

I. Multiple Choice: (60%)

1. The primary objective of financial accounting is:
 - A. To serve the decision-making needs of internal users.
 - B. To provide financial statements to help external users analyze an organization's activities.
 - C. To monitor and control company activities.
 - D. To provide information on both the costs and benefits of looking after products and services.
 - E. To know what, when, and how much to produce.
2. All of the following statements regarding a sales invoice are True except:
 - A. A sales invoice is a type of source document.
 - B. A sales invoice is used by sellers to record the sale.
 - C. A sales invoice is used by buyers to record purchases.
 - D. A sales invoice gives rise to an entry in the accounting process.
 - E. A sales invoice does not provide objective evidence about a transaction.
3. The system of preparing financial statements based on recognizing revenues when the cash is received and reporting expenses when the cash is paid is called:
 - A. Accrual basis accounting.
 - B. Operating cycle accounting.
 - C. Cash basis accounting.
 - D. Revenue recognition accounting.
 - E. Current basis accounting.
4. The closing process is necessary in order to:
 - A. calculate net income or net loss for an accounting period.
 - B. ensure that all permanent accounts are closed to zero at the end of each accounting period.
 - C. ensure that the company complies with state laws.
 - D. ensure that net income or net loss and owner withdrawals for the period are closed into the owner's capital account.
 - E. ensure that management is aware of how well the company is operating.
5. The following statements are true regarding the operating cycle of a merchandising company *except*:
 - A. The operating cycle begins with the purchase of merchandise.
 - B. The operating cycle is shortened by credit sales.
 - C. The operating cycle ends with the collection of cash from the sale of

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- merchandise.
- D. The operating cycle can vary in length among different merchandising companies.
- E. The operating cycle sometimes involves accounts receivable.
6. Regardless of the inventory costing system used, cost of goods available for sale must be allocated between:
- A. beginning inventory and net purchases during the period.
- B. ending inventory and beginning inventory.
- C. net purchases during the period and ending inventory.
- D. ending inventory and cost of goods sold.
- E. beginning inventory and cost of goods sold.
7. The special journals of many accounting systems include the:
- A. General Ledger.
- B. Cash disbursements journal.
- C. Cash receipts journal.
- D. Purchases journal.
- E. Sales journal.
8. Preparing a bank reconciliation on a monthly basis is an example of:
- A. Establishing responsibility.
- B. Separation of duties.
- C. Protecting assets by proving accuracy of cash records.
- D. A technological control.
- E. Poor internal control.
9. The account receivable turnover measures:
- A. How long it takes to sell accounts receivable to a factor.
- B. How often, on average, receivables are received and collected during the period.
- C. The relation of cash sales to credit sales.
- D. How long it takes to sell merchandise inventory.
- E. All of these.
10. When originally purchased, a vehicle had an estimated useful life of 8 years. The vehicle cost \$23,000 and its estimated residual value is \$1,500. After 4 years of straight-line depreciation, the asset's total estimated useful life was revised from 8 years to 6 years and there was no change in the estimated residual value. The depreciation expense in year 5 equals:

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- A. \$5,375.00.
B. \$2,687.50.
C. \$5,543.75.
D. \$10,750.00.
E. \$2,856.25.
11. Uncertainties such as natural disasters:
- A. Are not contingent liabilities because they are future events not arising from past transactions or events.
B. Are contingent liabilities because they are future events arising from past transactions or events.
C. Should be disclosed because of their usefulness to financial statements.
D. Are estimated liabilities because the amounts are uncertain.
E. Arise out of transactions such as debt guarantees.
12. A partnership designed to protect innocent partners from malpractice or negligence claims resulting from acts of another partner is a:
- A. Partnership.
B. Limited partnership.
C. Limited liability partnership.
D. General partnership.
E. Limited liability company.
13. The board of directors of a corporation:
- A. Are elected by the corporate registrar.
B. Are responsible for day-to-day operations of the business.
C. Do not have the power to bind the corporation to contracts, due to lack of mutual agency.
D. May not also be executive officers of the corporation, due to the separate entity principle.
E. Are responsible for and have final authority for managing corporate activities.
14. Bonds that have an option exercisable by the issuer to retire them at a stated dollar amount prior to maturity are known as:
- A. Convertible bonds.
B. Sinking fund bonds.
C. Serial bonds.
D. Callable bonds.

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- E. Junk bonds.
15. All of the following statements regarding equity securities are TRUE *except*:
- A. Equity securities should be recorded at cost when acquired.
 - B. Equity securities classified as available-for-sale record the dividend revenue when received.
 - C. Equity securities are valued at fair value if classified as held-for-trading securities.
 - D. Equity securities are valued at fair value if classified as available-for-sale securities.
 - E. Equity securities are valued at fair value if classified as significant influence securities.
16. Which of the following items can be reported on the statement of cash flows under financing activities?
- A. Declaration of a cash dividend.
 - B. Payment of a cash dividend.
 - C. Declaration of a share dividend.
 - D. Payment of a share dividend.
 - E. Share split.
17. The ability to meet short-term obligations and to efficiently generate revenues is called:
- A. Liquidity and efficiency.
 - B. Solvency.
 - C. Profitability.
 - D. Market prospects.
 - E. Creditworthiness.
18. Industry standards for financial statement analysis:
- A. Are based on a company's prior performance.
 - B. Are set by the government.
 - C. Are set by the financial performance and condition of the company's industry.
 - D. Are based on rules of thumb.
 - E. Compare a company's income with the prior year's income.
19. The comparison of a company's financial condition and performance to a base amount is known as:
- A. Financial reporting.

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- B. Horizontal ratios.
C. Investment analysis.
D. Risk analysis.
E. Vertical analysis.
20. Financial statements with data for two or more successive accounting periods placed in columns side by side, sometimes with changes shown in dollar amounts and percentages, are referred to as:
- A. Period-to-period statements.
B. Controlling statements.
C. Successive statements.
D. Comparative statements.
E. Serial statements.

II. Problems: (40%)

1. A company purchased two new delivery vans for a total of \$250,000 on January 1, 2013. The company paid \$40,000 cash and signed a \$210,000, 3-year, 8% note for the remaining balance. The note is to be paid in three annual end-of-year payments of \$81,487 each, with the first payment on December 31, 2013. Each payment includes interest on the unpaid balance plus principal.

Required:

- (1) Prepare a note amortization table using the format below: (6%)

Period	Debit	Debit			
Ending	Beginning	Interest	Notes	Credit	Ending
Date	Balance	Expense	Payable	Cash	Balance
12/31/13					
12/31/14					
12/31/15					

- (2) Prepare the journal entries to record the purchase of the vans on January 1, 2013 and the first annual installment payment on December 31, 2013. (4%)
(3) How to disclosure the liability on December 31, 2013. (4%)

2. Water Girl Corporation experienced the following during 2013:

Increase in accounts receivable	\$ 4,000
Increase in accounts payable (all accounts payable transactions are for inventory)	16,000
Increase in income taxes payable	300

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Decrease in prepaid expenses	10,000
Decrease in merchandise inventory	14,000
Decrease in long-term notes payable	20,000

The company's 2013 income statement follows:

Water Girl Corp.	
Income Statement	
For Year Ended December 31, 2013	
Sales	\$248,000
Cost of goods sold	<u>116,000</u>
Gross profit	\$132,000
Operating expenses:	
Wages and salaries expense	\$44,000
Rent expense	16,000
Depreciation expense	30,000
Amortization expense	12,000
Other expenses	<u>18,000</u>
	<u>120,000</u>
Income from operations	\$ 12,000
Gain on sale of equipment	<u>26,000</u>
Income before taxes	\$ 38,000
Income tax expense	<u>13,300</u>
Net Income	<u>\$ 24,700</u>

Required: (10%)

Calculate the company's net cash provided or used by operating activities using the direct method.

3. The following information is from Omega Corporation's income statement for 2013 and its balance sheets as of December 31, 2012, and 2013:

Net income	\$ 62,250
Sales (all on credit)	305,000
Cost of goods sold	123,000
Interest expense	15,600
Income tax expense	27,000

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	<u>2013</u>	<u>2012</u>
Assets:		
Cash	\$ 18,000	\$ 22,000
Marketable securities	25,000	0
Accounts receivable	38,000	42,000
Inventory	61,000	52,000
Prepaid insurance	6,000	9,000
Long-term investments	49,000	20,000
Plant assets, net	<u>218,000</u>	<u>225,000</u>
Total assets	<u>\$415,000</u>	<u>\$370,000</u>

Required: (10%)

From the above information, calculate the following ratios for 2013.

- (a) Inventory turnover.
- (b) Accounts receivable turnover.
- (c) Return on total assets.
- (d) Times interest earned.
- (e) Total assets turnover.

4. Kramer Corporation had the following long-term investment transactions.

- Jan 2 Purchased 5,000 shares of Optic, Inc. for \$42 per share plus \$7,000 in fees and commission. These shares represent a 35% ownership of Optic.
- Oct 15 Received Optic, Inc. cash dividend of \$2 per share.
- Dec 31 Optic reported a net loss of \$66,000 for the year.

Required: (6%)

Prepare the journal entries Kramer Corporation should record for these transactions and events.