depreciation. What is the balance in accumulated depreciation on May 1, 2008 when the asset is sold?

a. $90,000  
b. $105,000  
c. $123,750  
d. $138,750
29. Vinson Co. purchased machinery that was installed and ready for use on January 3, 2006, at a total cost of $69,000. Salvage value was estimated at $9,000. The machinery will be depreciated over five years using the double-declining balance method. For the year 2007, Vinson should record depreciation expense on this machinery of

a. $14,400.
b. $16,560.
c. $18,000.
d. $27,600.
30. On January 1, 2000, Barnes Company purchased equipment at a cost of $50,000. The equipment was estimated to have a salvage value of $5,000 and it is being depreciated over eight years under the sum-of-the-years'-digits method. What should be the charge for depreciation of this equipment for the year ended December 31, 2007?

a. $1,250  
b. $1,389  
c. $5,625  
d. $10,000
31. Bonds for which the owners' names are not registered with the issuing corporation are called

   a. bearer bonds.
   b. term bonds.
   c. debenture bonds.
   d. secured bonds.
32. Cox Co. issued $100,000 of ten-year, 10% bonds that pay interest semiannually. The bonds are sold to yield 8%. One step in calculating the issue price of the bonds is to multiply the principal by the table value for

a. 10 periods and 10% from the present value of 1 table.
b. 20 periods and 5% from the present value of 1 table.
c. 10 periods and 8% from the present value of 1 table.
d. 20 periods and 4% from the present value of 1 table.
33. On January 1, 2007, Bleeker Co. issued eight-year bonds with a face value of $1,000,000 and a stated interest rate of 6%, payable semiannually on June 30 and December 31. The bonds were sold to yield 8%. The present value of the principal is

a. $534,000.
b. $540,000.
c. $623,000.
d. $627,000.
34. On January 1, 2007, Bleeker Co. issued eight-year bonds with a face value of $1,000,000 and a stated interest rate of 6%, payable semiannually on June 30 and December 31. The bonds were sold to yield 8%. The present value of the interest is

a. $344,820.
b. $349,560.
c. $372,600.
d. $376,830.
35. On January 1, 2007, Bleeker Co. issued eight-year bonds with a face value of $1,000,000 and a stated interest rate of 6%, payable semiannually on June 30 and December 31. The bonds were sold to yield 8%. The issue price of the bonds is

a. $883,560.
b. $884,820.
c. $889,560.
d. $999,600.
36. A company issues $20,000,000, 7.8%, 20-year bonds to yield 8% on January 1, 2007. Interest is paid on June 30 and December 31. The proceeds from the bonds are $19,604,145. Using effective-interest amortization, how much interest expense will be recognized in 2007?

a. $ 780,000  
b. $ 1,560,000  
c. $ 1,568,498  
d. $ 1,568,332
37. The 10% bonds payable of Klein Company had a net carrying amount of $570,000 on December 31, 2006. The bonds, which had a face value of $600,000, were issued at a discount to yield 12%. The amortization of the bond discount was recorded under the effective-interest method. Interest was paid on January 1 and July 1 of each year. On July 2, 2007, several years before their maturity, Klein retired the bonds at 102. The interest payment on July 1, 2007 was made as scheduled. What is the loss that Klein should record on the early retirement of the bonds on July 2, 2007? Ignore taxes.

a. $12,000.
b. $37,800.
c. $33,600.
d. $42,000.
38. On January 1, 2007, Ann Rosen loaned $45,078 to Joe Grant. A zero-interest-bearing note (face amount, $60,000) was exchanged solely for cash; no other rights or privileges were exchanged. The note is to be repaid on December 31, 2009. The prevailing rate of interest for a loan of this type is 10%. The present value of $60,000 at 10% for three years is $45,078. What amount of interest income should Ms. Rosen recognize in 2007?

a. $ 4,508.

b. $ 6,000.

c. $ 18,000.

d. $ 13,524.
39. If management wishes to "capitalize" part of the earnings, it may issue a

a. cash dividend.
b. stock dividend.
c. property dividend.
d. liquidating dividend.
40. On September 1, 2008, Zelner Company reacquired 12,000 shares of its $10 par value common stock for $15 per share. Zelner uses the cost method to account for treasury stock. The journal entry to record the reacquisition of the stock should debit

a. Treasury Stock for $120,000.
b. Common Stock for $120,000.
c. Common Stock for $120,000 and Paid-in Capital in Excess of Par for $60,000.
d. Treasury Stock for $180,000.
41. An analysis of stockholders' equity of Jinn Corporation as of January 1, 2007, is as follows:

Common stock, par value $20; authorized 100,000 shares; issued and outstanding
90,000 shares $1,800,000
Paid-in capital in excess of par 900,000
Retained earnings 760,000
Total $3,460,000

Jinn uses the cost method of accounting for treasury stock and during 2007 entered into the following transactions:

Acquired 2,500 shares of its stock for $75,000.
Sold 2,000 treasury shares at $35 per share.
Sold the remaining treasury shares at $20 per share.

Assuming no other equity transactions occurred during 2007, what should Jinn report at December 31, 2007, as total additional paid-in capital?

a. $895,000
b. $900,000
c. $905,000
d. $915,000
42. Gonzalez Company has 350,000 shares of $10 par value common stock outstanding. During the year, Gonzalez declared a 10% stock dividend when the market price of the stock was $30 per share. Four months later Gonzalez declared a $.50 per share cash dividend. As a result of the dividends declared during the year, retained earnings decreased by

a. $1,242,500.
b. $ 1,207,500
c. $ 1,050,000
d. $ 175,000.
43. Lott Co. has outstanding 50,000 shares of 8% preferred stock with a $10 par value and 125,000 shares of $3 par value common stock. Dividends have been paid every year except last year and the current year. If the preferred stock is cumulative and nonparticipating and $50,000 is distributed, the common stockholders will receive

a. $0.
b. $10,000.
c. $40,000.
d. $50,000.
44. To produce an inventory valuation which approximates the lower of cost or market using the conventional retail inventory method, the computation of the ratio of cost to retail should

a. include net markups but not net markdowns.
b. include net markups and net markdowns.
c. ignore both net markups and net markdowns.
d. include markdowns but not markups.
45. A company buys a track of land to be used as a landfill on January 1, 2008. The total cost of the land is $2,500,000. The landfill will be used for 24 years and at the end of that time the company is required to restore the property to a site suitable for a park. The expected cost of the restoration the end of 24 years is $4,000,000. 8% is an appropriate interest rate for this company.

What amount is recorded for the asset retirement obligation at the time of purchase?

a. $200,000
b. $320,000
c. $520,000
d. $632,000