

## 12 - 12 Test Bank for Accounting Principles, Tenth Edition

1. Which of the following would *not* be recorded in the entry for the formation of a partnership?
- Accumulated depreciation
  - Allowance for doubtful accounts
  - Accounts receivable
  - All of these would be recorded.

SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

2. Sam is investing in a partnership with Jerry. Sam contributes equipment that originally cost \$84,000, has a book value of \$40,000, and a fair value of \$52,000. The entry that the partnership makes to record Sam's initial contribution includes a
- debit to Equipment for \$44,000.
  - debit to Equipment for \$84,000.
  - debit to Equipment for \$52,000.
  - credit to Accumulated Depreciation for \$44,000.

SO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

3. Amber contributes, as part of her initial investment, accounts receivable with an allowance for doubtful accounts. Which of the following reflects a proper treatment?
- The balance of the accounts receivable account should be recorded on the books of the partnership at its net realizable value.
  - The allowance account may be set up on the books of the partnership because it relates to the existing accounts that are being contributed.
  - The allowance account should not be carried onto the books of the partnership.
  - The accounts receivable and allowance should not be recorded on the books of the partnership because a partner must invest cash in the business.

O: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

4. Which one of the following would *not* be considered an expense of a partnership in determining income for the period?
- Expired insurance
  - Salary allowance to partners
  - Supplies used
  - Freight-out

O: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

5. A partner invests into a partnership a building with an original cost of \$180,000 and accumulated depreciation of \$80,000. This building has a \$140,000 fair value. As a result of the investment, the partner's capital account will be credited for
- \$140,000.
  - \$100,000.
  - \$180,000.
  - \$240,000.

O: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA



Vino and B. Hogan invest in the partnership as follows

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6. L. Trevino and B. Hogan combine their individual sole proprietorships to start the Trevino-Hogan partnership. L. Trevino and B. Hogan invest in the partnership as follows

	Book Value		Fair Value	
	Trevino	Hogan	Trevino	Hogan
Cash	\$21,000	\$6,000	\$21,000	\$6,000
Accounts Receivable	9,000	3,000	9,000	3,000
Allowance for Doubtful Accounts	(1,500)	(600)	(2,100)	(900)
Equipment	15,000	24,000	13,500	9,000
Accumulated Depreciation	(3,000)	(9,000)		

The entries to record the investment will include a credit to:

- a. Trevino, Capital of \$40,500.
- b. Hogan, Capital of \$17,100.
- c. Trevino, Capital of \$42,000.
- d. Hogan, Capital of \$23,100.

O: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

7. Partners Don and Ron have agreed to share profits and losses in an 80:20 ratio respectively, after Don is allowed a salary allowance of \$60,000 and Ron is allowed a salary allowance of \$30,000. If the partnership had net income of \$60,000 for 2012, Ron's share of the income would be

- a. \$30,000.
- b. \$24,000.
- c. \$36,000.
- d. \$6,000.

O: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

8. The partnership agreement of Nieto, Keller, and Pickert provides for the following income ratio: (a) Nieto, the managing partner, receives a salary allowance of \$54,000, (b) each partner receives 15% interest on average capital investment, and (c) remaining net income or loss is divided equally. The average capital investments for the year were: Nieto \$300,000, Keller \$600,000, and Pickert \$900,000. If partnership net income is \$360,000, the amount distributed to Keller should be:

- a. \$90,000.
- b. \$93,000.
- c. \$102,000.
- d. \$120,000.

O: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Handwritten calculations:  
 360  
 - 54  
 - 45.9  
 = 260.1  
 260.1 / 3 = 86.7  
 86.7 + 15% of 600,000 = 137.5

Handwritten numbers: 137.5, 102

9. The partnership agreement of Nieto, Keller, and Pickert provides for the following income ratio: (a) Nieto, the managing partner, receives a salary allowance of \$54,000, (b) each partner receives 15% interest on average capital investment, and (c) remaining net income or loss is divided equally. The average capital investments for the year were: Nieto \$300,000, Keller \$600,000, and Pickert \$900,000. If partnership net income is \$270,000, the amount distributed to Nieto should be
- \$45,000.
  - \$81,000.
  - \$90,000.
  - \$99,000.

LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

10. Partners Acer and Barr have capital balances in a partnership of \$80,000 and \$120,000, respectively. They agree to share profits and losses as follows:

	<u>Acer</u>	<u>Barr</u>
As salaries	\$20,000	\$24,000
As interest on capital at the beginning of the year	10%	10%
Remaining profits or losses	50%	50%

If income for the year was \$100,000, what will be the distribution of income to Barr?

- \$46,000
- \$54,000
- \$40,000
- \$20,000

LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

11. Partners Acer and Barr have capital balances in a partnership of \$80,000 and \$120,000, respectively. They agree to share profits and losses as follows:

	<u>Acer</u>	<u>Barr</u>
As salaries	\$20,000	\$24,000
As interest on capital at the beginning of the year	10%	10%
Remaining profits or losses	50%	50%

If income for the year was \$60,000, what will be the distribution of income to Acer?

- \$26,000
- \$34,000
- \$20,000
- \$28,000

LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

12. Under which of the following cases may a percentage change be computed?
- The trend of the balances is decreasing but all balances are positive.
  - There is no balance in the base year.
  - There is a positive balance in the base year and a negative balance in the subsequent year.
  - There is a negative balance in the base year and a positive balance in the subsequent year.

Q: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

13. Assume the following sales data for a company:

2013	\$945,000
2012	877,500
2011	650,000

If 2011 is the base year, what is the percentage increase in sales from 2011 to 2012?

- 24%
- 35%
- 76%
- 135%

Q: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

14. Assume the following cost of goods sold data for a company:

2013	\$1,680,000
2012	1,400,000
2011	1,200,000

If 2011 is the base year, what is the percentage increase in cost of goods sold from 2011 to 2013?

- 140%
- 40%
- 23%
- 17%

Q: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

15. Darius, Inc. has the following income statement (in millions):

**DARIUS, INC.**  
Income Statement  
For the Year Ended December 31, 2012

Net Sales	\$300
Cost of Goods Sold	<u>120</u>
Gross Profit	180
Operating Expenses	<u>44</u>
Net Income	<u>\$136</u>

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Using vertical analysis, what percentage is assigned to Cost of Goods Sold?

- a. 30%
- b. 40%
- c. 100%
- d. None of the above

LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

~~14~~ 16. Darius, Inc. has the following income statement (in millions):

**DARIUS, INC.**  
Income Statement  
For the Year Ended December 31, 2012

Net Sales	\$300
Cost of Goods Sold	<u>120</u>
Gross Profit	180
Operating Expenses	<u>44</u>
Net Income	<u>\$136</u>

Using vertical analysis, what percentage is assigned to Net Income?

- a. 100%
- b. 75.6%
- c. 45.3%
- d. None of the above

O: 4, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

~~15~~ 17. Vertical analysis is also called

- a. common size analysis.
- b. horizontal analysis.
- c. ratio analysis.
- d. trend analysis.

LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

~~16~~ 18. Vertical analysis is a technique which expresses each item within a financial statement

- a. in dollars and cents.
- b. in terms of a percentage of the item in the previous year.
- c. in terms of a percent of a base amount.
- d. starting with the highest value down to the lowest value.

O: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

~~17~~ 19. In common size analysis,

- a. a base amount is required.
- b. a base amount is optional.
- c. the same base is used across all financial statements analyzed.
- d. the results of the horizontal analysis are necessary inputs for performing the analysis.

SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

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20. A liquidity ratio measures the
- income or operating success of an enterprise over a period of time.
  - ability of the enterprise to survive over a long period of time.
  - short-term ability of the enterprise to pay its maturing obligations and to meet unexpected needs for cash.
  - number of times interest is earned.

SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

21. The current ratio is
- calculated by dividing current liabilities by current assets.
  - used to evaluate a company's liquidity and short-term debt paying ability.
  - used to evaluate a company's solvency and long-term debt paying ability.
  - calculated by subtracting current liabilities from current assets.

SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

22. The acid-test (quick) ratio
- is used to quickly determine a company's solvency and long-term debt paying ability.
  - relates cash, short-term investments, and net receivables to current liabilities.
  - is calculated by taking one item from the income statement and one item from the balance sheet.
  - is the same as the current ratio except it is rounded to the nearest whole percent.

SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

23. Harvey Clothing Store had a balance in the Accounts Receivable account of \$390,000 at the beginning of the year and a balance of \$410,000 at the end of the year. Net credit sales during the year amounted to \$3,000,000. The average collection period of the receivables in terms of days was
- 30 days.
  - 365 days.
  - 274 days.
  - 48.7 days.

SO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

24. Parker Hardware Store had net credit sales of \$8,000,000 and cost of goods sold of \$5,000,000 for the year. The Accounts Receivable balances at the beginning and end of the year were \$600,000 and \$700,000, respectively. The receivables turnover was
- 7.7 times.
  - 4.6 times.
  - 11.4 times.
  - 12.3 times.

SO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

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25. ACME Company reports income before income taxes of \$2,400,000 and had an extraordinary loss of \$800,000. If the tax rate is 30%,
- the income before the extraordinary item is \$1,920,000.
  - the extraordinary loss would be reported on the income statement at \$800,000.
  - the income before the extraordinary item is \$1,680,000.
  - the extraordinary loss will be reported at \$240,000.

O: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

26. Eaton, Inc. disposes of an unprofitable segment of its business. The operation of the segment suffered a \$360,000 loss in the year of disposal. The loss on disposal of the segment was \$180,000. If the tax rate is 30%, and income before income taxes was \$2,250,000,
- the income tax expense on the income before discontinued operations is \$513,000.
  - the income from continuing operations is \$1,575,000.
  - net income is \$1,710,000.
  - the losses from discontinued operations are reported net of income taxes at \$270,000.

JO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

27. Each of the following is an extraordinary item *except* the
- effects of major casualties, if rare in the area.
  - effects of a newly enacted law or regulation.
  - expropriation of property by a foreign government.
  - losses attributable to labor strikes.

O: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

28. The discontinued operations section of the income statement refers to
- discontinuance of a product line.
  - the income or loss on products that have been completed and sold.
  - obsolete equipment and discontinued inventory items.
  - the disposal of a significant segment of a business.

SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

29. Which one of the following would be classified as an extraordinary item?
- Expropriation of property by a foreign government
  - Losses attributed to a labor strike
  - Write-down of inventories
  - Gains or losses from sales of equipment

O: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

30. A loss on the write down of obsolete inventory should be reported as
- "other expenses and losses."
  - part of discontinued operations.
  - an operating expense.
  - an extraordinary item.

SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA