**Intermediate Accounting I, ACCT-2321
Exam 1 Study Guide: Chapters 1 – 4**

**Exam 1 is comprised of matching, multiple choice, and problem questions. The study questions and sample problems below should help you prepare for the exam. Please note that the study format may not directly match the exam format.**

Solutions to multiple choice, identification, and problems can be found at the end of this study guide.

**Study Questions**

1. Identify and define the fundamental and enhancing qualitative characteristics of financial reporting information.

2. Identify and describe the elements of the financial statements.

3. Define the following assumptions and principles:

 a. Periodicity Assumption

 b. Matching Principle

 c. Going Concern Assumption

 d. Full Disclosure Principle

 e. Historical Cost Principle

 f. Realization Principle

4. List the permanent account types and give some examples of specific permanent accounts (such as Cash).

5. List the temporary account types whose balances are closed at the end of the accounting period and give some examples of specific temporary accounts (such as Interest Income).

6. Distinguish between continuing operations and discontinued operations.

**Identification**

Identify the account type and normal balance of various accounts.

 Account Type Normal Balance

a. Accounts Receivable \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

b. Accounts Payable \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

c. Services Income \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

d. Retained Earnings \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

e. Cost of Goods Sold \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

f. Building \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

g. Prepaid Insurance \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

h. Unearned Fees \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

i. Rent Expense \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

j. Interest Earned \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

k. Inventory \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

l. Accumulated Depreciation \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Multiple Choice**

1. On September 15, 2013, Oliver's Mortuary received a $6,000, nine-month note bearing interest at an annual rate of 10% from the estate of Jay Hendrix for services rendered. Oliver's has a December 31 year-end. What adjusting entry will the company record on December 31, 2013?

A. Interest Receivable 175

 Interest Revenue 175

B. Interest Receivable 230

 Interest Revenue 230

C. Interest Receivable 175

 Notes Receivable 175

D. Interest Receivable 600

 Interest Revenue 175

 Cash 425

2. Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2013, and charged the $4,200 premium to Insurance expense. At its December 31, 2013, year-end, Yummy Foods would record which of the following adjusting entries?

A. Insurance Expense 875

 Prepaid Insurance 875

B. Prepaid Insurance 875

 Insurance Expense 875

C. Insurance Expense 875

 Prepaid Insurance 3325

 Insurance Expense 4200

D. Prepaid Insurance 3325

 Insurance Expense 3325

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. | On September 1, 2013, Fortune Magazine sold 600 one-year subscriptions for $81 each. The total amount received was credited to unearned subscriptions revenue. What is the required adjusting entry at December 31, 2013?

|  |  |
| --- | --- |
| A.  |  |

|  |  |
| --- | --- |
| B.  |  |

|  |  |
| --- | --- |
| C.  |  |

|  |  |
| --- | --- |
| D.  |  |

 |
| 4. | Mama's Pizza Shoppe borrowed $8,000 at 9% interest on May 1, 2013, with principal and interest due on October 31, 2014. The company's fiscal year ends June 30, 2013. What adjusting entry is necessary on June 30, 2013?

|  |  |
| --- | --- |
| A.  |  |
| B.  |  |

|  |  |
| --- | --- |
| C.  |  |

|  |  |
| --- | --- |
| D.  |  |

 |

5. The employees of Neat Clothes work Monday through Friday. Every other Friday the company issues payroll checks totaling $32,000. The current pay period ends on Friday, July 3. Neat Clothes is now preparing quarterly financial statements for the three months ended June 30. What is the adjusting entry to record accrued salaries at the end of June?

|  |  |
| --- | --- |
| A.  |  |

|  |  |
| --- | --- |
| B.  |  |

|  |  |
| --- | --- |
| C.  |  |

|  |  |
| --- | --- |
| D.  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. | Eve's Apples opened business on January 1, 2013, and paid for two insurance policies effective that date. The liability policy was $36,000 for 18 months, and the crop damage policy was $12,000 for a two-year term. What is the balance in Eve's prepaid insurance as of December 31, 2013?

|  |  |
| --- | --- |
| A.  | $9,000. |

|  |  |
| --- | --- |
| B.  | $18,000. |

|  |  |
| --- | --- |
| C.  | $30,000. |

|  |  |
| --- | --- |
| D.  | $48,000. |

 |

**Problem 1**

The following is a December 31, 2013, post-closing trial balance for the Curtis Corporation.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| **Account Title** | **Debits** |  |  **Credits** |  |
| Cash and cash equivalents  | 70,000 |  |  |  |
| Accounts receivable  | 130,000 |  |  |  |
| Allowance for uncollectible accounts…... | 20,000 |  |  |  |
| Inventories  | 110,000 |  |  |  |
| Prepaid insurance  | 3,000 |  |  |  |
| Investment in Qualcom stock, short-term  | 15,000 |  |  |  |
| Investments, long-term | 50,000 |  |  |  |
| Machinery and equipment  | 230,000 |  |  |  |
| Accumulated depreciation – machinery and equipment  |  |  | 111,000 |  |
| Interest receivable, due in 3 months | 2,000 |  |  |  |
| Copyright | 10,000 |  |  |  |
| Accounts payable  |  |  | 45,000 |  |
| Wages payable  |  |  | 10,000 |  |
| Interest payable  |  |  | 3,000 |  |
| Bonds payable (due in ten years)  |  |  | 100,000 |  |
| Common stock  |  |  | 200,000 |  |
| Retained earnings  |  \_\_\_\_\_\_\_ |  |  131,000 |  |
|  Totals | 600,000  |  | 600,000  |  |

**Required:**

Prepare a classified balance sheet for Curtis Corporation at December 31, 2013. Show Accounts Receivable net. 50,000 shares of no-par common stock are issued and outstanding. 100,000 shares are authorized.

**Problem 2**

Selected information about income statement accounts for the Ajax Company is presented below for the fiscal year ended December 31, 2016.

 Sales $6,200,000

 Cost of goods sold 3,500,000

Administrative and selling expenses 1,500,000

Several events occurred during 2013 that have *not* yet been reflected in the above accounts:

1. A landslide caused $75,000 in uninsured damages to a warehouse. The landslide was considered to be an infrequent but not unusual event.

1. Interest revenue in the amount of $100,000 was earned.
2. The company incurred restructuring costs of $250,000
3. Interest expense on debt totaled $150,000.
4. Equipment was sold for a loss of $40,000.
5. During the year, Ajax completed the sale of one of its operating divisions that qualifies as a component of the entity according to GAAP regarding discontinued operations. The division had incurred operating income of $8,000 in 2016 prior to the sale, and its assets were sold at a loss of $18,000.
6. Ajax had 100,000 shares of stock outstanding throughout the year.

**Required:**

Prepare a multiple-step income statement for the Ajax Company for the year 2013, including income taxes computed at 40% and EPS disclosures.

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*Answer Key***

**Identification**

 Account Type Normal Balance

a. Accounts Receivable Asset DR

b. Accounts Payable Liability CR

c. Services Income Revenue CR

d. Retained Earnings Equity CR

e. Cost of Goods Sold Expense DR

f. Building Asset DR

g. Prepaid Insurance Asset DR

h. Unearned Fees Liability CR

i. Rent Expense Expense DR

j. Interest Earned Revenue CR

k. Inventory Asset DR

l. Accumulated Depreciation Contra-Asset CR

**Multiple Choice**

9. A

10. D

11. B

12. C

13. D

14. B

**Problem 1**

|  |  |  |
| --- | --- | --- |
| **CURTIS CORPORATION** |  |  |
| Balance Sheet |  |  |
| At December 31, 2013 |  |  |
|  |  |  |
|  **Assets** |  |  |
| *Current assets:* |  |  |
| Cash and cash equivalents  |  | $ 70,000 |
| Marketable securities  |  | 15,000 |
| Accounts receivable (net of allowance)  |  | 110,000 |
| Interest receivable  |  | 2,000 |
| Inventories  |  | 110,000 |
| Prepaid insurance  |  |  3,000 |
| Total current assets  |  | 310,000 |
| *Investments:* |  |  |
| Long-term Investment  |  | 50,000 |
|  |  |  |
| *Property, plant, and equipment:* |  |  |
| Machinery and equipment  | $230,000 |  |
| Less: Accumulated depreciation  |  (111,000) |  |
| Net property, plant, and equipment  |  |  119,000 |
| *Intangibles* |  |  |
| Copyright  |  | 10,000 |
|  |  | $489,000 |
| **Liabilities and Shareholders' Equity** |  |  |
| *Current liabilities:* |  |  |
| Accounts payable  |  | $ 45,000 |
| Wages payable  |  | 10,000 |
| Interest payable  |  |  3,000  |
| Total current liabilities  |  |  58,000 |
| *Long-term liabilities:* |  |  |
| Bonds payable  |  |  100,000 |
|  |  |  |
| *Shareholders’ equity:* |  |  |
| Common stock, no par, 100,000 shares authorized; 50,000 shares issued and outstanding  | $200,000 |  |
| Retained earnings  |  131,000 |  |
| Total shareholders’ equity  |  |  331,000 |
| Total liabilities and shareholders’ equity  |  | $489,000 |
|   |  |  |
| **Problem 2** |  |  |
| **AJAX COMPANY** |  |  |
| Income Statement |  |  |
| For the Year Ended December 31, 2013 |  |  |
|  |  |  |
| Sales revenue  |  | $6,200,000 |
| Cost of goods sold  |  |  3,500,000 |
| Gross profit  |  |  2,700,000 |
|  |  |  |
| *Operating expenses:* |  |  |
| Administrative and selling  | $1,500,000 |  |
| Restructuring costs  | 250,000 |  |
| Loss from landslide damage  |  75,000 |  |
|  Total operating expenses  |  |  1,825,000 |
| Operating income  |  |  875,000 |
|  |  |  |
| *Other income (expense):* |  |  |
| Interest revenue  |  100,000 |  |
| Interest expense  |  (150,000) |  |
| Loss on sale of equipment  |  (40,000) |  (90,000) |
| Income from continuing operations before income taxes  |  |   785,000 |
| Income tax expense  |  |  314,000 |
| Income from continuing operations  |  |  471,000 |
| Discontinued Operations: |  |  |
| Income from operations of discontinued component (including loss on disposal of $1,800)  |  (10,000) |  |
| Income tax benefit |  4,000 |   |
| Income (loss) on discontinued operations  |  | (6,000) |
| Net income  |  | $465,000 |
|  |  |  |
| Earning per Share |  |  |
| Income from continuing operations  |  | $4.71 |
| Discontinued operations  |  | (.06) |
| Net income  |  | $4.65 |