

# ADVANCED ACCOUNTING (110)

—Secondary—

## REGIONAL – 2018

|                                      |       |                            |
|--------------------------------------|-------|----------------------------|
| Multiple Choice (20 @ 2 points each) | _____ | (40 points)                |
| Short Answer                         | _____ | (55 points)                |
| Problem 1 – Inventory Costing        | _____ | (30 points)                |
| Problem 2 – Uncollectible Accounts   | _____ | (22 points)                |
| Problem 3 – Financial Analysis       | _____ | (60 points)                |
| <b><i>TOTAL POINTS</i></b>           | _____ | <b><i>(207 points)</i></b> |

**Failure to adhere to any of the following rules will result in disqualification:**

- 1. Contestant must hand in this test booklet and all printouts. Failure to do so will result in disqualification.**
- 2. No equipment, supplies, or materials other than those specified for this event are allowed in the testing area. No previous BPA tests and/or sample tests or facsimile (handwritten, photocopied, or keyed) are allowed in the testing area.**
- 3. Electronic devices will be monitored according to ACT standards.**

No more than ten (10) minutes orientation  
No more than ninety (90) minutes testing time  
No more than ten (10) minutes wrap-up

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*Workplace Skills Assessment Program* competition.

## **General Instructions**

You have been hired as a Financial Assistant to keep the accounting records for Professional Business Associates, which is located at 5454 Cleveland Avenue, Columbus, Ohio 43231. Professional Business Associates provides accounting and other financial services for clients. You will complete jobs for Professional Business Associates' accounting records, as well as for the company's clients.

You will have ninety (90) minutes to complete your work. The test consists of multiple sections; you may complete them in any order.

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Round calculations to two decimal places unless instructed otherwise.

Use 360 days for calculating interest.

**MULTIPLE CHOICE (2 points each)**

Identify the letter of the choice that best completes the statement or answers the question.

1. Using the allowance method, which entry will *decrease* the book value of Accounts Receivable?
  - a. Adjusting entry
  - b. Closing entry
  - c. Writing off the account
  - d. Reopening the account
  
2. Title to the goods passes to the buyer when the buyer receives the goods under \_\_\_\_\_.
  - a. FOB consignment
  - b. FOB rental
  - c. FOB destination
  - d. FOB shipping point
  
3. Expenses paid in one fiscal period but not reported as expenses until a later fiscal period are known as \_\_\_\_\_.
  - a. accrued expenses
  - b. postponed expenses
  - c. postpaid expenses
  - d. prepaid expenses
  
4. An entry that is the exact opposite of an adjustment is a(n) \_\_\_\_\_.
  - a. closing entry
  - b. adjusting entry
  - c. reversing entry
  - d. opening entry
  
5. Ashton Company recently spent \$10,000 to repaint its warehouse, which originally cost \$200,000. The painting is expected to last two years. What is the recorded cost of the warehouse after the painting is completed?
  - a. \$195,000
  - b. \$200,000
  - c. \$205,000
  - d. \$210,000
  
6. The decrease in the value of a plant asset because of the removal of a natural resource is \_\_\_\_\_.
  - a. depletion
  - b. depreciation
  - c. amortization
  - d. salvage value

7. Using the double-declining balance method, you *cannot* depreciate below an asset's \_\_\_\_\_.
  - a. cost
  - b. annual depreciation
  - c. market value
  - d. salvage value
  
8. What account is credited on the reversing entry for accrued interest expense?
  - a. Interest Expense
  - b. Interest Payable
  - c. Notes Payable
  - d. Income Summary
  
9. Goods that are given to a business to sell but for which title remains with the vendor are \_\_\_\_\_.
  - a. on consignment
  - b. purchased
  - c. rented
  - d. on sale
  
10. Cost of goods sold equals \_\_\_\_\_.
  - a. Net sales minus gross profit
  - b. Net sales minus operating expenses
  - c. Net purchases minus ending inventory
  - d. Net purchases plus ending inventory
  
