

1. Multiple choice questions (choose the best for your answer) 13 points

(1) The statement of cash flows is designed to assist users in assessing each of the following except:

- A. The ability of a company to remain solvent
- B. The major sources of cash receipts during the period
- C. The company's profitability
- D. The reasons why net cash flows from operating activities differ from net income

(2) A debit entry of the Allowance for Doubtful Account represents:

- A. money set aside to take care of any bad debts
- B. the amount of bad debts incurred in the previous period
- C. the amount of bad debts incurred in the current period
- D. the amount of bad debts incurred in the current period and previous periods
- E. none of the above

(3) In a decade of steadily rising prices, the inventory method which would produce the largest inventory cost on the balance sheet would be:

- A. FIFO method
- B. LIFO method
- C. Weighted-Average method
- D. Activity method

(4) On December 15, 2002, WS company reacquired 2000 shares of its own \$5 par stock at a price of \$60 per share. In 2003 500 of the treasury shares are reissued at a price of \$70 per share. The correct one of the following statement is:

- A. WS Company recognized a gain of \$10 per share on the re-issuance of the 500 treasury stock in 2002.
- B. WS stockholders' equity was increased by \$110 000 when the treasury stock was acquired.
- C. the two treasury stock transactions result in an overall reduction in WS's stockholders' equity of \$85 000.
- D. the treasury purchased was recorded at cost and was shown in WS company's December 31, 2003, balance sheet as an asset.

(5) Which of the following is true when a business is organized as corporation?

- A. Stockholders do not have to pay personal income taxes on dividends received, because the corporation is subject to income taxes on its earnings.
- B. Stockholders are liable for the debts of the business only in proportion to their percentage ownership of capital stock.
- C. Fluctuations on the market value of outstanding shares of capital stock do not affect the amount of stockholders' equity shown in the balance sheet.
- D. Each of the stockholders has the right to bind the corporation to contracts and make other management decisions.

(6) Deferred income taxes result from:

- A. The fact that bond interest is deductible in the computation of taxable incomes.
- B. timing differences
- C. the inability of a bankrupt company to pay its income tax liability on schedule.

- D. the permanent difference between accounting net income and taxable income.
- (7) SP company sold a plant asset that originally cost \$60 000 for \$32 000 cash. If SP correctly reports a \$5 000 gain on this sale, the accumulated depreciation on the asset at the date of sale must have been:
- A. \$24 000    B. \$33 000    C. \$28 000    D. some other amount
- (8) TS department store uses a perpetual inventory system but adjusts its records at year-end to reflect the results of a complete physical inventory. In the physical inventory taken at the ends of 2002 and 2003, TS' employees failed to count the merchandise in the store's window displays. The cost of this merchandise amounted to \$13 000 at the end of 2002 and \$19 000 at the end of 2003. as a result of these errors, the cost of good sold for 2003 would be:
- A. Understated \$6 000  
B. Overstated \$19 000  
C. Overstated \$6 000  
D. Understated \$13 000  
E. Some other amount.
- (9) PS company sold marketable securities costing \$82 000 for \$94 000 cash. In the company' income statement and statement of cash flows, respectively, this will appear as:
- A. \$94 000 gain and \$94 000 cash receipt  
B. \$12 000 gain and \$94 000 cash receipt  
C. \$12 000 gain and \$80 000 cash receipt  
D. \$82 000 sales and \$94 000 cash receipt
- (10) The CPA firm auditing MS Drag Sore found that owner's equity was understand and liabilities were overstated. Which of the following errors could have been the cause?
- A. Making the adjusting entry for depreciation expense twice.  
B. Failure to record interest accrued on a note payable  
C. Failure to record the earned portion of fees received in advance.  
D. Failure to make the adjusting entry to record revenue that had been earned but not yet billed to clients.
- (11) The entry to record depreciation expense:
- A. Is an application of the closing procedures  
B. Is an application of the matching principle  
C. Usually includes an offsetting credit either to cash or to accounts payable  
D. None of the above
- (12) The closing process involves separate entries to close (1) expenses (2) dividends (3) revenues (4) net income or loss. The correct sequencing of the entries is:
- A. (4) (3) (2) (1)  
B. (1) (3) (2) (4)  
C. (3) (2) (1) (4)  
D. (3) (1) (4) (2)
- (13) When there is a change in estimated depreciation:
- A. Previous depreciation should be correct  
B. Current and future year's depreciation should be revised  
C. Only future year's depreciation should be revised  
D. None of the above

2. Give a brief explanation for the following terms(9')

- (1) EPS
- (2) Extraordinary item
- (3) Capital expenditure
- (4) Treasury stock
- (5) Cash equivalents
- (6) Price-earnings (P/E) ratio

3. Accounting terminology (4')

In the space provided after each statement, indicate (write out) the accounting term described.

