

Student name: _____

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) Accrual accounting decouples measured earnings from operating cash inflows and outflows.

- true
- false

2) Cash-basis accounting provides the most useful measure of future operating performance.

- true
- false

3) Net asset valuation and net income determination are inextricably intertwined.

- true
- false

4) While the earnings process is the result of many separate activities, it is generally acknowledged that there is usually one critical event or key stage considered to be absolutely essential to the ultimate increase in net asset value of the firm.

- true
- false

5) The matching principle says that expenses are matched to the revenue recognized during the period, not that revenue is matched to the period's expenses.

- true
- false

6) Period costs would include costs like advertising or insurance where the linkage between these costs and individual sales is difficult to establish.

- true
- false

- 7) Traditional financial reporting presents forecasted cash flow information.
- true
 - false
- 8) Gains and losses from continuing operations that are not typical recurring costs are presented as a separate line in the income from continuing operations section of the income statement.
- true
 - false
- 9) A firm that owns a controlling interest in another company separately reports “income attributed to noncontrolling shareholders” on its consolidated income statement.
- true
 - false
- 10) Each set of EPS numbers includes separately reported numbers for income from continuing operations and the items that appear below it on the income statement.
- true
 - false
- 11) The change in equity of an entity during a period from transactions and other events from non-owner sources is known as comprehensive income.
- true
 - false
- 12) Selected unrealized gains (or losses) sometimes bypass the income statement and are reported as direct adjustments to a stockholders’ equity account.
- true
 - false

13) The basic accounting equation may be expressed as $\text{assets} = \text{liabilities} - \text{owners' equity}$.

- true
- false

14) To get revenue and expense account balances to zero an adjusting entry is made.

- true
- false

15) For each transaction, the dollar total of the debits must equal the dollar total of the credits.

- true
- false

16) U.S. GAAP permits companies to report components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity.

- true
- false

17) The point within the operating cycle when the company satisfied its contractual obligation is the point when revenue should be recognized.

- true
- false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

18) Which of the following statements **best** describes expenses?

- A) They are recorded in the accounting period when they are "purchased."
- B) They consist of amounts paid for consumable items and services rendered to the organization during the accounting period.
- C) They are the expired costs or assets "used up" during the accounting period.
- D) They consist of cash payments to employees during the period for services rendered.

19) The expense matching principle states that:

- A) Expenses are recognized when paid.
- B) All expenses are recognized when the corresponding revenue is recorded.
- C) Some expenses are recognized when the corresponding revenue is recognized and some are spread over time.
- D) Expenses are recognized when the invoice is received.

20) The Canon Corporation sells ten copiers to the Title Company on October 15 for \$40,000. Canon delivers the copiers to Title on October 20 and Title pays \$16,000, agreeing to pay the balance on November 10.

Under the cash basis, how much revenue should Canon recognize in October?

- A) \$0
- B) \$16,000
- C) \$24,000
- D) \$40,000

21) The Canon Corporation sells ten copiers to the Title Company on October 15 for \$40,000. Canon delivers the copiers to Title on October 20 and Title pays \$16,000, agreeing to pay the balance on November 10.

Under the accrual basis, how much revenue should Canon recognize in November?

- A) \$0
- B) \$16,000
- C) \$24,000
- D) \$40,000

22) The Canon Corporation sells ten copiers to the Title Company on October 15 for \$40,000. Canon delivers the copiers to Title on October 20 and Title pays \$16,000, agreeing to pay the balance on November 10.

Using the accrual basis, which one of the following entries would properly record Canon's revenue recognition for October?

- A) **DR** Cash 40,000 **CR** Copier sales 40,000
- B) **DR** Cash 16,000 **CR** Copier sales 16,000
- C) **DR** Cash 16,000 **DR** Accounts receivable 24,000 **CR** Copier sales 40,000
- D) **DR** Accounts receivable 40,000 **CR** Copier sales 40,000

23) Hickory Furniture Company paid for the following costs during the month of May:

Inventory purchases	\$ 40,000
Advertising costs	8,000
Delivery costs	2,000

Hickory sold \$32,000 of the inventory and has agreed to pay warranty expenses for its customers. These are expected to be \$1,600 and occur evenly over the next four months (i.e., starting in June).

What is the amount of Hickory's cash-basis expenses for the month of May?

- A) \$33,600
- B) \$42,400
- C) \$50,000
- D) \$51,600

24) Hickory Furniture Company paid for the following costs during the month of May:

Inventory purchases	\$ 40,000
Advertising costs	8,000
Delivery costs	2,000

Hickory sold \$32,000 of the inventory and has agreed to pay warranty expenses for its customers. These are expected to be \$1,600 and occur evenly over the next four months (i.e., starting in June).

What is the amount of Hickory's May expenses when applying the matching principle?

- A) \$33,600
- B) \$42,400
- C) \$43,600
- D) \$50,000

25) Which statement below best describes when to record an expense?

- A) When the expense is paid.
- B) When the resource is consumed or a benefit is derived.
- C) Always taken in one period only.
- D) Never is recognized before revenue is recognized.

26) Exeter Company reports all revenues and expenses of Gregg Company on its consolidated income statement. Which of the following conditions must have been met?

- A) Exeter owns 100% of Gregg Company's common stock.
- B) Exeter owns 90% or more of Gregg Company's common stock.
- C) Exeter owns 50% of Gregg Company's common stock.
- D) Exeter owns more than 50% of Gregg Company's common stock.

27) Michel Company owns 75% of the outstanding common stock of Aber Corp. On its current consolidated income statement, Michel Company should report:

- A) 100% of Aber's revenue and expenses.
- B) 75% of Aber's revenue and expenses.
- C) 75% of Aber's net income.
- D) none of Aber's revenue, expenses, and income.

28) Which of the following may cause fully diluted EPS to differ from basic EPS?

- A) Convertible preferred stock.
- B) Warrants.
- C) Management stock options.
- D) All of these answer choices are correct.

29) Which of the following is **not** correct with respect to accrual accounting?

- A) Accrual accounting can produce large discrepancies between the firm's reported profit performance and the amount of cash generated from operations.
- B) The principles that govern revenue and expense recognition under accrual accounting are designed to alleviate the mismatching problems that exist under cash-basis accounting.
- C) Reported accrual accounting net income for a period always provides an accurate picture of underlying economic performance.
- D) Accrual accounting does not decouple measured earnings from operating cash inflows and outflows.

30) Hickory Furniture Company paid for the following costs during the month of May:

Inventory purchases	\$ 40,000
Advertising costs	8,000
Delivery costs	2,000

Hickory sold \$32,000 of the inventory and has agreed to pay warranty expenses for its customers. These are expected to be \$1,600 and occur evenly over the next four months (i.e., starting in June).

What type of cost is the advertising expense?

- A) Product cost
- B) Traceable cost
- C) Inventory cost
- D) Period cost

31) Revenue is recognized when:

- A) a contract is signed by both parties.
- B) the seller completes performance required by an agreement.
- C) the buyer completes payment required under an agreement.
- D) the buyer accepts delivery and completes required payments.

32) Net income recognition always increases:

- A) assets.
- B) net assets.
- C) liabilities.
- D) net liabilities.

33) The real accounting issue in net income recognition is the:

- A) quantity of income recognized.
- B) type of income recognized.
- C) timing of the recognition.
- D) basis of net income recognition.

34) The matching principle requires that expenses be recognized:

- A) in the same period in which all the assets are used up.
- B) in the same period in which the revenue generated by these expenses is recognized.
- C) when the costs are paid by the entity.
- D) in the same period in which the revenue generated by these expenses is received.

35) Traceable costs are also called:

- A) period costs.
- B) expired costs.
- C) product costs.
- D) administrative costs.

36) The statement, "linkage between these costs and individual sales is difficult to establish," refers to

- A) period costs.
- B) expired costs.
- C) product costs.
- D) traceable costs.

37) Income statements are classified into sections to:

- A) separate revenue recognized from deferred revenue.
- B) distinguish between sustainable and transitory income.
- C) separate real income from book income.
- D) distinguish between book income and taxable income.

38) Which item is **not** correct with respect to the treatment of sustainable and transitory items and a company's income statement?

- A) Financial reporting assists statement users in forecasting future cash flows by providing an income statement format that segregates components of net income.
- B) Income statements prepared in accordance with GAAP differentiate between income components that are believed to be sustainable and those that are transitory.
- C) The income statement isolates a key figure called "income from sustainable operations."
- D) Transitory items are disclosed separately on the income statement so that statement users can place less weight on these earnings components when forecasting future profitability.

39) The rationale behind the rules for multiple-step income statements is to subdivide the income in a manner that facilitates:

- A) cash flows.
- B) forecasting.
- C) tax return preparation.
- D) audits.

40) The best measure of a firm's sustainable income is:

- A) income from continuing operations.
- B) income before income tax.
- C) income before unusual items and change in accounting principle.
- D) net income.

- 41)** On the income statement, income from discontinued operations is shown:
- A) as a separate section of income from continuing operations.
 - B) as an accounting principle change.
 - C) without any income tax effect.
 - D) net of taxes after income from continuing operations.
- 42)** When transitory earnings are present, which of the following correctly depicts the order used on the income statement?
- A) Income from continuing operations, unusual items, income tax expense, discontinued operations, net income.
 - B) Income from continuing operations, discontinued operations, income tax expense, net income.
 - C) Income tax expense, income from continuing operations, discontinued operations, net income.
 - D) Income tax expense, income from continuing operations, unusual items, discontinued operations, net income.
- 43)** Vogel Inc. reports income related to discontinued operations in its current-year multiple-step income statement. Financial statement users should expect that the line item "income tax expense":
- A) relates only to income from continuing operations.
 - B) includes all income tax from continuing as well as discontinued operations.
 - C) related only to income derived from gross profit.
 - D) relates only to income from discontinued operations.
- 44)** Black & Decker decides to discontinue producing toasters in lieu of more versatile toaster ovens. In the process of discontinuing this line, the company disposes of the old production equipment and buys new equipment. The disposal of the old equipment would be reported in the income statement as:

- A) gain or loss on the sale of equipment as part of continuing operations.
- B) gain or loss on the sale of production equipment as part of cost of goods manufactured and sold.
- C) gain or loss on the disposal of discontinued business component.
- D) income from operation of a discontinued business component.

45) Smidt Company reports a loss related to a recent warehouse flood. Financial statement users should expect to find the related loss reported on the Smidt's multiple-step income statement as part of:

- A) income from discontinued operations.
- B) income from continuing operations.
- C) income from extraordinary events.
- D) other comprehensive income.

46) Margot reviews the financial statements of a potential investment target. She notices that in the company's multiple-step income statement a separately listed gain is reported as part of "income from continuing operations." Based on this information, Margot should:

- A) not assume that the gain will recur regularly.
- B) assume that the gain will recur regularly.
- C) assume that the gain will never recur.
- D) make no assumption regarding the validity of the information.

47) When reporting unusual or infrequent items in the income statement which of the following is **not** correct?

- A) If a material event is either unusual in nature or an infrequent occurrence it is classified on the income statement as a special or unusual item in continuing operations.
- B) If a material event is either unusual in nature or an infrequent occurrence—such as a one-time charge resulting from a major restructuring—it may be classified on the income statement as a special or unusual item in continuing operations or treated as an extraordinary item if it has been a number of years since the company’s last major restructuring.
- C) Firms that use early debt retirement will report the associated gains and losses as part of income from continuing operations with separate line-item disclosure.
- D) The write-off of obsolete inventory would be reported on the income statement as a special item in continuing operations.

48) A component of an entity may be a/an:

- A) reportable or operating segment.
- B) subsidiary.
- C) asset group.
- D) reportable or operating segment, subsidiary, or asset group.

49) Which of the following statements is correct regarding reporting of “Extraordinary gains and losses” as a separate category on the income statement?

- A) It is no longer permitted under U.S. GAAP.
- B) It is permitted under U.S. GAAP, if the related event is both unusual in nature and infrequent in occurrence.
- C) Is permitted under IFRS, but not U.S. GAAP.
- D) It is permitted under U.S. GAAP, but not IFRS.

50) Which of the following best describes the reporting for discontinued operations?

A) Discontinued operations will not generate future cash flows and thus the results of transactions related to operations the firm intends to discontinue, or has already discontinued, must be reported separately from other income items on the income statement.

B) Discontinued operations presentation is used only when a component of an entity has been sold.

C) There are 4 criteria that must be met to classify a disposal group as held for sale.

D) Discontinued operations may generate future cash flows and thus there will be results of transactions related to operations the firm intends to discontinue. If the firm does generate future transactions before disposing of the disposal group, it will report that revenue in continuing operations revenue.

51) The discontinued operations section of the income statement is comprised of which one of the following?

A) Income from the operation of a discontinued business component and gain or loss from the disposal of the discontinued component.

B) Income from the operation of a discontinued business component, net of tax, and gain or loss from the disposal of the discontinued component, net of tax.

C) Income from the operation of a discontinued business component, net of tax, and gain or loss from the disposal of the discontinued component.

D) Gain or loss from the disposal of the discontinued component, net of tax.

52) Which of the following is **not** considered an unusual or infrequently occurring item on an income statement?

A) Corporate restructuring charges.

B) Gains and losses from sales of investments.

C) Operating income or loss from discontinued operations.

D) Foreign currency transaction gains and losses.