11. When recording an entry in the Purchases journal, what is written in the Account Credited column?
  - a. Name of the Customer
  - b. Name of the business receiving the goods
  - c. Name of the vendor
  - d. Amount credited
  
12. A company's average number of days for payment is 47. What is its accounts receivable turnover ratio, rounded to the nearest tenth?
  - a. 7.0
  - b. 7.7
  - c. 7.8
  - d. 8.0
  
13. All plant assets *except* \_\_\_\_\_ are depreciated.
  - a. building
  - b. land
  - c. truck
  - d. delivery equipment

14. A business that uses the same inventory costing method for all fiscal periods is applying the accounting concept \_\_\_\_\_.
  - a. Consistent Reporting
  - b. Adequate Disclosure
  - c. Accounting Period Cycle
  - d. Matching Expenses with Revenue
  
15. In a year of rising prices, the inventory method that gives the highest possible value for ending inventory is \_\_\_\_\_.
  - a. FIFO
  - b. Weighted average
  - c. LIFO
  - d. Gross Profit estimate
  
16. Expensing the cost of an asset over the asset's useful life is an application of the concept \_\_\_\_\_.
  - a. Going Concern
  - b. Historical Cost
  - c. Accounting Period Cycle
  - d. Matching Expenses with Revenue
  
17. The reversing entry for accrued interest earned includes \_\_\_\_\_.
  - a. a debit to Interest Income
  - b. a credit to Interest Income
  - c. a debit to Interest Expense
  - d. a credit to Interest Expense
  
18. The issuance of stock would be listed in the \_\_\_\_\_ section of the Cash Flows Statement.
  - a. investing activities
  - b. operating activities
  - c. financing activities
  - d. selling activities
  
19. Which of the following would be a current asset?
  - a. Truck
  - b. Unearned Rent
  - c. Prepaid Insurance
  - d. Land
  
20. Which statement would *not* be used for a sole proprietorship?
  - a. Balance Sheet
  - b. Distribution of Net Income Statement
  - c. Income Statement
  - d. Post-Closing Trial Balance

**SHORT ANSWER**

1. For each account, identify the classification (Asset, Liability, Stockholders' Equity, Revenue, Cost of Merchandise, Expense), the Financial Statement(s) the account appears on (Income Statement, Statement of Stockholders' Equity, or Balance Sheet, put more than one where applicable), and the normal balance of the account. **(1 point each)**

| Account               | Classification<br>(A, L, SE, R, CM, E) | Financial Statement<br>(IS, SOSE, BS,<br>None) | Normal Balance<br>(Dr, Cr, None) |
|-----------------------|--|--|----------------------------------|
| Petty Cash            |  |  |                                  |
| Prepaid Rent          |  |  |                                  |
| Income Tax Payable    |  |  |                                  |
| Sales Discount        |  |  |                                  |
| Preferred Stock       |  |  |                                  |
| Fees                  |  |  |                                  |
| Time Draft Receivable |  |  |                                  |
| Insurance Expense     |  |  |                                  |
| Income Summary        |  |  |                                  |
| Retained Earnings     |  |  |                                  |
| Purchases             |  |  |                                  |

2. Stitch-in-Time signs a 90-day, 4.5%, \$3,500 note on November 4, 2018. Give the adjusting entry on December 31, 2018. **(2 points each)**

Account Debited \_\_\_\_\_ Amount \_\_\_\_\_

Account Credited \_\_\_\_\_ Amount \_\_\_\_\_

- a. What is the interest incurred for 2018? \_\_\_\_\_
- b. What is the maturity date? \_\_\_\_\_

3. Kepler Corp. bought a piece of equipment on March 28, 2018 for \$6,400. The equipment is expected to last five years, and have a salvage value of \$1,900. Kepler uses Straight-Line depreciation. (2 points each)
- What is the depreciation expense for 2018? \_\_\_\_\_
  - What is the depreciation expense for 2019? \_\_\_\_\_
  - What is the book value of the equipment at the end of 2019? \_\_\_\_\_
  - If Kepler sells the equipment on July 2, 2020 for \$4,775, will they recognize a gain or a loss on the sale of the plant asset? \_\_\_\_\_
  - What is the amount of the gain or loss? \_\_\_\_\_

**Problem 1 – Inventory Costing (5 points each)**

The following information shows the beginning inventory and purchases made by Lexington Mowers for model AT10 during 2017.

