EMBA XVII, Fall 1992 Financial Accounting, Test 1

1. Last year's earnings at United Universal Corporation are $2.1 million. Retained earnings for the year were $1 million. How much did the corporation distribute in dividends?
   a. $100,000
   b. $1 million
   c. $1.1 million
   d. The answer cannot be calculated from this information.

2. A printing company has total current assets of $500,000. It buys a hydraulic paper cutter for $15,000 cash. After purchase and payment, total current assets are
   a. $15,000.
   b. $485,000.
   c. $500,000.
   d. $515,000.

3. Revenues measure
   a. the inflows of assets from selling goods and providing services to customers.
   b. the reduction of liabilities from selling goods and providing services to customers.
   c. all sources of cash received by a firm.
   d. both a. and b.

4. The objectives of financial reporting do not include
   a. providing information about financial performance.
   b. providing information on competitor's performance.
   c. providing information for investment and credit decisions.
   d. assessing the amount and timing of cash flows.

5. Which of the following is generally not an accounting asset?
   a. a fleet of cars acquired with seller financing
   b. a good reputation for quality service
   c. a note receivable which will be collected in the future
   d. a patent purchased by the business from a competitor

1. Which of the following is not a correct statement concerning the effect of any single transaction?
   a. It increases both an asset and a liability or shareholders' equity.
   b. It decreases an asset and increases a liability.
   c. It decreases both an asset and a liability or shareholders' equity.
   d. It increases one asset and decreases another asset.
2. To record the purchase of equipment which is fully financed by the seller, you would
   a. debit liability and credit an asset.
   b. debit an asset and credit cash.
   c. debit an asset and credit a liability.
   d. debit an asset and credit shareholders' equity.

8. Shareholders' Equity   (Current Assets - Current Liabilities) - Noncurrent Liabilities + ?
   a. Ending Retained Earnings
   b. Owners' Equity
   c. Noncurrent Assets
   d. Net Income

9. Which of the following is a FALSE statement?
   a. Expenses are always period costs.
   b. Assets provide future benefits to the firm.
   c. Expenses measure the assets consumed in generating revenue.
   d. Assets are unexpired costs.

10. Expenses are recognized
    a. when they match revenues.
    b. in the period in which the service is consumed.
    c. both a and b
    d. neither a nor b

11. Which of the following is an example of a product cost?
    a. administrative costs
    b. advertising
    c. depreciation in manufacturing overhead
    d. selling costs

12. Stockholders received $20,000 in dividends in the current year. If at year end
    Total Assets = $2,500,000,
    Total Liabilities = $900,000,
    Contributed Capital = $1,400,000, and
    Retained Earnings at the beginning of the year = $100,000,
    what was the net income for the current year?
    a. $80,000
    b. $100,000
    c. $120,000
    d. $200,000

13. Earnings per share
    a. tells the shareholder how much cash is generated per share.
    b. tells the shareholder the amount of dividends which have been earned by the shareholder.
c. tells the shareholder what the cash dividend per share will be.
d. tells the shareholder what the per share earnings are after reduction for any preferred stock dividends.

14. Which inventory cost flow assumption is said to be a better measure of income?
a. LIFO method
b. FIFO method
c. weighted-average method
d. acquisition cost

15. FIFO and LIFO will result in the same cost of goods
a. when the number of units in beginning and ending inventory are the same.
b. when two consecutive years are combined.
c. when the prices of the goods do not change.
d. when lower-of-cost-or-market is applied.

4. Assume that a firm uses the accrual basis of accounting. Indicate the amount of expense the firm recognizes during the month of November for each independent transaction.

a. $900 is paid for rent on November 1. The $900 is for the months November through January.
b. $1000 of inventory is ordered on account. The invoice is received on November 25 and the actual goods are received on December 5.
c. Insurance premium of $500 is paid. The premium is for a full year of coverage starting November 1.
d. On December 3, an invoice for November utilities of $250 is received.
e. On November 1, $1,200 of supplies were purchased. At November 30, $500 of supplies remained on hand.

NOTE:
For each of these questions, provide proper journal entries. Put your entries and answers on the ledger page provided.

17. (20 points)
Fairfield Industries manufactures custom computer components for General Trionics Corporation. Fairfield is a relatively new business having begun 2 years ago with equity of $2 million. The company had no sales in its first year, which was devoted entirely to developing its product. Its cash account at the end of the first year was down to $500,000 but it had equipment of $1 million dollars.

This year, the second year of its existence, it had delivered computer components worth $2
million to Trionics. These had cost the company $1.6 million to develop. The company had been paid $800,000 for this work by Trionics.

In accordance with what it perceived to be standard accounting practice, Fairfield computed income on the delivery method basis. To its considerable surprise, the company was told by its auditors that under the rules of accrual accounting it could not use the delivery method until the components had been fully tested.

They subsequently managed to persuade the auditors to allow them to present their results on a cash basis.

NOTE: For purposes of this problem, depreciation expense, interest costs, taxes, selling, general, and administrative expenses are all to be ignored. Focus, in other words, on the revenue recognition issue.

REQUIRED:

Prepare an income statement and a balance sheet at the close of the year under each of the scenarios: using the delivery method as they wanted, recognizing no revenue as the auditors wanted, and the compromise cash basis.

18. (20 points)

Oxide Corp. purchased a line of custom office desks from various manufacturers for subsequent sale to retailers. Selected information extracted from their inventory records reveal the following:

<table>
<thead>
<tr>
<th>Units</th>
<th>Unit Cost</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>1,000</td>
<td>$45</td>
</tr>
<tr>
<td>Purchases/( Sales):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>3,000</td>
<td>$46</td>
</tr>
<tr>
<td>March</td>
<td>(2,200)</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>1,500</td>
<td>$48</td>
</tr>
<tr>
<td>August</td>
<td>(2,400)</td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>1,000</td>
<td>$50</td>
</tr>
<tr>
<td>November</td>
<td>500</td>
<td>$51</td>
</tr>
<tr>
<td>December</td>
<td>(1,400)</td>
<td></td>
</tr>
</tbody>
</table>

(a) Compute the value of their ending inventory, assuming the company uses the periodic LIFO method.

(b) Compute the value of their ending inventory, assuming the company uses the perpetual FIFO method.