53) For a disposal group to be considered held for sale, which of the following conditions are required to be met?

- A) Management has committed to a plan to see the component.
- B) The sale is probable and is expected to be completed within one year.
- C) The component is available for immediate sale in its present condition subject only to usual and customary terms for such sales.
- D) All of these conditions must be met.

54) Which one of the following events would be considered an unusual or infrequent event?

- A) a tornado in Kansas.
- B) an earthquake in New York.
- C) a flood in St. Louis near the Mississippi River.
- D) an earthquake in southern California.

55) A special one-time charge resulting from corporate restructurings would be reported on the income statement as a/an:

- A) operating item before gross profit.
- B) special item in continuing operations.
- C) special item in continuing operations, shown net of tax.
- D) special item in discontinued operations, shown net of tax.

56) Donna is reviewing the income statement of Brier Company. She notices that Brier's income statement includes an item labeled "income attributable to noncontrolling interests." Donna should assume that Brier Company:

- A) is not partially owned by another company.
- B) owns 100% of the outstanding shares of another company.
- C) owns a controlling interest in another company that is less than 100%.
- D) sold a subsidiary during the current fiscal period.

57) For what reasons does management have incentive to meet analysts' expectations?

- A) To build credibility with capital markets.
- B) To convey future earnings prospects to investors.
- C) To increase stock price.
- D) All of these answer choices are correct.

58) Which statement below is **not** correct with respect to earnings management?

- A) It is increasingly common because of the pressure to meet analysts' expectations.
- B) More firms just beat rather than just miss the analyst expectations.
- C) In a recent survey, more than 65% of CFOs surveyed indicated that reporting a profit is an important benchmark.
- D) In a recent survey, more than 80% of CFOs surveyed indicated that meeting or beating consensus EPS is an important benchmark.

59) GAAP requires that each set of EPS numbers includes separately reported numbers for all of the following **except**:

- A) special or unusual items.
- B) income from continuing operations.
- C) discontinued operations.
- D) net income.

60) When analysts provide basic EPS for income from continuing operations that exclude the effects of special (i.e., nonrecurring) gains or losses and certain other non-cash charges, such earnings are frequently referred to as:

- A) normal earnings.
- B) pro forma earnings.
- C) sustainable earnings.
- D) real earnings.

61) The change in equity of an entity during a period from transactions and other events from non-owner sources is known as:

- A) net income.
- B) net operating income.
- C) comprehensive income.
- D) net change in assets.

62) Which one of the following is part of other comprehensive income (OCI)?

- A) Unrealized gains resulting from remeasuring foreign currency financial statements of majority-owned subsidiaries to U.S. dollar amounts.
- B) Gains on sales of treasury stock.
- C) Receipt of land donated by a governmental unit.
- D) Sale of common stock above par.

63) GAAP requires firms to report comprehensive income:

- A) at the end of the income statement.
- B) as one separate statement of comprehensive income.
- C) in the statement of changes in stockholders' equity.
- D) in a statement that is displayed with the same prominence as other financial statements.

64) Current U.S. GAAP permits firms to display the components of other comprehensive income in which of the following formats?

- A) as a schedule appearing in the notes to the financial statements.
- B) in a two-statement approach, one in which net income comprises one statement and a second, which presents a separate statement of comprehensive income.
- C) as part of the statement of changes in stockholders' equity.
- D) as a part of the statement of cash flows.

- 65) Other comprehensive income is closed to:
- A) Retained earnings.
 - B) The related asset account.
 - C) Accumulated Comprehensive Income.
 - D) Accumulated Other Comprehensive Income.
- 66) Accumulated other comprehensive income increases or decreases
- A) Net income.
 - B) Income from continuing operations.
 - C) Shareholders' Equity.
 - D) Earnings per share.
- 67) Other Comprehensive Income (OCI) is used both in U.S. GAAP and IFRS. Which of the following statements is correct?
- A) As a general rule, U.S. GAAP allows more opportunities for managers to change balance sheet valuations of certain assets even when management has no intention to sell these assets.
 - B) Changes in the valuation of property, plant, and equipment create a Revaluation Surplus used in both IFRS and U.S. GAAP.
 - C) Both IFRS and U.S. GAAP require companies to report in other comprehensive income each period the valuation changes from changes in actuarial estimates affecting defined benefit pension plans.
 - D) U.S. GAAP requires a separate statement of OCI to immediately follow the income statement in the financial reporting statement.
- 68) The basic accounting equation may be expressed as:

- A) $\text{assets} = \text{liabilities} - \text{owners' equity}$
- B) $\text{liabilities} = \text{assets} + \text{owners' equity}$
- C) $\text{owners' equity} = \text{assets} - \text{liabilities}$
- D) $\text{assets} = \text{owners' equity} - \text{liabilities}$

69) Any increase in an asset may be offset by:

- A) a corresponding decrease in a liability.
- B) a decrease in some other asset account.
- C) a corresponding decrease in owner' equity.
- D) an increase in another asset account.