Beginning merchandise inventory – 10 mowers @ \$750 each  
 Purchase on January 20 – 8 mowers @ \$775 each  
 Purchase on March 14 – 12 units @ \$810 each  
 Purchase on June 21 – 15 units @ \$865 each  
 Purchase on October 5 – 8 units @ \$870 each  
 Ending mowers on hand – 24 units

Find the ending inventory and gross profit using FIFO, LIFO, and Weighted-average costing methods (round the Weighted average cost per unit to the nearest whole dollar). Assume Net Sales of \$85,750.

|                  | FIFO  | LIFO  | Weighted<br>Average |
|------------------|-------|-------|---------------------|
| Ending Inventory | _____ | _____ | _____               |
| Gross Profit     | _____ | _____ | _____               |





**Problem 3 – Financial Analysis (60 points) – Elliott Inc. shows the following data at the end of 2017:**

|                                    |  |
|------------------------------------|--|
| Cash - \$67,125                    | Sales - \$324,265                      |
| Net Accounts Receivable - \$18,461 | Sales Discount - \$19,635              |
| Merchandise Inventory - \$124,675  | Cost of Merchandise Sold - \$143,680   |
| Supplies - \$6,213                 | Operating Expenses - \$86,410          |
| Net Equipment - \$78,952           | Beginning Retained Earnings - \$60,573 |
| Current Liabilities - \$68,948     | Dividends - \$20,000                   |
| Capital Stock - \$125,000          | Shares of stock outstanding – 60,000   |
|                                    | Current Stock Price - \$34.72          |

Federal Income Tax = \$7,500 + 25% of the amount of income before tax over \$50,000

Find the following. Round percentages to the nearest 0.1% (5 points each):

|                               |                           |
|-------------------------------|---------------------------|
| Net Income after Tax _____    | Working Capital_____      |
| Ending Retained Earnings_____ | Current Ratio_____        |
| Gross Profit Percentage_____  | Debt Ratio_____           |
| Return on Sales_____          | Debt to Equity Ratio_____ |
| Return on Assets_____         | EPS_____                  |
| Return on Equity_____         | P/E Ratio_____            |



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| Short Answer                         | _____ (55 points)         |
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**Graders: Please double check and verify all  
scores and answer keys!**

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**Multiple Choice—(20 @ 2 pts. each)**

|     |          |     |          |
|-----|----------|-----|----------|
| 1.  | <b>A</b> | 11. | <b>C</b> |
| 2.  | <b>C</b> | 12. | <b>C</b> |
| 3.  | <b>D</b> | 13. | <b>B</b> |
| 4.  | <b>C</b> | 14. | <b>A</b> |
| 5.  | <b>B</b> | 15. | <b>A</b> |
| 6.  | <b>A</b> | 16. | <b>D</b> |
| 7.  | <b>D</b> | 17. | <b>A</b> |
| 8.  | <b>A</b> | 18. | <b>C</b> |
| 9.  | <b>A</b> | 19. | <b>C</b> |
| 10. | <b>A</b> | 20. | <b>B</b> |

**Short Answer Problems**

**1. Each answer worth 1 point. (33 points total) \*\*Note to Grader – If students spell out answers, or if they put D or C as Normal Balance, count as correct.**

