Accounting 1010
Sample Exam 3
Chapters 7, 8, and 9

Name _____________________________________

Multiple Choice: Circle the letter corresponding to the best answer for each question. Only circle one answer per question.
Problems: Show ALL work and label all amounts.

Disclaimer: Please check with your instructor to confirm the type of problems and questions you will be expected to do. We all cover the same information, but place emphasis on different areas and types of problems.

1. If part of the cost of an asset is expensed instead of capitalized, then
   a. Expenses are overstated and stockholders’ equity is understated
   b. Expenses are overstated and assets are overstated
   c. Expenses are understated and stockholders’ equity is overstated
   d. Net Income is overstated and stockholders’ equity is understated

2. Which of the following expenditures would NOT be included in the cost of an asset?
   a. Freight costs
   b. Vandalism
   c. Sales tax
   d. Costs of clearing land

3. The process of transferring the cost of natural resources to an expense is termed
   a. Depreciation
   b. Amortization
   c. Depletion
   d. Reserve recognition

4. A company acquired some land for $80,000 to construct a new office complex. Legal fees paid were $2,300, delinquent taxes assumed were $3,400 and $5,850 was paid to remove an old building from which salvaged materials sold for $950. What is the cost basis for the land?
   a. $90,600
   b. $91,550
   c. $88,150
   d. $87,200
5. A machine was purchased for $45,000. It has a useful life of 6 years and a salvage value of $6,000. Under the straight-line method, what is annual depreciation expense?
   a. $7,500
   b. $15,000
   c. $3,750
   d. $6,500

6. Equipment was purchased for $16,000. It has a useful life of 5 years and a salvage value of $2,000. What is depreciation expense for year 2 under the declining-balance method?
   a. $6,400
   b. $3,360
   c. $3,840
   d. $4,160

7. A company sold a delivery truck for $18,000 cash. The truck cost $47,500 and had accumulated depreciation of $36,000 as of the date of sale. The sale would include a(n)
   a. Loss for $18,000
   b. Gain for $18,000
   c. Loss for $6,500
   d. Gain for $6,500

8. Which of the following accounts is an intangible asset?
   a. Coal
   b. Patent
   c. Accounts Receivable
   d. Land

9. A company issues a $2,000, 7% note due in 120 days. How much interest will be due at maturity?
   a. $46.03
   b. $46.67
   c. $140
   d. Cannot be determined from the facts above.

10. Which of the following is NOT an example of an internal control procedure?
    a. Risk assessment
    b. Mandatory vacations
    c. Bank reconciliation
    d. Segregation of duties
11. The company’s checking account balance in the bank’s records is a
   a. Liability
   b. Asset
   c. Revenue
   d. Expense

12. An item recorded by the company but NOT the bank would include
    a. Outstanding checks
    b. NSF checks
    c. Service charges
    d. Debit memorandums

13. In preparing a bank reconciliation, a service charge would be _________.
    a. added to the cash balance according to the bank statement
    b. Deducted from the cash balance according to the bank statement
    c. Added to the cash balance according to the company’s records
    d. Deducted from the cash balance according to the company’s records

14. If the company accountant records a $200 disbursement at $2,000, the error
    would be shown on the bank reconciliation as _________.
    a. An addition to the cash balance according to the bank statement
    b. A deduction from the cash balance according to the bank statement
    c. An addition to the cash balance according to the company’s records
    d. A deduction from the cash balance according to the company’s records

15. A deposit in transit on the bank reconciliation would ____________.
    a. Increase the company’s cash
    b. Decrease the company’s cash
    c. Increase the company’s sales
    d. Have no effect on the company’s accounts

16. When the estimate based on % of sales approach to estimating bad debts is
    used ___________
    a. Any existing balance in the allowance for doubtful accounts is not taken
       into consideration
    b. Any existing balance in the allowance for doubtful accounts must be taken
       into consideration
    c. Only a credit balance in the allowance for doubtful accounts must be taken
       into consideration
    d. Only a debit balance in the allowance for doubtful accounts must be taken
       into consideration
17. Accounts receivable has a balance of $850,000 and the allowance for doubtful accounts has a credit balance of $7,400 at fiscal year-end prior to adjustment. If the estimate of doubtful accounts determined by aging the receivables is $17,500, the amount of bad debt expense is ____________.
   a. $17,500
   b. $10,100
   c. $24,900
   d. $ 7,400

18. Accounts receivable has a balance of $378,000 and the allowance for Doubtful Accounts has a credit balance of $1,200 at fiscal year-end prior to adjustment. If the estimate based on % of sales is $13,780, the amount of bad debt expense is ________________.
   a. $14,980
   b. $12,580
   c. $13,780
   d. $1,200

19. What is the maturity value of a 60-day, 9% note for $6,000?
   a. $6,540
   b. $6,000
   c. $6,090
   d. $5,910

20. On August 1, 2014, S Company received a $14,000, 10 month note receivable at 9% interest from a customer. Which of the following is the correct amount of interest revenue for 2015?
   a. $0
   b. $525
   c. $630
   d. $1,050
21. Scott Piper Corp. purchased machinery on January 1, 2010 at a cost of $243,000. The estimated useful life of the machinery is 5 years or 100,000 units, with an estimate salvage value at the end of that period of $12,000.

Calculate depreciation expense for each year of the asset’s useful life using:

a) **Straight-line depreciation:**

b) **Double-declining balance method:**
22. The May 31 bank statement of Merrill College has just arrived from Central Bank. It shows a balance of $19,530.82, and the books show a balance of $18,521.55. You gather the following information for the May reconciliation:

1. Two NSF checks were included; one for $67.50 and the other check was $195.03.
2. Outstanding checks totaled $953.19.
3. A $200 EFT deposit was shown for fees received from students.
4. A note receivable was collected by the bank for Merrill of $900 and interest of $16.
5. The treasurer for Merrill deposited $381.14, but the deposit does not appear on the bank statement.
6. The bank statement included a $410 deduction for a check that the bank erroneously took from Merrill and should have been taken from another customer.
7. Bank service charge was $6.25

Prepare a Bank Reconciliation for Merrill on May 31:
23. The following information is from Statler Corporation’s records at December 31, 2013, before year-end adjustments (all accounts have normal balances):

Sales on account $1,180,000  
Cash Sales $800,000  
Accounts Receivable $240,000  
Allowance for Doubtful Accounts $2,500  

An aging of the accounts receivable is as follows:

<table>
<thead>
<tr>
<th>Days Past Due</th>
<th>Current</th>
<th>1-30</th>
<th>31-60</th>
<th>61-90</th>
<th>91 and over</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>$149,000</td>
<td>$47,000</td>
<td>$23,000</td>
<td>$11,400</td>
<td>$9,600</td>
</tr>
<tr>
<td>Percent Uncollectible</td>
<td>1%</td>
<td>5%</td>
<td>12%</td>
<td>20%</td>
<td>35%</td>
</tr>
</tbody>
</table>

A. Prepare the journal entry at December 31, 2013 to record uncollectible accounts assuming the company uses the above aging of accounts receivable to estimate uncollectible accounts:

B. Assume instead that the company estimates uncollectible accounts using \( \frac{3}{4}\% \) of sales. Prepare the journal entry to record uncollectible accounts:

C. Prepare the journal entry to record write-off of a $3,000 account that is proven uncollectible:

D. Prepare the journal entry to record recovering $4,200 of accounts receivable previously written off as uncollectible:

E. Assume the company was using the direct write-off method of accounting for uncollectible accounts. Prepare the journal entry to record uncollectible accounts for 2013:
24. On June 30, 2014, B Company sold equipment for $14,000. The equipment was purchased on January 1, 2009, had an original cost of $160,000, useful life of 10 years, and a $1,000 scrap value. The equipment is depreciated using the straight line method.

A. Determine the book value of the equipment as of the date of disposal:

B. Prepare the journal entry to record the disposal of the equipment on June 30, 2014: