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FINAL EXAM

Course # 171040
Balance Sheet: Reporting Assets

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Balance Sheet: Reporting Assets
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6 CPE Credit Hours
Accounting & Auditing

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Chapter 0 - Course Material

1. In which account are post-dated checks received classified?

- ______ Receivables.
- ______ Prepaid expenses.
- ______ Cash.
- ______ Payables.

2. Under the allowance method of recognizing uncollectible accounts, the entry to write off an uncollectible account

- ______ increases the allowance for uncollectible accounts.
- ______ has no effect on the allowance for uncollectible accounts.
- ______ has no effect on net income.
- ______ decreases net income.

3. Which of the following methods of determining annual bad debt expense best achieves the matching concept?

- ______ Percentage of sales
- ______ Percentage of ending accounts receivable
- ______ Percentage of average accounts receivable
- ______ Direct write-off

4. Which of the following methods of determining bad debt expense does not properly match expense and revenue?

- ______ Charging bad debts with a percentage of sales under the allowance method.
- ______ Charging bad debts with an amount derived from a percentage of accounts receivable under the allowance method.
- ______ Charging bad debts with an amount derived from aging accounts receivable under the allowance method.
- ______ Charging bad debts as accounts are written off as uncollectible.

5. Which of the following is a method to generate cash from accounts receivable?

- ______ Assignment, but not Factoring
- ______ Assignment and Factoring
- ______ Factoring, but not assignment
- ______ Neither assignment nor factoring

6. Which of the following is true when accounts receivable are factored without recourse?

- ______ The transaction may be accounted for either as a secured borrowing or as a sale, depending upon the substance of the transaction.
- ______ The receivables are used as collateral for a promissory note issued to the factor by the owner of the receivables.
- ______ The factor assumes the risk of collectibility and absorbs any credit losses in collecting the receivables.
- ______ The financing cost (interest expense) should be recognized ratably over the collection period of the receivables.

7. Which one of the following is NOT true as to footnote disclosure for accounts receivable?

- ______ Receivables arising from major sources such as trade, officers, and employees.
- ______ Year-end receivable balance and amounts received by the transferor during the period.
- ______ Only receivables that have been billed.
- ______ Loss contingencies on receivables.

8. Footnote disclosure for notes receivable does NOT include

- ______ The amount of notes receivable discounted.
- ______ Description of the notes,
- ______ Face amount of the notes.
- ______ Market rate on the notes.

9. How should the following costs affect a retailer's inventory valuation?

- ______ Increase from Freight-in costs, No effect from Interest on Inventory Loan costs
- ______ Increase from Freight-in costs, Increase from Interest on Inventory Loan costs
- ______ No effect from Freight-in costs, Increase from Interest on Inventory Loan costs
- ______ No effect from Freight-in costs, No effect from Interest on Inventory Loan costs

10. Morgan 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 = $72,000, Prepaid insurance = $6,000. What amount should Morgan report as inventories in its balance sheet?

- ______ $72,000.
- ______ $76,000.
- ______ $158,000.
- ______ $162,000.

11. Goods on consignment are

- ______ Included in the consignee's inventory.
- ______ Recorded in a consignment out account which is an inventory account.
- ______ Recorded in a consignment in account which is an inventory account.
- ______ All of these

12. Which of the following is true about lower-of-cost-or-market?

- ______ It is inconsistent because losses are recognized but not gains.
- ______ It usually understates assets.
- ______ It can increase future income.
- ______ All of these.

13. When valuing raw materials inventory at lower-of-cost-or-market, what is the meaning of the term "market"?

- ______ Net realizable value
- ______ Net realizable value less a normal profit margin

______ Current replacement cost

______ Discounted present value

14. In no case can "market" in the lower-of-cost-or-market rule be more than

______ Estimated selling price in the ordinary course of business.

______ Estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal.

______ Estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal and an allowance for an approximately normal profit margin.

______ Estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal, an allowance for an approximately normal profit margin, and an adequate reserve for possible future losses.

15. Lower-of-cost-or-market

______ Is most conservative if applied to the total inventory.

______ Is most conservative if applied to major categories of inventory.

______ Is most conservative if applied to individual items of inventory.

______ Must be applied to major categories for taxes.

16. The retail inventory method is based on the assumption that the

______ Final inventory and the total of goods available for sale contain the same proportion of high-cost and low-cost ratio goods.

______ Ratio of gross margin to sales is approximately the same each period.

______ Ratio of cost to retail changes at a constant rate.

______ Proportions of markups and markdowns to selling price are the same.

17. Muckenthaler Company sells product UCB for $20 per unit. The cost of one unit of UCB is $18, and the replacement cost is $17. The estimated cost to dispose of a unit is $4, and the normal profit is 40%. At what amount per unit should product UCB be reported, applying lower-of-cost-or-market?

______ $8.

______ $16.

______ $17.

______ $18.

18. How might a company obtain a price index in order to apply dollar-value LIFO?

______ Calculate an index based on recent inventory purchases.

______ Use a general price level index published by the government.

______ Use a price index prepared by an industry group.

______ All of the above.

19. Web World began using dollar-value LIFO for costing its inventory last year. The base year layer consists of $250,000. Assuming the current inventory at end of year prices equals $345,000 and the index for the current year is 1.10, what is the ending inventory using dollar-value LIFO?

______ $345,000.

______ $320,000.

______ $313,636.

______ $379,500.

20. Opera Corp. uses the dollar-value LIFO method of computing its inventory cost. Data for the past three years is as follows: Dec 31, 2X10, Inventory at end-of-year prices = $65,000 (price index = 1.00); Dec 31, 2X11, Inventory at end-of-year prices = $126,000 (price index = 1.05); Dec 31, 2X12, Inventory at end-of-year prices = $135,000 (price index = 1.10). What is the 2X10 inventory balance using dollar-value LIFO?

______ $65,000.

______ $61,904.

______ $122,727.

______ $135,000.

21. Which of the following is not a common disclosure for inventories?

______ Inventory composition.

______ Inventory location.

______ Inventory financing arrangements.

______ Inventory costing methods employed.

22. For the composite method, the composite

______ Rate is the total cost divided by the total annual depreciation.

______ Rate is the total annual depreciation divided by the total depreciable cost.

______ Life is the total cost divided by the total annual depreciation.

______ Life is the total depreciable cost divided by the total annual depreciation.

23. Assets that qualify for interest cost capitalization include

______ Assets under construction for a company's own use.

______ Assets in use or ready for use.

______ Assets manufactured in large quantity or on a continual basis.

______ Assets not in use and not being prepared for use.

24. When computing the amount of interest cost to be capitalized, the concept of "avoidable interest" refers to

______ The total interest cost actually incurred.

______ A cost of capital charge for stockholders' equity.

______ That portion of total interest cost which would not have been incurred if expenditures for asset construction had not been made.

______ That portion of average accumulated expenditures on which no interest cost was incurred.

25. The cost of a nonmonetary asset acquired in exchange for another nonmonetary asset and the exchange has commercial substance is usually recorded at

______ The fair value of the asset given up, and a gain or loss is recognized.

______ The fair value of the asset given up, and a gain but not a loss may be recognized.

______ The fair value of the asset received if it is equally reliable as the fair value of the asset given up.

______ Either the fair value of the asset given up or the asset received, whichever one results in the largest gain (smallest loss) to the company.

26. Which of the following statements about involuntary conversions is false?

______ An involuntary conversion may result from condemnation or fire.

______ The gain or loss from an involuntary conversion may be reported as an extraordinary item.

______ The gain or loss from an involuntary conversion should not be recognized when the enterprise reinvests in replacement assets.

______ All of these.

27. Which of the following disclosures is not required in the financial statements regarding fixed assets?

______ Fixed assets held to be disposed of and any anticipated losses.

______ Details demonstrating how depreciation was calculated.

______ A description of depreciation method and estimates used.

______ Balances of major classes of fixed assets, by nature and function.

28. The most common method of recording depletion for accounting purposes is the

______ Percentage depletion method.

______ Decreasing charge method.

______ Straight-line method.

______ Units-of-production method.

29. Which of the following statements is NOT true about intangibles?

______ Intangible assets have a life of one year or more and lack physical substance (e.g., goodwill) or reflect a right granted by the government (e.g., trademarks, copyrights) or by another company (e.g., license fee, franchise).

______ Intangibles must be internally generated.

______ Intangibles generally have a high degree of uncertainty concerning future benefits.

______ Intangibles should be recorded at cost.

30. Disclosure regarding recognized intangibles should be made of the following EXCEPT:

______ Weighted-average period at acquisition or renewal before the next renewal or extension.

______ Accounting policy for costs incurred to renew or extend an intangible asset's term.

______ Anticipated cash flows expected of an intangible.

______ In the event renewal or extension costs are capitalized, the total cost incurred to renew or extend the term of a recognized intangible asset.

31. Companies should test goodwill at least annually for:

______ Recoverability.

______ Amortization.

______ Impairment.

______ Estimated useful life.

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