| <b>Account</b>        | <b>Classification<br/>(A, L, SE, R, CM, E)</b> | <b>Financial Statement<br/>(IS, SOSE, BS, None)</b> | <b>Normal Balance<br/>(Dr, Cr, None)</b> |
|-----------------------|--|---|--|
| Petty Cash            | <b>A</b>                                       | <b>BS</b>   | <b>DR</b>                                |
| Prepaid Rent          | <b>A</b>                                       | <b>BS</b>   | <b>DR</b>                                |
| Income Tax Payable    | <b>L</b>                                       | <b>BS</b>   | <b>CR</b>                                |
| Sales Discount        | <b>R</b>                                       | <b>IS</b>   | <b>DR</b>                                |
| Preferred Stock       | <b>SE</b>                                      | <b>BS AND SOSE</b>                                  | <b>CR</b>                                |
| Fees                  | <b>R</b>                                       | <b>IS</b>   | <b>CR</b>                                |
| Time Draft Receivable | <b>A</b>                                       | <b>BS</b>   | <b>DR</b>                                |
| Insurance Expense     | <b>E</b>                                       | <b>IS</b>   | <b>DR</b>                                |
| Income Summary        | <b>SE</b>                                      | <b>N</b>  | <b>N</b>                                 |
| Retained Earnings     | <b>SE</b>                                      | <b>BS AND SOSE</b>                                  | <b>CR</b>                                |
| Purchases             | <b>CN</b>                                      | <b>IS</b>   | <b>DR</b>                                |



2. (2 points each)

Account Debited Interest Expense Amount \$24.94

Account Credited Interest Payable Amount \$24.94

a. \$24.94      b. February 2, 2019

3. (2 points each)

a. \$675

b. \$900

c. \$4,825

d. Gain

e. \$400

**Problem 1 – Inventory Costing (5 points each; 30 points total)**

|                  | FIFO            | LIFO            | Weighted<br>Average |
|------------------|-----------------|-----------------|---------------------|
| Ending Inventory | <u>\$20,745</u> | <u>\$18,560</u> | <u>\$19,632</u>     |
| Gross Profit     | <u>\$63,140</u> | <u>\$60,955</u> | <u>\$62,028</u>     |



**Problem 2 – Allowance Method of Uncollectibles (1 point per account and per amount; 22 points total)**

**\*\*Notes to Grader - Allowance for Uncollectible Accounts might be called Allowance for Doubtful Accounts, or something similar. Accounts Receivable could be written as A/R. Accept as correct. Entry on April 17<sup>th</sup> could be done as two separate entries (DR Cash, CR A/R – Erin Gordy for 240 – Then DR Allowance for UA, CR A/R – Erin Gordy for 240) Accept as correct**

| DATE    | ACCOUNT                                       | DEBIT | CREDIT |
|---------|---|-------|--------|
| Jan 14  | Allowance for Uncollectible Accounts          | 752   |        |
|         | Accounts Receivable / Keith Pritchard         |       | 752    |
| Apr 17  | Cash  | 240   |        |
|         | Allowance for Uncollectible Accounts          | 240   |        |
|         | Accounts Receivable / Erin Gordy              |       | 480    |
| Sept 25 | Accounts Receivable / Keith Pritchard         | 300   |        |
|         | Allowance for Uncollectible Accounts          |       | 300    |
| Sept 25 | Cash  | 300   |        |
|         | Accounts Receivable / Keith Pritchard         |       | 300    |
| Dec 31  | Uncollectible Accounts Expense (or Bad Debts) | 1,696 |        |
|         | Allowance for Uncollectible Accounts          |       | 1,696  |

**Problem 3 – Financial Analysis (5 points each; 60 points total)**

|                          |                       |                      |                      |
|--------------------------|-----------------------|----------------------|----------------------|
| Net Income after Tax     | <u>\$60,905</u>       | Working Capital      | <u>\$147,526</u>     |
| Ending Retained Earnings | <u>\$101,478</u>      | Current Ratio        | <u>3.1 or 3.14</u>   |
| Gross Profit Percentage  | <u>52.8%</u>          | Debt Ratio           | <u>23.3%</u>         |
| Return on Sales          | <u>20.0% or 24.5%</u> | Debt to Equity Ratio | <u>30.4%</u>         |
| Return on Assets         | <u>20.6%</u>          | EPS                  | <u>\$1.02</u>        |
| Return on Equity         | <u>26.9%</u>          | P/E Ratio            | <u>34.0 or 34.04</u> |