

## Paper A

### Accounting Principles (I) Final Test (Time allowed: 90 minutes)

Name: \_\_\_\_\_ Class: \_\_\_\_\_ Score: \_\_\_\_\_

#### Part I Multiple Choice Questions (30%, 3 points each)

Indicate the best answer by inserting the letter in the space provided.

- \_\_\_\_\_ 1. All of the following accounts normally have debit balances except:
- a Purchases.
  - b Sales Discounts
  - c Accounts Receivables
  - d Purchase Returns and Allowances.
- \_\_\_\_\_ 2. The purpose of making closing entries is to:
- a Adjust the account balances for revenue earned and expenses incurred which have not been recorded
  - b Prepare revenue and expense accounts for recording next period's revenue and expenses
  - c Enable accountants to prepare financial statements at the end of the accounting period
  - d Determine the equality of debits and credits posted to the ledger
- \_\_\_\_\_ 3. During the preparation of a bank reconciliation, you notice that a paid check for \$630 had been recorded erroneously in the cash payments journal as \$360. To complete the bank reconciliation, you should:
- a Add \$270 to the balance per the depositor's records
  - b Add \$270 to the balance per the bank statement
  - c Deduct \$270 from the balance per the depositor's records
  - d Deduct \$270 from the balance per the bank statement
- \_\_\_\_\_ 4. The CPA firm auditing Greer Corporation found that net income had been overstated. Which of the following errors could be the cause?
- a Overstatement of inventory on hand at year-end
  - b Failure to record revenue which had been earned but not yet billed as of year-end
  - c No entry made to record the purchase of land for cash near year-end
  - d Failure to record payment of an account payable on the last day of the year
- \_\_\_\_\_ 5. By adding the purchases during the period to the beginning inventory and deducting the ending inventory, we obtain an amount called the:

- a Cost of goods available for sale.
  - b Cost of goods sold.
  - c Gross profit.
  - d Operating expenses.
- \_\_\_\_\_ 6 Mr Lin invests in a partnership a building which cost him 200 000 yuan and was worth 350 000 yuan 10 years ago. The property is currently appraised at 500 000 yuan, and the partners believe that planned improvements will make it worth 900 000 yuan within a year. The property should be recorded in the books of the partnership at:
- a 200 000 yuan      b 350 000 yuan      c 500 000 yuan      d 900 000 yuan
- \_\_\_\_\_ 7 During City Company's first year of operations, a balance sheet account was debited in the amount of \$1 480 for office supplies purchased during the year. At year-end, office supplies on hand were counted and determined to represent a cost of \$540. The appropriate adjusting entry would:
- a Have no effect on net income      c Increase expenses \$940
- b Decrease assets \$540      d Decrease expenses \$540
- \_\_\_\_\_ 8 Book value of a unit of plant and equipment means:
- a Accumulated depreciation on the asset to date
- b Original cost of the asset
- c The fair market value of the asset
- d Cost of the asset less accumulated depreciation
- \_\_\_\_\_ 9 A partnership agreement which allows the partners credit for interest on their capital balances:
- a Is a means of splitting some portion of partnership income in proportion to each partner's investment in the business
- b Increases each partner's share of the total income
- c Results in showing a smaller net income on the partnership income statement
- d Requires the showing of interest expense in the partnership income statement
- \_\_\_\_\_ 10 If, at the end of an accounting period, there is a debit balance in the Income Summary account in the ledger, this means that:
- a Total assets have decreased during the period
- b The business had suffered a net loss during the period
- c Revenue has exceeded expenses
- d The owner has withdrawn more cash than the income for the period

## Part II Problems

1. Dongfang Company uses the periodic inventory system and maintains its accounts on a calendar-year basis. In each of the situations described below, indicate the effect of the error on the various elements of financial statements prepared at the end of the current year. Use the following code: O = Overstated; U = Understated; NE = No Effect. **(24 %, 1 point each blank)**

