Business ethics are the cornerstone of a successful free enterprise economy. Personal ethics are the foundation for all personal intercourse. In the University setting, ethical behavior is part of academic honesty. Please read and sign the following statement:

This examination represents my sole effort. I have neither given nor received aid in the completion of this examination.

Signed: ________________________________

Printed name: __________________________
For each of the following multiple choice or true/false questions, select the best answer.

In all instances requiring a computation, show computations in good form.

1. In what way is the Securities and Exchange Commission concerned about and supportive of accounting principles and standards?
   a. The SEC can establish GAAP
   b. The SEC has the power to prescribe, in whatever detail it desires, the accounting practices to be followed by all companies that fall within its jurisdiction.
   c. The SEC issues ASR's (Accounting Series Releases) to promulgate its requirements
   d. All of the above
   e. B and C only

2. For what purposes did the AICPA create the APB (Accounting Principles Board) in 1959?
   a. The creation of the APB was intended to advance the written expression of accounting principles
   b. The creation of the APB was intended to determine appropriate accounting practices
   c. The creation of the APB was intended to narrow differences and inconsistencies in accounting practice
   d. All the above
   e. A and B

3. How are FASB discussion memoranda and FASB exposure drafts related to FASB Statements?
   a. Both are promulgated by the technical staff of the FASB in order to get public input regarding items under consideration by the FASB
   b. Both are promulgated by the FASB in order to get public input regarding items under consideration by the FASB
   c. Discussion memoranda are promulgated by the technical staff of the FASB in order to get public input regarding items under consideration by the FASB; Exposure drafts are promulgated by the FASB
   d. Exposure drafts are promulgated by the technical staff of the FASB in order to get public input regarding items under consideration by the FASB; Discussion memoranda are promulgated by the FASB
   e. None of the above

4. Distinguish between FASB "statements of financial accounting standards" and FASB "statements of financial accounting concepts".
   a. FASB "statements of financial accounting standards" constitute GAAP
   b. FASB "statements of financial accounting concepts" constitute GAAP
   c. FASB "statements of financial accounting standards" do not establish GAAP but set forth fundamental objectives and concepts that the FASB intends to use for future standards
   d. Both a and c
   e. None of the above

5. What is rule 203 of the Code of Professional Conduct?
   a. Rule 203 establishes the process of establishing GAAP
   b. Rule 203 prohibits a member of the AICPA from expressing an opinion that financial statements conform to GAAP if those statements contain a material departure from an accounting principle established by the FASB.
   c. Rule 203 prohibits a member of the AICPA from expressing an opinion that financial statements conform to GAAP if those statements contain a material departure from an accounting principle established by the FASB or its predecessors.
   d. Both a and b
   e. None of the above
6. Rank from the most authoritative to the least authoritative the following items: FASB Technical Bulletins, AICPA Practice Bulletins, FASB Standards; Rule 203.
   a. FASB Technical Bulletins, AICPA Practice Bulletins, FASB Standards; Rule 203
   b. AICPA Practice Bulletins, FASB Technical Bulletins, FASB Standards; Rule 203
   c. Rule 203, FASB Technical Bulletins, AICPA Practice Bulletins, FASB Standards
   d. FASB Standards, Rule 203 FASB, Technical Bulletins, AICPA Practice Bulletins
   e. FASB Standards, FASB Technical Bulletins, AICPA Practice Bulletins; Rule 203

7. What is a “Conceptual Framework”?
   a. A conceptual framework is a set of concepts that governs the creation of GAAP.
   b. A conceptual framework is a set of concepts that establishes a system of interrelated objectives and fundamentals that helps lead to consistent standards of GAAP.
   c. A conceptual framework the qualitative characteristics that contribute to the qualitative characteristics of GAAP
   d. Both a and c
   e. None of these

8. What is the distinction between comparability and consistency?
   a. Comparability facilitates comparisons between information presented in the financial statements of different companies at a single point in time.
   b. Consistency facilitates comparison between information presented in the financial statements of different companies at different points in time.
   c. Consistency facilitates comparison between information presented in the financial statements of a single company at different points in time
   d. Both a and c
   e. Both b and c

9. What are the four basic assumptions that underlie the financial accounting structure?
   a. Periodicity; economic entity; going concern; monetary unit
   b. Historical cost; revenue recognition; matching; full disclosure
   c. Cost benefit; materiality; industry practice; conservatism
   d. Economic entity; materiality; matching; monetary unit
   e. Historical cost; cost benefit; economic entity; matching

10. What is the basic accounting problem created by the monetary unit assumption when there is significant inflation?
    a. Inflation does not cause any material problems
    b. Inflation causes the monetary units to have different values thereby reducing its validity
    c. Inflation does not cause any material problems because under Concept No. 5 the FASB allows the monetary unit to be adjusted for reporting purposes
    d. Both a and c
    e. None of the above

11. Statement of Financial Accounting Concepts No. 5 identifies four characteristics that an item must have before it is recognized in the financial statements. They are:
    a. Relevance, reliability, materiality verifiability
    b. Definitions, measurability, relevance, reliability
    c. Predictive value, timeliness, neutrality, consistency
    d. Cost benefit, materiality, acceptance as industry practice, conservatism
    e. Comparability, predictive value, timeliness, periodicity
12. Why are revenue and expense accounts called temporary or nominal accounts?
   a. Industry practice
   b. They are closed to the Income Summary at the end of the period
   c. Their balances are reduced to zero at the end of the period
   d. Both a and c
   e. All the above (a, b and c apply)

13. What is the purpose of the Cost of Goods Sold account (assume a periodic inventory system)?
   a. Act as a clearing account to bring together those items directly affecting the cost of goods sold for the period
   b. Act as a way to keep track of inventory changes during the period.
   c. Act as a permanent record of inventory increases and decreases
   d. Both a and b
   e. None of the above

14. What is the purpose of the Cost of Goods Sold account (assume a perpetual inventory system)?
   a. Act as a clearing account to bring together those items directly affecting the cost of goods sold for the period
   b. Act as a way to keep track of inventory changes during the period.
   c. Act as a permanent record of inventory increases and decreases
   d. Both a and b
   e. None of the above

15. Why are adjusting entries necessary?
   a. To transfer the nominal accounts to capital and reduce the account balances to zero
   b. To meet the matching principle
   c. To make the financial statements more accurate
   d. Both a and c
   e. Both b and c

16. Why are closing entries necessary?
   a. To transfer the nominal accounts to capital and reduce the account balances to zero
   b. To meet the matching principle
   c. To make the financial statements more accurate
   d. Both a and c
   e. Both b and c

17. A worksheet is
   a. A permanent record, and its use is required in the accounting cycle
   b. A required but informal device for accumulating and sorting information needed for the preparation of the financial statements.
   c. An optional and informal device for accumulating and sorting information needed for the preparation of the financial statements.
   d. Both a and b
   e. None of these

18. What kinds of questions about future cash flows do investors and creditors attempt to answer with information in the income statement?
   a. Prediction the amount and timing and uncertainty of future cash flows
   b. Evaluation of past performance of the business
   c. Evaluation of riskiness (level of uncertainty) of future income flows
   d. Highlights the relationship between the components of net income
   e. All of the above
19. What is earnings management?
   a. The “smoothing” of income over time.
   b. Planned timing of revenues, expenses and losses
   c. A component of good management that results in more predictable earning to the benefit of both creditors and investors
   d. Both a and b
   e. None of these