70) Which of the following statements is correct regarding revenue and expense accounts?

- A) These are really owners' equity accounts.
- B) These are really contributed capital accounts.
- C) They have no impact on the balance sheet.
- D) These are balance sheet accounts.

71) A debit:

- A) increases Accounts Payable.
- B) increases Cost of Goods Sold.
- C) decreases Accounts Receivable.
- D) decreases Equipment.

72) Adjusting entries must be made:

- A) to correct errors in the accounts.
- B) to reconcile the accounts to the budget.
- C) because auditing standards require them.
- D) because certain types of events will otherwise not be recorded in the accounts.

73) Accumulated depreciation is a/an:

- A) expense account.
- B) liability account.
- C) contra-asset account.
- D) owners' equity account.

74) Entering the **DR** or **CR** amount in the appropriate left or right side of the affected T-account is called:

- A) posting.
- B) cross-referencing.
- C) journalizing.
- D) recording.

75) A debit does which of the following?

- A) Increases the value in an asset account.
- B) Increased the value in a contra-asset account.
- C) Decreases the value in a liability account.
- D) Increases the value in an asset account and also decreases the value in a liability account.

76) Which of the following is a true statement?

- A) Revenue decreases owners' equity and increases liabilities.
- B) Expenses increase owners' equity and decrease liabilities.
- C) Revenue increases owners' equity and expenses decrease owners' equity.
- D) Revenue decreases owners' equity and expenses increase owners' equity.

77) To get revenue and expense account balances to zero requires a/an:

- A) adjusting entry.
- B) closing entry.
- C) operating entry.
- D) reversing entry.

78) T-account analysis can be used to gain insights into why accrual basis earnings and cash basis earnings differ and to:

- A) journalize future transactions.
- B) reconstruct transactions that have occurred during a given reporting period.
- C) post transactions that have occurred during a given reporting period.
- D) determine the current market price of common stock.

79) Working capital accounts include:

- A) all assets.
- B) all assets and liabilities.
- C) current assets and all liabilities.
- D) current assets and current liabilities.

80) Adjusting entries are used in all but which of the following situations?

- A) Prepayments.
- B) Deferred Revenue and Expenses.
- C) Accrued Revenue and Expenses.
- D) Prepayments, Deferred Revenue, Accrued Expenses, Accrued Revenue.

81) _____ accounting standards require companies to group items within OCI based on _____:

- A) U.S. GAAP; whether they will be reclassified subsequently into net income or whether they will be subsequently reclassified into income when specific conditions are met.
- B) IFRS; whether they will be reclassified subsequently into net income or whether they will be subsequently reclassified into income when specific conditions are met.
- C) U.S. GAAP; their expected future categorization on the income statement into income from continuing operations and discontinued operations.
- D) IFRS; their expected future categorization on the income statement into income from continuing operations and discontinued operations.

82) When actuarial estimates related to defined benefit pension plans are adjusted:

- A) Both U.S. GAAP and IFRS require companies to report these valuation changes in OCI each period.
- B) Only U.S. GAAP requires companies to report these valuation changes in OCI each period.
- C) Only IFRS requires companies to report these valuation changes in OCI each period.
- D) Neither U.S. GAAP nor IFRS requires companies to report these valuation changes in the financial statements.

83) Earnings management can occur through a variety of manipulations including:

- A) Manipulating accrual estimates to impact expenses.
- B) Misapplications of GAAP deemed immaterial on an account by account basis.
- C) Big bath restructuring charges.
- D) All of these answer choices are correct.

84) Which of the following would **not** be considered a revenue recognition abuse?

- A) Recording goods on consignment as part of inventory when there is a right of return.
- B) Recording goods on layaway for a customer as a final sale.
- C) Recording revenue on a large shipment to a customer whose ability to pay is not reasonably assured.
- D) Recording revenue on goods produced during the current period.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

85) In its accrual-basis income statement for the year ended December 31, 20X2, Ralph Company reported revenue of \$2,565,000. Additional information was as follows:

Accounts receivable 12/31/X1	\$ 418,500
Uncollectible accounts written off during 2X2	17,200
Accounts receivable 12/31/X2	391,700

Required:

Under the cash basis of net income determination, how much should Ralph report as revenue for 20X2?

86) John Hamilton, D.D.S. keeps his accounting records on the cash basis. During 20X2 Dr. Hamilton collected \$220,000 in fees from his patients. At December 31, 20X1, Dr. Hamilton had accounts receivable of \$30,000. At December 31, 20X2 Dr. Hamilton had accounts receivable of \$35,000 and had collected deferred fee revenue of \$8,000.

Required:

On the accrual basis, what was Dr. Hamilton's patient service revenue for 20X2?

87) Under Bart Company's accounting system, all insurance premiums paid are debited to prepaid insurance. For interim reports, Bart makes monthly estimated charges to insurance expense with credits to prepaid insurance. Additional information for the year ended December 20X2 is as follows:

Prepaid insurance at December 31, 20X1	\$ 310,000
Charges to insurance expense during 20X2, including a year-end adjustment of \$50,000	975,000
Unexpired insurance premiums at December 31, 20X2	265,000

Required:

What was the total amount of insurance premiums paid by Bart during 20X2?

88) Schlegel Department Store sells gift certificates—redeemable for store merchandise—that expire one year after their issuance. Schlegel has the following information pertaining to its gift certificates sales and redemptions:

Unredeemed certificates at 12/31/X1	\$ 90,000
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20X2 sales	400,000
20X2 redemptions of prior year sales	60,000
20X2 redemptions of current year sales	325,000

Schlegel's experience indicates that 10% of gift certificates will not be redeemed. The company's policy is to record revenue on gift certificates when they are redeemed or expire.

Required:

In its 20X2 income statement, what amount should Schlegel report as gift certificate revenue?

89) Lazer Industries, Inc. manufactures medical equipment parts and accessories. Assume all amounts are pre-tax and a 21% tax rate for 20X1.

Net sales	\$ 1,200,000
Interest expense	\$ 150,000
Gain on sale of discontinued operations	\$ 400,000
Cost of goods sold	\$ 300,000
Selling, general and administrative expenses	\$ 170,000
Gain on sale of investments	\$ 30,000
Restructuring charges	\$ 20,000

Required:

Prepare a multiple-step income statement for Lazer Industries, Inc. based on the available information for the year ended December 31, 20X1. Indicate all negative numbers using parentheses, and include all subtotals, appropriately labeled, to present your income statement in good form.

90) Berg, Inc. provides exotic wedding planning services. Berg's facilities are located in an elevated area with a dry climate. Assume all amounts are pre-tax and a 21% tax rate for the year.

Interest expense	\$	30,000
Cost of goods sold		900,000
Flood damage to facilities		60,000
Revenue		2,100,000
Office salaries expense		150,000
Advertising expense		180,000
Rent expense		100,000
Restructuring charges		80,000

Required:

Based on the available information, provide a multiple-step income statement for Berg, Inc. for the year ended December 31. Indicate all negative numbers using parentheses, and include all subtotals, appropriately labeled, to present your income statement in good form.

91) On August 1, 20X1, Alpha Co. approved a plan to dispose of an unprofitable segment of its business. Alpha expected that the sale would occur on April 30, 20X2, at an estimated gain of \$250,000. The segment had actual and estimated operating profits (losses) as follows:

Realized loss from 1/1X1 to 7/31X1	\$ (400,000)
Realized loss from 8/1X1 to 12/31X1	(250,000)
Expected loss from 1/1/X2 to 4/30/X2	(300,000)
Assume Alpha's tax rate is 21%.	

Required:

In its 20X1 income statement, what should Alpha report as profit or loss from discontinued operations (net of tax effects)?

92) On November 15, 20X1 Jones Co. sold a segment of its business for \$2,750,000. The net book value of the segment at the time of its disposal was \$2,900,000. Jones had pretax income from operations of \$1,750,000 for 20X1 which included \$360,000 recognized by the discontinued segment prior to its disposal. Assume Jones' tax rate is 21%.

Required:

Prepare a partial income statement for Jones Co. for 20X1, beginning with pretax income from continuing operations.

93) An analyst gathered the following information about a company whose fiscal year end is December 31.

Net income for the year was \$23.7 million.

Preferred stock dividends of \$3 million were paid for the year.

Common stock dividends of \$6 million were paid for the year.

There were 10 million shares of common stock outstanding on January 1.

The company issued 6 million new shares of common stock on July 1.

The capital structure does not include any potentially dilutive securities. **Required:**

Calculate the company's basic earnings per share.

94) Primo Landscaping commenced its business on January 1. On December 31, Primo Landscaping did not record any adjusting entries with respect to the following transactions:

a. During the first year of its operations, Primo purchased supplies in the amount of \$10,000 (debited to "Supplies expense"), and of this amount, \$3,000 were unused as of December 31.

b. On March 15, Primo received \$36,000 for landscape maintenance services to be rendered for 24 months (beginning July 1). This amount was credited to "Landscaping revenue."

c. The company's fuel bill for \$1,300 for the month of December was not received until January 15 of the following year.

d. The company borrowed \$100,000 from First Bank on April 1 at an interest rate of 12% per year. The principal, along with all of the interest, is due on March 30, 2019.

e. On January 17, the company purchased a backhoe for \$65,000. The backhoe is expected to last for 10,000 hours and have no salvage value. During the year, Primo operated the backhoe for 500 hours.

Required:

Complete the table below, showing the effect of the omission of each year-end adjusting entry on assets, liabilities, and net income. Use "OS" for overstated, "US" for understated, and "NE" for no effect.

Item Number	Effect of Omission	Assets	Liabilities	Net Income
a.	Direction of effect			
	Dollar amount of effect			

b. Direction of effect

Dollar amount of
effect

c. Direction of effect

Dollar amount of
effect

d. Direction of effect

Dollar amount of
effect

e. Direction of effect

Dollar amount of
effect

Answer Key

Test name: Basics 2

- 1) TRUE
- 2) FALSE
- 3) TRUE
- 4) TRUE
- 5) TRUE
- 6) TRUE
- 7) FALSE
- 8) TRUE
- 9) TRUE
- 10) TRUE
- 11) TRUE
- 12) TRUE
- 13) FALSE
- 14) FALSE

Closing entries are needed.

- 15) TRUE
- 16) FALSE
- 17) TRUE
- 18) C
- 19) C
- 20) B
- 21) A
- 22) C
- 23) C

Cash expenses = Inventory purchases \$40,000, Advertising \$8,000,
Delivery Costs \$2,000

24) C

Accrual expenses = Cost of Goods Sold \$32,000, Advertising \$8,000, Delivery Costs \$2,000, and Warranty Costs \$1,600

25) C

26) D

27) A

28) D

29) D

30) D

31) B

32) B

Net income recognition can occur by reducing Deferred Revenue and increasing Service Revenue. In this case, there is no change in assets, but net assets have increased.

33) C

34) B

35) C

36) A

37) B

38) C

The key figure is referred to as “income from continuing operations.”

39) B

40) A

41) D

42) C

43) A

44) A

45) B

46) A

- 47) B
- 48) D
- 49) A
- 50) A
- 51) B
- 52) C
- 53) D
- 54) B
- 55) B
- 56) C
- 57) D
- 58) D

The survey results indicate that approximately 78% indicated that meeting or beating consensus EPS is an important benchmark.

- 59) A
- 60) B
- 61) C
- 62) A
- 63) D
- 64) B
- 65) D
- 66) C
- 67) C
- 68) C
- 69) B
- 70) A
- 71) B
- 72) D
- 73) C
- 74) A

- 75) D
- 76) C
- 77) B
- 78) B
- 79) D
- 80) B
- 81) B
- 82) A
- 83) D
- 84) A
- 85)

Accrual basis revenue	\$ 2,565,000
+ Beginning accounts receivable balance	418,500
- Ending accounts receivable balance	(391,700)
- Write-offs of accounts receivable	(17,200)
Cash basis revenue (cash collections on accounts receivable)	\$ 2,574,600

Under the cash basis of net income determination, the company would not regard its accounts receivable as revenue. To find cash basis revenue, add the decrease in accounts receivable to the revenue figure and subtract the write-offs to determine cash collections on accounts receivable.

86)

Cash basis revenue	\$ 220,000
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- Beginning accounts receivable (12/31/X1)	(30,000)
+ Ending accounts receivable (12/31/X2)	35,000
- Deferred fee revenue on 12/31/X2	(8,000)
= Accrual basis revenue	<u>\$ 217,000</u>

To change Dr. Hamilton's revenue from cash basis to an accrual basis, add the recognized but uncollected accounts receivable and subtract the beginning accounts receivable collected in 20X2 but recognized in 20X1. Also, subtract fees collected in 20X2 but not recognized until after 20X2 (deferred fee revenue at 12/31/X2).

87)

Charges to insurance expense during 20X2	\$ 975,000
- Decrease in prepaid insurance (\$310,000 - \$265,000)	(45,000)
= Insurance premiums paid in 20X2	<u>\$ 930,000</u>

The total amount of insurance premiums paid in 20X2 is equal to the insurance expense for 20X2 less the decline in the balance in prepaid insurance.

88)

20X1 sales redeemed or expired in 20X2	\$ 90,000
20X2 sales redeemed in 20X2	325,000
20X2 gift certificate revenue	<u>\$ 415,000</u>

Any 20X1 certificates unredeemed at 1/1/X2 will either be redeemed or expire in 20X2 and thus should be included in 20X2 net income along with the dollar amount of certificates sold and redeemed in 20X2.

89)

Lazer Industries, Inc.	
Income Statement	
For the year ended December 31, 20X1	
Net sales	\$ 1,200,000
Cost of goods sold	(300,000)
Gross profit	<u>900,000</u>
Selling, general and administrative expenses	(170,000)
Unusual or infrequently occurring items:	
Interest expense	(150,000)
Gain on sale of investments	30,000
Restructuring charges	(20,000)
Income from continuing operations before income tax	<u>590,000</u>
Income tax expense	(123,900)
Income from continuing operations	<u>466,100</u>
Discontinued operations:	
Gain on sale of discontinued operations, net of tax	316,000
Net income	<u><u>\$ 782,100</u></u>

90)

Berg, Inc.
Income Statement

For the year ended December 31	
Revenue	\$ 2,100,000
Cost of goods sold	(900,000)
Gross profit	<u>1,200,000</u>
Selling, general and administrative expenses:	
Office salaries expense	(150,000)
Advertising expense	(180,000)
Rent expense	(100,000)
Unusual or infrequently occurring items:	
Interest expense	(30,000)
Flood damage to facilities	(60,000)
Restructuring charges	(80,000)
Income from continuing operations before income tax	<u>600,000</u>
Income tax expense	(126,000)
Net income	<u><u>\$ 474,000</u></u>

91)

Realized loss from 1/1X1 to 7/31X1	\$ (400,000)
Realized loss from 8/1X1 to 12/31X1	(250,000)
Total pre-tax loss	<u>(650,000)</u>
Tax benefit at 21%	136,500
Loss from discontinued operations, net of tax effect	<u><u>\$ (513,500)</u></u>

Under GAAP, results of operations on an operating segment or component of an entity classified as held for sale are to be reported in discontinued operations in the periods in which they occur (net of tax effects). None of the expected profit from operating the segment or component of the entity in 20X2 or the estimated gain on sale is recognized in 20X1. These amounts will be recognized in 20X2 as they occur.

92)

Income from continuing operations (\$1,750,000 - \$360,000)	\$ 1,390,000
Income tax expense (\$1,390,000 × 0.21)	291,900
Income from continuing operations	<u>1,098,100</u>
Discontinued operations:	
Income from discontinued operations (net of taxes of \$75,600) from 1/1X1 through 11/15X1	284,400
Loss on disposal of discontinued operations (net of tax benefit of \$31,500)	(118,500)
Net income	<u><u>\$ 1,264,000</u></u>

Sale price of segment – book value of segment = gain (loss) on disposal
 = \$2,750,000 – \$2,900,000 = \$(150,000) pretax loss.

93) Net income – Preferred stock dividend = \$23.7 – \$3.0 = \$20.7 million.

Weighted Average number of common shares = $(0.5 \times 10) + (0.5 \times 16)$
 = 13 million shares.

EPS = \$20.7 million net income ÷ 13 million shares = \$1.59 per share.

94)

Item Number	Effect of Omission	Assets	Liabilities	Net Income
a.	Direction of effect	US	NE	US
	Dollar amount of effect	\$ 3,000		\$ 3,000
b.	Direction of effect	NE	US	OS
	Dollar amount of effect		\$ 27,000	\$ 27,000
c.	Direction of effect	NE	US	OS
	Dollar amount of effect		\$ 1,300	\$ 1,300
d.	Direction of effect	NE	US	OS
	Dollar amount of effect		\$ 9,000	\$ 9,000
e.	Direction of effect	OS	NE	OS
	Dollar amount of effect	\$ 3,250		\$ 3,250

a. Asset not recorded = \$3,000 supplies on hand at 12/31.

b. Deferred revenue not adjusted for = \$1,500 per month for services to be rendered from 1/1/2019 to 6/30/2020.

c. Fuel expense not recorded = \$1,300.

d. Interest expense for 9 months not accrued = $\$100,000 \times 0.12 \times 9/12$
= \$9,000.

e. Depreciation expense not recorded = $\$65,000 \div 100,000$ hours =
\$6.50/hour depreciation rate \times 500 hours used during the year = \$3,250.