- (1) The amount that must be paid to settle a liability at the date it becomes due. \_\_\_\_\_
- (2) Depreciation methods which take more depreciation in the early years of an assets's useful life, and less depreciation in the later years. \_\_\_\_\_
- (3) The percentage of total assets financed by creditors. \_\_\_\_\_
- (4) Amounts invested in a corporation by its stockholders. \_\_\_\_\_

4. Translate the following statements into Chinese (10')

- (1) Relevance and reliability are the two primary qualities that make accounting information useful for decision making. Subject to constraints imposed by cost and materiality increased relevance and increased reliability are the characteristics that make information a more desirable commodity---that is, one useful in making decisions. If either of those qualities is completely missing, the information will not be useful. Although, ideally, the choice of an accounting alternative should produce information that is both more reliable and, more relevant, it may be necessary to sacrifice some of one quality for a gain in another.
- (2) Loss contingencies are accrued if (1) it is probable that a loss has been incurred and (2) the amount of loss can be estimated reasonably. Even if these conditions are not met, loss contingencies should be disclosed if it is reasonably possible that a material loss has been incurred.

5. Translate the following Chinese statements into English (15')

(1) 公司股东通常具有选举董事会, 享有公司宣告的股利的权利; 在公司清算的时候, 股东还享有分配净资产的权利。公司的董事会负责制定公司的政策、监督公司高层管理者的工作、保护股东的利益。公司的高层管理者则是由董事会任命来经营管理企业的职业经理人。

(2) 毛利法和零售价法都是用成本比率去估计商品销售成本和期末存货。成本率乘以净销售估计出商品的销售成本, 然后从可供销售的商品成本中减去商品销售成本即得出期末存货成本。在毛利法中成本比率是 100% 减去企业以往东销售毛利率, 而在零售价法中成本比率则是可供销售的商品成本对零售价的比率。

6. Computation and analysis

(1) Cash flows (5')

MP Corporation's statement of cash flows for 2003 shows the following information:

Purchase of marketable securities	\$(1 580 000)
Proceeds from sales of marketable securities	900 000
Proceeds from sales of land	500 000
Net cash used by investing activities	\$(180 000)

MP income statement for 2003 including the following items:

Loss on sales of marketable securities	\$ 170 000
Gain on sales of land	280 000

All payment and proceeds relating to these transactions were in cash.

Requirement:

Please compute the following:

- ① Cost of land sold during 2003;
- ② Book value of marketable securities sold during 2003;
- (2) Effects of transactions upon ratio analysis (6')

Determine the immediate effect of each the transactions described below on the ratio listed beside each transaction. In the blank space to the left of each statement, you are to indicate the effect by writing the appropriate code letter. The code letters are as follows:

D=decrease the ratio, I=increase the ratio, NE=no effect on the ratio

- ① \_\_\_\_\_inventory turnover (4 times): Made large purchases increasing the average size of inventory.
- ② \_\_\_\_\_Return on total assets is 14%: Issued 10% bonds and invested the proceeds to earn 12%
- ③ \_\_\_\_\_Earnings per share (\$6.25): sold common stock held in treasury at a price above cost.
- (3) Bonds payable (8')

On December 31, 2002. XY Company issued \$2 000 000 face amount of 9%, 10 years bonds payable, with interest payable each June 30 and December 31. The bonds sell at price of 98. XY uses the straight-line method of amortizing any discount or premium.

Requirement:

- ① To make the journal entry for XY company to record the issuance of the bonds payable at December 31 2002;
- ② To make the journal entry for XY company to record the first payment of interest and interest expenses at June 30 2003.
- ③ To compute the carrying value of the bonds payable at XY December 31, 2003, balance sheet.