Part 1 Case:

LaSorda Company's management has always relied on very conservative accounting policies, resulting in the following balance sheet as of December 31, 2017.

LASORDA COMPANY
BALANCE SHEET
DECEMBER 31, 2017

ASSETS

Current assets			
Cash			$ 15,000
Short-term investments in stock		$ 45,000	
Less: Allowance for decline in market value		5,000	40,000
Accounts receivable		$ 75,000	
Less: Allowance for uncollectable		7,500	67,500
Inventory			125,000
Total current assets			$247,500
Property, plant, & equipment			
Land		$ 85,000	
Buildings	$289,000		
Less: Accumulated depreciation	78,319	210,681	
Equipment	$ 80,000		
Less: Accumulated depreciation	48,000	32,000	
Total property, plant & equipment			327,681
Intangibles			
Patent			28,000
Total assets			$603,181

LIABILITIES & STOCKHOLDERS" EQUITY

Current liabilities			
Accounts payable			$ 22,000
Salaries payable			7,000
Taxes payable			8,000
Total current liabilities			$ 37,000
Long-term liabilities			
Bank loans payable			115,000
Total liabilities			$152,000
Stockholders' equity			
Common stock		$ 50,000	
Retained earnings		401,181	451,181
Total liabilities & stockholders' equity			$603,181

George LaSorda, president of the company has been approached by a party desiring to buy the firm at a price equal to 200% of stockholders' equity. George agreed that the price would be fair if stockholders' equity were revised to reflect the following:

- *Short-term investments*-The market value of the short-term investments was $85,000 on December 31, 2017. The reported cost of $45,000 was accurate; however, the $5,000 allowance was established long ago, and investment values have since recovered. This recovery has never been recognized. George desires to report the company's holdings at the market value of $85,000.
- *Accounts receivable*- The Allowance account is presently equal to 10% of the outstanding receivables balance. LaSorda believes that the company should estimate uncollectible accounts at 2% of the firm's sales ($400,000). The balance in the Allowance account at the beginning of the year was $3,000, and customer write-offs during 2017 totaled $7,000.
- *Inventory*- Inventory is valued by using the LIFO method. George reports that income for the last three years would have been $45,000 higher had FIFO been employed. (The company is only three years old.) LaSorda desires to use FIFO when calculating the revised stockholder's equity figure.
- *Buildings*-The company's three-year-old buildings are being depreciated by the double-declining balance method, based on a 20-year life and $30,000 residual value. George believes the straight-line method would be more appropriate and applied for all previous years.
- *Equipment*-The equipment, which is two years old and has no residual value, is being depreciated using an accelerated method over a five-year life. Again, George prefers the straight-line method and applied for all previous years.
- *Patent*- The patent was acquired for $28,000 at the beginning of the current year. George believes that this intangible should not be amortized and desires to report the patent at acquisition cost. The original service life of the intangible should have been estimated at 10 years.

Instructions

a. Which of George's preferences violate generally accepted accounting principles? Briefly explain the reason for the violation other than consistency principle.
b. Prepare the balance sheet with proper required format. Compute the purchase price that would result if George's preferences were used. Use generally accepted accounting principles (GAAPs) throughout, especially where George's alternatives are incorrect according to GAAPs. Any change should be for all years of the items and the company's existence.

   Hint:
   All changes in the company's income will be reflected by the changes in retained earnings. Ignore the consistency principle violations.

Part 2: MC Questions

1. The account Discount on Notes Payable is:
   a. a contingent liability.
   b. an asset because it has a debit balance.
   c. a contra liability.
   d. amortized to reduce interest expense over the life of a note.

2. On July 1, Tau, Inc., purchased a machine for $12,000 and issued in payment a one-year note payable for $13,200. On August 31, the company's fiscal year-end, the proper entry would be:

a.	Interest Expense	200	
	Discount on Notes Payable		200
b.	Machinery	200	
	Interest Expense		200
c.	Discount on Notes Payable	200	
	Interest Expense		200
d.	Notes Payable	200	
	Discount on Notes Payable		200

3. Moore Realty just completed the purchase of an apartment complex on August 1 for $100,000 down and an 11%, 20-year, $400,000 mortgage note. The note requires monthly principal and interest payments of $4,129, with interest computed on the unpaid note balance. The entry to record the September 1 payment would be:

a.	Mortgage Note Payable	4,129	
	Cash		4,129
b.	Interest Expense	2,064	
	Mortgage Note Payable	2,065	
	Cash		4,129
c.	Interest Expense	454	
	Mortgage Note Payable	3,667	
	Cash		4,129
d.	Interest Expense	3,667	
	Mortgage Note Payable	462	
	Cash		4,129

4. On March 1, 19X4, Grand Junction Railroad issued $50,000 of 8%, 10-year bonds dated March 1 for $43,769. Interest is payable on March 1 and September 1. If Grand Junction uses the straight-line method of amortization, how would these bonds appear on the September 1, 19X4, balance sheet? (Round all calculations to the nearest dollar.)

