

JOHNSON GRADUATE SCHOOL OF MANAGEMENT
Cornell University

Sample Accounting Exemption Exam Questions

1. On July 1, 20D, Allen Company signed a \$50,000, one-year, 10 percent note payable. At due date, June 30, 20E, the principal and interest will be paid. Interest expense should be reported on the income statement (for the year ended December 31, 20D) as
 - A) \$5,000.
 - B) \$2,500.
 - C) \$1,250.
 - D) \$3,750.
 - E) None of the above is correct.

2. On July 1, 20D, Bill Company sold a three-year extended warranty for \$30,000 in cash. What amount of revenue from the sale should be reported on the income statement for the year ended December 31, 20D?
 - A) \$30,000.
 - B) \$10,000.
 - C) \$ 0.
 - D) \$ 5,000.
 - E) None of the above is correct.

3. Failure to make an adjusting entry to recognize accrued income taxes payable would cause an
 - A) understatement of expenses, liabilities and stockholders' equity.
 - B) overstatement of expenses and liabilities.
 - C) understatement of expenses and liabilities and an overstatement of stockholders' equity.
 - D) understatement of assets and stockholders' equity.
 - E) understatement of expenses and stockholders' equity.

4. Amgen and Genentech are competitors in the biotechnology market. In 2000, Amgen reported a gross profit percentage of 87.2% while Genentech's percentage was 71.5%. What is the most likely cause of Amgen's higher gross profit percentage?
 - A) Lower product selling prices for Amgen.
 - B) Lower product costs for Amgen.
 - C) Genentech's inability to control selling and administrative expenses.
 - D) Both B and C led to a higher gross profit percentage for Amgen
 - E) All of the above caused the higher percentage.

5. Prior to the write off of a \$30 customer account, Kraft Company had the following account balances:

Accounts receivable	\$9,800
Allowance for doubtful accounts	500

The net realizable value of the receivables before and after the write-off was:

	<u>Before</u>	<u>After</u>
A)	\$9,300	\$9,300
B)	\$9,300	\$9,270
C)	\$9,800	\$9,770
D)	\$9,800	\$9,800
E)	None of the above is correct.	

6. Which of the following statements is correct?

- A) FIFO reports lower income amounts than LIFO when prices are rising.
- B) LIFO reports a higher income amount than FIFO when prices are rising.
- C) LIFO reports a higher income amount than FIFO when prices are decreasing.
- D) LIFO reports the same amount of income as FIFO when prices are rising.
- E) None of the above is correct.

7. Which of the following statements is true?

- A) Applying the lower of cost or market (LCM) rule is optional and depends on whether a company wants to write off inventory when it loses its value or prefers to delay the write off until the inventory is sold
- B) The LIFO conformity rule requires use of LIFO for financial reports if it is adopted for tax purposes
- C) LIFO liquidation occurs when a company switches from LIFO to another cost method
- D) All are true
- E) None is true

8. Coca Cola has some bottling equipment which cost \$8.5 million, has a book value of \$4.1 million, and has estimated future cash flows of \$3.7 million expected over its remaining life. The amount to be recorded as a loss equals

- A) the \$8.5 million cost.
- B) the \$4.1 million book value.
- C) the \$.4 million difference between the book value and its future cash inflows.
- D) the \$4.8 million difference between the asset's cost and its future cash flows.
- E) zero since there is no impairment.

9. The records of Pam Company showed the following about a machine on January 1, 20H:

Purchased 1/1/20E for \$35,000

Accumulated depreciation at January 1, 20H, \$26,400

On July 1, 20H, the machine was sold for \$7,000. Depreciation for the first six months of 20H was \$1,467. The gain or loss on disposal would be

- A) \$1,600 gain.
- B) \$ 133 gain.
- C) \$1,600 loss.
- D) \$ 133 loss.
- E) None of the above is correct.

10. Philips Corporation issued (sold) \$50,000,000 of its 10% bonds at par on January 1, 20D. On December 31, 20D the bonds were trading on the bond exchange at 102½. Since the issue date, the market rate of interest on similar risk bonds has

- A) Increased.
- B) Decreased.
- C) Stayed the same.
- D) None of the above is correct.

11. The amortization of bond premium by the issuer will

- A) increase interest expense.
- B) decrease interest expense.
- C) have no effect on interest expense.
- D) determine the cash paid for interest.
- E) None of the above is correct.