20. What are the objectives of GAAP in their application to the Income Statement?
   a. Measure and report the results of operations as they occur for a specified period.
   b. Measure and report the results of operations as they occur for a specified period without regard to the many assumptions and estimates that are necessary.
   c. Measure and report the results of operations as they occur for a specified period without recognizing any artificial exclusions or modifications.
   d. Either b or c
   e. None of these

   a. The current operating performance income statement includes all items of income, expense gain and loss that is recognized in the accounts for the current year.
   b. The all-inclusive income statement contains only the revenues and usual expenses of the current year.
   c. Both a and b
   d. Neither a nor b
   e. None of these

22. How should prior period adjustments be reported in the financial statements?
   a. On the income statement after continuing operations net of tax affect
   b. On the income statement as an “other item” net of tax affect
   c. As an adjustment to the beginning balance of retained earnings
   d. Either a or b depending on the nature of the error
   e. None of these

23. What is meant by solvency?
   a. The amount of time that is expected to elapse until an asset is converted into cash.
   b. The ability of an enterprise pay its debts as they mature
   c. The ability to increase assets over liabilities
   d. Both a and c
   e. None of these

24. What types of **contractual obligations** must be disclosed in great detail in the notes to the balance sheet?
   a. General debt obligations
   b. Lease contracts
   c. Pension arrangements
   d. Stock option plans
   e. All of these

25. Which of the following is a financing activity?
   a. Interest from any source
   b. Making or collecting loans
   c. Obtaining capital from the owners of the company
   d. Obtaining capital from outsiders
   e. Acquiring or disposing of debt
Consider the following accounts and balances:

<table>
<thead>
<tr>
<th>Administrative expenses:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officers salaries</td>
</tr>
<tr>
<td>Depreciation of equipment                        $ 3,960</td>
</tr>
<tr>
<td>Cost of goods sold                               $ 60,570</td>
</tr>
<tr>
<td>Rental revenue                                   $ 17,230</td>
</tr>
<tr>
<td>Selling Expense</td>
</tr>
<tr>
<td>Transportation out                               $ 2,690</td>
</tr>
<tr>
<td>Sales Commissions                                $ 7,980</td>
</tr>
<tr>
<td>Depreciation Expense                             $ 6,480</td>
</tr>
<tr>
<td>Sales                                           $ 96,500</td>
</tr>
<tr>
<td>Income Tax                                      $ 9,070</td>
</tr>
<tr>
<td>Interest Expense of Bonds payable               $ 1,860</td>
</tr>
</tbody>
</table>

In the space below and to the right to prepare an income statement in good form using the multiple step format and then answer the following questions:

26. What is the Gross profit?
   a. 25,290  
   b. 9,920   
   c. 16,220  
   d. 35,930  
   e. 27,150

27. What is the Net income?
   a. 25,290  
   b. 9,920   
   c. 16,220  
   d. 35,930  
   e. 27,150

28. What is the total revenue?
   a. 25,290  
   b. 9,920   
   c. 16,220  
   d. 35,930  
   e. 27,150
Questions 29 thru 33 refer to the following worksheet.

Instructions:

Using the other date included in the worksheet below, complete the worksheet and answer the following questions.

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Trial Balance</th>
<th>Adjustments</th>
<th>Adjusted Trial Balance</th>
<th>Income Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dr.</td>
<td>Cr.</td>
<td>Ref</td>
<td>Dr.</td>
<td>Ref</td>
</tr>
<tr>
<td>Cash</td>
<td>2,300</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>2,600</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roofing Supplies</td>
<td>1,100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>6,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unearned Service Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common Stock</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained Earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries Expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous Expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>12,600</td>
<td>12,600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies Expense</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries Payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other data:

(a) A physical count reveals only $520 dollars of supplies on hand
(b) Equipment is depreciated at the rate of $120 per month
(c) Unearned service revenue amounted to $100 on March 31.
(d) Accrued salaries are $850.
Questions 29 through 33 refer the worksheet completed on page 6 of this examination.