a.	Long-term liabilities:		
	Bonds payable	$50,000	
	Less: Discount on bonds payable	6,231	$43,769
b.	Long-term liabilities:		
	Bonds payable	$43,769	
	Plus: Discount on bonds payable	6,231	$50,000
c.	Long-term liabilities:		
	Bonds payable	$50,000	
	Less: Discount on bonds payable	5,919	$44,081
d.	Long-term liabilities:		
	Bonds payable	$44,081	
	Plus: Discount on bonds payable	5,919	$50,000

5. Milton Corporation has 20,000 shares of $5 par-value common stock and 60,000 shares of 9%, $2 par-value preferred stock issued and outstanding. The preferred stock is cumulative. How much are preferred dividends per year?
   a. $10,800.
   b. $120,000.
   c. $100,000.
   d. $9,000.

6. Media Services' accounting records reflected the following journal entry:

Nov. 1	Cash	14,000	
	Common Stock ($1 Par)		2,000
	Paid-in Capital in Excess of Par Value		12,000

   From the entry, one can conclude that the company:
   a. earned $14,000 of revenue.
   b. has a $12,000 gain on the sale of its stock.
   c. has a $12,000 increase in total paid-in capital.
   d. sold 2,000 shares of common stock at $7 per share.

7. How is treasury stock shown in the financial statements?
   a. As an asset.
   b. As a reduction of paid-in capital.
   c. As a reduction of total stockholders' equity.
   d. It depends on the reason that the treasury stock was acquired.

8. Prost Products has excelled on past treasury stock transactions, selling the stock at above cost resulting in a balance of $1,250 in Paid in Capital from Treasury Stock account. Currently, the company is holding 460 shares of its $2 par-value common stock, reacquired for $2,000. If the stock is reissued for $500, what journal entry will the company's accountant make?

a.	Cash	500	
	Treasury Stock		500
b.	Cash	500	
	Loss on Treasury Stock	1,500	
	Treasury Stock		2,000
c.	Cash	500	
	Paid-in Capital from Treasury Stock	1,500	
	Treasury Stock		2,000
d.	Cash	500	
	Paid-in Capital from Treasury Stock	1,250	
	Retained Earnings	250	
	Treasury Stock		2,000

9. The following journal entry was found in the accounting records of the Sullivan Corp.:

Retained Earnings	10,000	
Dividends payable		10,000

   On what date would the entry have been made?
   a. Date of declaration.
   b. Date of record.
   c. Ex-dividend date.
   d. Date of payment.

10. Luther Lumber Corporation has 1,000,000 shares of common stock authorized, of which 550,000 shares are issued and outstanding. The common stock has a $10 par value, a $12 book value, and a $13 market value when the corporation declared a 10% stock dividend. What journal entry is required on that date?

a.	None.		
b.	Retained Earnings	550,000	
	Dividends Payable		550,000
c.	Retained Earnings	660,000	
	Stock Dividend Distributable		550,000
	Paid-in Capital in Excess of Par Value		110,000
d.	Retained Earnings	715,000	
	Stock Dividend Distributable		550,000
	Paid-in Capital in Excess of Par Value		165,000

11. Gilbert Corporation's board of directors approved a 2-for-1 common stock split. The common stock had a $10 par value before the split. At what amount should retained earnings be reduced for the additional shares issued?
    a. Retained earnings is not affected by a stock split.
    b. Par value of the new shares.
    c. Market value of the new shares on the declaration date.
    d. Market value of the new shares on the distribution date.

12. Which of the following items is included on the statement of retained earnings?
    a. The effects of extraordinary items.
    b. The effects of discontinued operations.
    c. The effects of a change in accounting principle.
    d. Prior period adjustments.

13. Depreciation is a process of:
    a. Accumulating replacement funds.
    b. Cost replenishment.
    c. Cost accrual.
    d. Cost allocation.

14. On-time Trucking reported the following data for 19X4:

Beginning stockholders' equity	$32,000
Capital stock issued	20,000
Revenues	70,000
Expenses	25,000
Dividends paid	9,000

The company's ending stockholders' equity for 19X4 would be:
    a. $36,000.
    b. $45,000.
    c. $66,000.
    d. $88,000.

15. Which of the following pairs of accounts are usually current liabilities?

    a. accounts payable, accounts receivable.
    b. prepaid expenses, wages payable.
    c. income taxes payable, unearned revenue.
    d. notes receivable, bonds payable.

16. If beginning inventory is understated, then:
    a. goods available for sale will be overstated.
    b. gross profit will be overstated.
    c. net income will be understated.
    d. stockholders' equity will be correct because the error will have been reversed.

17. When preparing a bank reconciliation, deposits in transit are:
    a. added to the balance per bank statement.
    b. subtracted from the balance per bank statement.
    c. added to the balance per company records.
    d. subtracted from the balance per company records.

18. CC owns a $600,000 building that was purchased four years ago. The firm was recording depreciation under straight line method, estimating a 20-year service life and a $40,000 residual value. At the beginning of this, the 5th year, CC determined that the residual value should be $60,000. As a result of this revision, depreciation in the current year would be:
    a. $24,250.
    b. $26,750.
    c. $27,000.
    d. $30,500.

19. Using the income statement approach, an estimate of uncollectible accounts may be calculated by taking a percentage of:
    a. net income.
    b. allowance for doubtful accounts.
    c. outstanding accounts receivable.
    d. credit sales.

20. The following data have been taken from the 19X4 accounting records of Kirby Corp.:

	Dr.	Cr.
Total sales for 19X4		$450,000
Credit sales for 19X4		360,000
Accounts receivable, 12/31/X4	$63,000	
Allowance for Doubtful Accounts, 12/31/X4		3,000

    Kirby estimates that 6% of its accounts receivable will be uncollectible. How much should Kirby record as bad debt expense for 19X4?
    a. $780.
    b. $2,700.
    c. $3,780.
    d. $6,780.

21. On November 1, 19X8, Forte Company received a $12,000, 3-month, 10% note. How much interest revenue should be reported in 19X8 on this note?
    a. $100.
    b. $200.
    c. $300.
    d. $1,200.

22. Host, Inc., stocks a variety of inventory items. The company began to stock item no. 675 in February of the current year and made the following purchases:

Feb. 9	200 units at $10.00
June 8	500 units at $10.50
Oct. 3	300 units at $10.75

If Host uses the first-in, first-out method of inventory valuation and 350 units were on hand as of December 31, the firm's cost of goods sold would amount to:

a. $3,575.
b. $3,750.
c. $6,725.
d. $6,900.

23. Oxford Company had a beginning inventory of 700 units that cost $9.00 each. Purchases were made in June (3,600 units) and October (5,800 units) at costs of $9.50 and $9.80, respectively. If Oxford uses LIFO and a physical count revealed 1,100 units on hand, the company's balance sheet would disclose an ending inventory valuation of:

a. $10,100.
b. $10,780.
c. $86,560.
d. $87,240.

24. Jackson's inventory cost on the balance sheet was lower when using first-in, first-out than when using last-in, first-out. Assuming no beginning inventory, in which direction did the cost of purchases move during the year?

a. Up.
b. Down.
c. Steady.
d. Cannot be determined.

25. Palmer Products purchased a new delivery truck. The truck had a manufacturer's listed retail price of $14,000 and a negotiated purchase price of $13,200. The purchase was subject to terms of 2/10, n/30, but Palmer did not remit payment until 22 days after the purchase. At what amount should Palmer record the truck on its books?

a. $12,936.
b. $13,200.
c. $13,720.
d. $14,000.

26. Hanley Manufacturing purchased a new machine on January 1, 19X4, for $47,000 plus $8,000 of freight and installation costs. Hanley uses the double declining method of recording depreciation, and estimates the machine will last 10 years and have a residual value of $5,000. What amount of depreciation will Hanley record in 19X5?

a. $6,720.
b. $8,800.
c. $7,520.
d. $8,000.

27. Glouchester Associates sold office equipment for cash of $142,000. The accumulated depreciation at date of sale amounted to $138,000, and a gain of $18,000 was recognized on the sale. The original cost of the asset must have been:

a. $262,000
b. $260,000
c. $280,000
d. $156,000

28. For the month ended January 31, Ponzi Plastic Co. had net sales of $100,000, total goods available for sale of $70,000, and an estimated gross profit percentage of 40%. Ponzi's estimated inventory at the end of January is:

a. $10,000
b. $30,000
c. $40,000
d. $60,000

29. The fair market value of Lewis Company's net identifiable assets is $5,000,000. Martin Corporation purchases Lewis' entire business for $5,800,000. Which of the following statements is *not* correct?

a. Martin Corporation paid $800,000 for goodwill generated by Lewis Company.
b. Martin feels that Lewis Company has the ability to generate earnings in excess of a normal return on net identifiable assets.
c. Martin will record amortization expense over a period not to exceed 40 years.
d. Martin Corporation will record $800,000 to goodwill, an intangible asset, which will be reported in its balance sheet

30. On March 1, 19X5, Curtis Corporation accepted a $20,000, 6 month, 10% note on account from Gloria Lawless. Assume that Gloria defaults on the note on August 31. The entry to reflect the default will include:

a. Debit note receivable $21,000.
b. Debit accounts receivable $21,000.
c. Debit note receivable $20,000.
d. Debit accounts receivable $20,000.

Answer Sheet

Please use separate sheets to do Case and MC questions. Submit this answer sheet and other sheets with your answers in **one file in either word or pdf format**.

Answers for Multiple Choice questions:

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