

Last Name: _____ First Name: _____ Section: _____

Rutgers Business School.
33:010:325. Intermediate Accounting I
Mid-term exam
Fall 2014

Professor Krishna Moorthy

1. You must write your name and section above.
2. There are 17 questions, circle the correct answer for the multiple choice questions. Answer the problems in the space provided. Clearly label all answers.
3. No cell phones are to be used under any circumstances. Switch off your cell phone and keep them in your bag or outerwear.
4. No notes are allowed.
5. No talking. If you have any questions raise your hand and wait to be recognized – **DO NOT ASK YOUR NEIGHBOR!**
6. Zero tolerance for cheating.

Maximum Score – 60 points.

Total pages - 8

15 Multiple choice questions, 2 points each (questions 1 to 15) - 30 Points total
2 Long problems, 15 points each (questions 16 & 17) - 30 Points total

1. A correction of an error in prior periods' income will be reported

	<u>In the income statement</u>	<u>Net of tax</u>
--	--------------------------------	-------------------

- | | | |
|-------------------------------------|-----|-----|
| A) | Yes | No |
| B) | Yes | Yes |
| C) | No | No |
| <input checked="" type="radio"/> D) | No | Yes |

2. Which of the following is true of accounting for changes in estimates?

- A) A company accounts for changes in estimates only in the period of change, even though it affects the future periods
- B) Changes in estimates are considered as errors or extraordinary items
- C) Changes in estimates are not carried back to adjust prior years
- D) A company recognizes a change in estimate by making a retrospective adjustment to the financial statements

3. J Young, M.D., keeps his accounting records on the cash basis. During 2015, Dr. Young collected \$350,000 from his patients. At December 31, 2014, Dr. Young had accounts receivable of \$40,000. At December 31, 2015, Dr. Young had accounts receivable of \$70,000 and unearned revenue of \$10,000. On the accrual basis, how much was Dr. Young's patient service revenue for 2015?

- A) \$390,000.
- B) \$370,000.
- C) \$380,000.
- D) \$310,000.

Cash collection 350,000
 Add increase in A/R 30,000
 less Increase in Unearned Rev (10,000)

 370,000

Use the following to answer questions 4-5:

A trial balance before adjustments included the following:

	Debit	Credit	
Sales		\$850,000	Sales 850,000
Sales returns and allowance	\$28,000		less Sales returns (28,000)
Accounts receivable	86,000		Allowance
Allowance for doubtful accounts		1,520	822,000

4. If the estimate of uncollectible is made by taking 2% of net sales, the amount of the adjustment is

- A) \$17,000.
- B) \$19,480.
- C) \$16,440.
- D) \$13,400.

2% of 822,000

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

- A) \$8,448.
- B) \$8,600.
- C) \$10,120.
- D) \$7,080.

Allowance for doubtful Accts
 1520 by
 8400 end

6. In 2014, Linz Corporation reported an extraordinary loss of \$1,000,000, net of tax. It declared and paid preferred stock dividends of \$100,000 and common stock dividends of \$300,000. During 2014, Linz had a weighted average of 500,000 common shares outstanding. As a result of the extraordinary loss, net of tax, the earnings per share would decrease by

- A) \$1.20
- B) \$2.00
- C) \$1.80
- D) \$1.40

1,000,000

 500,000

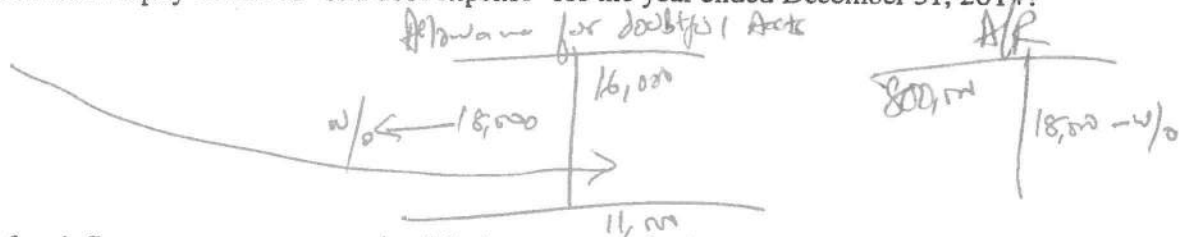
7. The following information is available for Murphy Company:

Allowance for doubtful accounts at December 31, 2013	\$ 16,000
Credit sales during 2014	800,000
Accounts receivable deemed worthless and written off during 2014	18,000

As a result of a review and aging of accounts receivable in early January 2015, it has been determined that an allowance for doubtful accounts of \$11,000 is needed at December 31, 2014.

What amount should Murphy record as "bad debt expense" for the year ended December 31, 2014?

- A) \$27,000
- B) \$13,000
- C) \$9,000
- D) \$11,000



8. In a statement of cash flows, payments to acquire debt instruments of other entities (other than cash equivalents) should be classified as cash outflows for

- A) financing activities.
- B) investing activities.
- C) lending activities.
- D) operating activities.

9. Accounting information is considered to be relevant when it

- A) is capable of making a difference in a decision.
- B) can be depended on to represent the economic conditions and events that it is intended to represent.
- C) is verifiable and neutral.
- D) is understandable by reasonably informed users of accounting information.

10. Holder Inc. had salaries payable of \$60,000 and \$90,000 at the end of 2012 and 2013, respectively.

During 2013, Schneider recorded \$620,000 in salaries expense in its income statement. Cash outflows for salaries in 2013 were:

- A) \$530,000.
- B) \$650,000.
- C) \$620,000.
- D) \$590,000.

Handwritten calculation:

$$\text{Cash outflow for salary expense} = \text{Salary expense} - \text{Increase in Salary payable}$$

$$= 620,000 - 30,000$$

11. HKC reported revenue of \$5,000,000 for its year ended December 31, 2013. Accounts receivable at December 31, 2012 and 2013, were \$320,000 and \$355,000, respectively. Using the direct method for reporting cash flows from operating activities, HKC would report cash collected from customers of:

- A) \$4,965,000.
- B) \$5,045,000.
- C) \$5,000,000.
- D) \$5,035,000.

Handwritten calculation:

$$\text{Cash collected from customers} = \text{Revenue} - \text{Increase in A/R}$$

$$= 5,000,000 - 35,000$$

12. A Corp prepares its financial statement applying U.S. GAAP. During its 2013 fiscal year, the company reported before-tax income of \$620,000. This amount does not include the following two items, both of which are considered to be material in amount:

Unusual and infrequent gain	\$200,000
Loss from discontinued operations	(300,000)

A Corp's income tax rate is 40%. In its 2013 income statement, Jacobsen would report income from continuing operations of:

- A) \$372,000.
- B) \$312,000.
- C) \$492,000.
- D) \$620,000.

EBT 620,000
less Tax Expense 248,000
(40% of 620,000)

13. Somerville Leasing received \$12,000 for 24 months of rent in advance. How should Somerville record this transaction?

- | | | | |
|-------------------------------------|--------------------------------------|--------|--------|
| A) | Prepaid rent
Rent expense | 12 000 | |
| | | | 12 000 |
| <input checked="" type="radio"/> B) | Cash
Unearned revenue | 12 000 | |
| | | | 12 000 |
| C) | Interest expense
Interest payable | 12 000 | |
| | | | 12 000 |
| D) | Salaries expense
Salaries payable | 12 000 | |
| | | | 12 000 |

14. Ace Bonding Company purchased merchandise inventory on account. The inventory costs \$2,000 and is expected to sell for \$3,000. How should Ace record the purchase?

- | | | | |
|-------------------------------------|------------------------------------------------------------|----------------|-------|
| <input checked="" type="radio"/> A) | Inventory
Accounts payable | 2 000 | |
| | | | 2 000 |
| B) | Cost of goods sold
Deferred revenue
Sales in advance | 2 000
1 000 | |
| | | | 3 000 |
| C) | Cost of goods sold
Inventory payable | 2 000 | |
| | | | 2 000 |

D)	Cost of goods sold	2,000	
	Profit	1,000	
	Sales payable		3,000

15. The adjusting entry required when amounts previously recorded as unearned revenues are earned includes:

- A) A credit to a liability.
- B) A credit to an asset.
- C) A debit to a liability.
- D) A debit to an asset.

↓
liability

→ decreasing liability account

16. Hunter Incorporated sold \$200,000 of accounts receivable to Gunny Factors Inc. on a with recourse basis. Gunny assesses a 3% finance charge of the amount of accounts receivable and retains an amount equal to 4% of accounts receivable for possible future adjustments. Prepare the journal entries for Hunter Incorporated and Gunny Factors to record the sale of the accounts receivable to Gunny assuming that the recourse liability has a fair value of \$6,000.

Hunter Incorporated

Cash	186,000	← plus in
Due from Gunny factors	8,000	
Loss on sale of A/R	12,000	

Accounts Receivable	200,000
Recourse liability	6,000

Loss on sale of A/R = Finance charge + Recourse liability
 = 3% of 200,000 + 6,000

Gunny factors

Accounts Receivable	200,000	
Due to Hunter Incorporated	8,000	
Interest Revenue	6,000	
Cash	186,000	

17. Saga Inc. reported the following information (all amounts in dollars):

	<u>2011</u>	<u>2010</u>
Net Income - Loss	360,000	400,000
Depreciation expense	150,000	180,000
Accounts receivable	200,000	170,000
Inventory	150,000	170,000
Prepaid expenses	40,000	30,000
Accounts payable	190,000	200,000
Accrued liabilities	50,000	45,000
Taxes payable	10,000	20,000

Saga sold land during the year for \$8,000 cash, the book value of which was \$10,000.

Determine Saga's net cash flow from operating activities for 2011 under the indirect method.

Cash flow from operations

Net Income (loss)	(360,000)
Reconciliation of net income to operating cash flow	
Add Depreciation Expense	150,000
Add Loss on Sale of Land	2,000
Less Decrease Increase in A/R	(30,000)
Add Decrease in Inventory	20,000
Less Increase in prepaid expenses	(10,000)
Less decrease in A/P	(10,000)
Add increase in Accrued liabilities	5,000
Less decrease in Taxes payable	(10,000)
Cash Used by operating Activities	(243,000)