12. On January 1, 20A, Will, Inc., bought 40% of the outstanding shares of Abe Corporation at a cost of \$137,000. The equity method of accounting for this investment is used. At the end of 20A, Abe Corporation reported \$30,000 net income and paid \$10,000 cash dividends. At the end of 20A, the shares had a market value of \$150,000. This investment should be reported on the balance sheet of Will, Inc., on December 31, 20A, at

- A) \$150,000.
- B) \$158,000.
- C) \$145,000
- D) \$148,000.
- E) None of the above is correct.

13. During 20D, Parnell Corporation purchased 100% of the outstanding voting shares of Jackson Corporation for \$4.0 million. Jackson's assets had a book value of \$5.0 million and fair market value of \$6.5 million. Fair market value of Jackson's liabilities equaled \$3.2 million. The amount of goodwill that will be recognized on Parnell's books is
- A) Zero
 - B) \$2,200,000
 - C) \$700,000
 - D) \$1,000,000
 - E) None of the above

14. Jackson Company gathered the following data to prepare its 20B statement of cash flows:

Net income	\$40,000
Depreciation expense	5,000
Accounts receivable decrease	3,000
Wages payable increase	4,000
Amortization of patent	1,000
Income tax payable decrease	2,000

Based only on the above data, the net cash inflow from operating activities during 20B was

- A) \$43,000.
 - B) \$51,000.
 - C) \$53,000.
 - D) \$45,000.
 - E) None of the above is correct.
15. Richardson Company paid \$2.2 million to purchase stock in another company, \$1.0 million to repurchase treasury shares, \$.5 million to buy short-term investments, sold used equipment for \$.8 million when its book value was \$.6 million, and purchased new equipment for \$3.4 million. How much will be reported as net investing cash flow?
- A) \$6.3 million net cash outflow.
 - B) \$5.3 million net cash outflow.
 - C) \$5.1 million net cash outflow.
 - D) \$4.8 million net cash outflow.

For question 16 and 17, assume that National had done each of the following in preparation of its 1997 statements, and no adjustments to correct any errors were made. What would be the effect of each on a) Total Assets on Dec. 31, 1997, b) Net Income for 1997, c) Cash flow from operations for 1997, and d) Retained Earnings on Dec. 31, 1997? Circle U/S for understate, O/S for overstate, or NE for no effect. Treat each item independently and ignore income taxes.

16. National paid interest of \$20 related to a building construction project during 1997. The project was not completed until 1998. They recorded the payment as a debit to interest expense (E) and a credit to cash (A). No subsequent adjustment was made.

- a) Total Assets on Dec. 31, 1997 U/S O/S NE
- b) Net Income for 1997 U/S O/S NE
- c) Cash Flow from operations for 1997 U/S O/S NE
- d) Retained Earnings on Dec. 31, 1997 U/S O/S NE

17. During April of 1997, National recognized that Office Equipment with a remaining useful life of 3 years would only last for 2 years. They failed to make any changes in depreciation calculations for 1997. No subsequent adjustment was made.

- a) Total Assets on Dec. 31, 1997 U/S O/S NE
- b) Net Income for 1997 U/S O/S NE
- c) Cash Flow from operations for 1997 U/S O/S NE
- d) Retained Earnings on Dec. 31, 1997 U/S O/S NE

18. Cost of goods sold during 2002 was \$53,336. Based on the following information, what was the total amount of manufacturing costs (raw materials, direct labor and factory overhead) transferred to finished goods inventory during 2002?

December 31 - Millions of dollars	2002	2001
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Finished products	\$ 928	\$ 947
Work in process	71	58
Raw materials	226	239
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Total inventory	1,225	1,244

19. Based on the following information, prepare the journal entry to record the 2002 provision for income taxes?

Note 9 - Income Taxes

The components of the provision for income taxes are as follows:
Fiscal Year Ended March 31,

	2002	2001	2000
Current:			
U.S. Federal	\$ 3,445	\$18,320	\$ 92,332
State and Local	(222)	270	25,850
Non-U.S.	23,617	14,824	16,779
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	26,840	33,414	134,961
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Deferred:			
U.S. Federal	(3,750)	12,640	(55,683)
State and Local	(3,021)	(3,557)	(24,105)
Non-U.S.	--	--	--
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	(6,771)	9,083	(79,788)
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Provision for income taxes	\$20,069	\$42,497	\$55,173
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Answers:

1. B
2. D
3. C
4. B
5. A
6. C
7. B
8. C
9. D
10. B
11. B
12. C
13. C
14. B
15. B
16. a) US
b) US
c) US
d) US
17. a) OS
b) OS
c) NE
d) OS
18. $53,336 - (947 - 928) = 53,317$
19.

Income tax expense	20,069	
Deferred taxes	6,771	
Taxes payable		26,840