Situation	Total Revenue	Total Costs and/or Expenses	Net Income	Total Assets	Total Liabilities	Total Owners' Equity
Example: Recorded twice a sale of merchandise on credit	O	NE	O	O	NE	O
1. Repair expense erroneously charged to Building account						
2. No accounting entry was made for office equipment purchased on credit and received on last day of year.						
3. Purchase of merchandise which arrived on last day of year was recorded as a December purchase but not included in ending inventory.						
4. Failed to accrue interest earned to year-end on note receivable						

- 2 Mr Situ is interested in buying into Dazhong House Moving, a partnership owned and operated by Lu and Lao. Prior to Mr Situ joining the firm, the balances in the partners' capital accounts are Lu, 100 000 yuan, and Lao, 90 000 yuan. Determine the amount that should be credited to Situ's capital account under each of the following assumptions: **(6%, 2 points each)**
- a. Situ buys out Lu by paying Lu 110 000 yuan cash \_\_\_\_\_yuan.  
Computation:

b. Situ invests 80 000 yuan for a one-fourth interest in the business; a bonus is allowed to Lu and Lao \_\_\_\_\_ yuan.

Computation:

c. Situ invests 80 000 yuan for a one-third interest in the business; a bonus is allowed to Situ. \_\_\_\_\_ yuan.

Computation:

3 Partners A and B share profits in a 3 to 1 ratio after salary allowances of \$20 000 to A and \$24 000 to B. The net income before salary allowance amounts to \$28 000. A's share of this net income is \$ \_\_\_\_\_ and B's share is \$ \_\_\_\_\_. (4%)

Computations:

4 In the partnership of ABC Company, the partners Allen, Bob and Carol share the profits in a ratio of 4:2:1 respectively. At the date of the balance sheet the partners decided to liquidate the business.

**ABC Company  
Balance Sheet  
December 31, 199×**

Cash	\$ 80 000	Liabilities	\$140 000
Other assets	300 000	Partners' Capitals:	
		Allen, Capital	90 000
		Bob, Capital	80 000
		Carol, Capital	70 000
			<u>\$240 000</u>
Total	<u>\$380 000</u>	Total	<u>\$380 000</u>

*Instructions:*

For each of the two independent situations shown below, prepare journal entries to record the 1) sale of the "other assets"; 2) payment of liabilities; 3) division of the gain or loss on the sale of "other assets" among the partners, and 4) distribution of the available cash to the partners. No explanations are needed.

a. Other assets are sold for \$321 000.

b. Other assets are sold for \$230 000.

Each partner has personal assets and will contribute the amount necessary to cover any debit balance in his or her capital account that may arise in the liquidation process. ( 24%, 3 points each )

a.  
1)

2)

3)

4)

b.  
1)

2)

3)

4)

5. Valley Company had sales of \$500 000 during the current period and a gross profit rate of 40%. The company's cost of goods available for sale during the period was \$430 000. The company's ending inventory must have amounted to \$\_\_\_\_\_. (6 points)

Computations:

- 6 The beginning inventory balance of Item X on January 1 and the purchase of this item during the current year were as follows:

January 1 Beginning inventory.....	300 units @ \$ 9.00 =	\$2 700
March 8 Purchase.....	250 units @ \$ 9.50 =	\$ 2 375
August 11 Purchase.....	350 units @ \$ 10.00 =	\$ 3 500
October 23 Purchase.....	100 units @ \$ 10.25 =	<u>\$ 1 025</u>
Total .....	<u>1 000</u>	<u>\$9 600</u>

At December 31 the ending inventory consisted of 350 units. Determine the cost of the ending inventory based in each of the following methods of inventory valuation. ( 6%, 2 points each)

	<i>Answer</i>	<i>Computations</i>
a Last-in, first out	\$ _____	_____
b First-in, first-out	\$ _____	_____
c Average-cost	\$ _____	_____