29. What is the net income?
   a. 1,750
   b. 2,150
   c. 3,200
   d. 1,050
   e. none of these

30. What is the total of expenses appearing on the income statement?
   a. 1,750
   b. 2,150
   c. 3,200
   d. 1,050
   e. none of these

31. In what column would Salaries payable appear?
   a. Worksheet
   b. Adjustments debit
   c. Adjustments credit
   d. Income Statement Credit
   e. Balance Sheet Debit

32. What is the total in the Adjustments, debit column?
   a. 1,750
   b. 2,150
   c. 3,200
   d. 1,050
   e. none of these

33. In what columns should the Net Income amount be shown?
   a. Adjustments credit
   b. Income statement Debit
   c. Balance Sheet Credit
   d. Adjustments credit
   e. Both b and c

For questions 34 through 46 please indicate how each of the following transactions should be classified using the following choices:
   a. Operating activity—add to net income
   b. Operating activity—deduct from net income
   c. Investing activity
   d. Financing activity
   e. Not reported as a cash flow

34. Issuance of capital stock
35. Purchase of land and building
36. Redemption of bonds
37. Sale of equipment
38. Depreciation of machinery
39. Amortization of patent
40. Issuance of bonds for plant assets
41. Payment of cash dividends
42. Exchange of furniture for office equipment
43. Purchase of treasury stock
44. Loss on sale of equipment
45. Increase in accounts receivable during the year
46. Decrease in accounts payable during the year
For questions 47 through 50, please indicate how each of the following events should be recorded.

47. On 12/15/x2 CSOLB declared a cash dividend of $2.50 per share to stockholders of record on 12/31/x2. The dividend is payable on 1/15/x3. CSULB has issued 1,000,000 shares of common stock of which 50,000 are held in the treasury.
   a. Long-term liability of $2,500,000
   b. Short-term (current) liability of $2,500,000
   c. Long-term liability of $2,375,000
   d. Short-term (current) liability of $2,375,000
   e. None of these

48. On 12/31/x2 CSULB declared a stock 10% stock dividend to stockholders of record on 1/15/x3. The dividend will be distributed on 1/31/x3. CSULB’s common stock has a par of $10 and a market value of $38.
   a. Long-term liability of $10,000,000
   b. Short-term (current) liability of $10,000,000
   c. Long-term liability of $38,000,000
   d. Short-term (current) liability of $38,000,000
   e. None of these

49. On 12/31/x1 customer advances were $12,000,000. During x2, CSULB collected $30,000,000 of customer advances, and advances of $25,000,000 were earned.
   a. $17,000,000 current liability
   b. $17,000,000 long-term liability
   c. $18,000,000 current liability
   d. $18,000,000 long-term liability
   e. 5,000,000 long-term liability

50. At 12/31/x2 Retained earnings appropriated for future inventory losses is $15,000,000
   a. $15,000,000 current liability
   b. $15,000,000 long-term liability
   c. no adjustment is made at all
   d. adjust the income statement
   e. the appropriation would probably be noted in the notes to the financial statements
1. E Chp1Q10
2. D Chp1Q12
3. A Chp1Q16
4. A Chp1Q17
5. C Chp1Q18
6. E Chp1Q19
7. B Chp2Q1
8. D Chp2Q6
9. A Chp2Q10
10. B Chp2Q12
11. B Chp2Q21
12. E Chp3Q4
13. A Chp3Q10
14. B Chp3Q11
15. E Chp3Q14
16. A Chp3Q15
17. C Chp3Q18
18. E Chp4Q1
19. D Chp4Q6
20. C Chp4Q8
21. D Chp4Q13
22. C Chp4Q14
23. B Chp5Q1
24. e Chp5Q22
25. C Chp5Q28
26. D Chp4Ex5
27. C Chp4Ex5
28. E Chp4Ex5
29. E Chp3Ex18
30. B Chp3Ex18
31. C Chp3Ex18
32. A Chp3Ex18
33. E Chp3Ex18
34. D Chp5Ex10
35. C Chp5Ex10
36. D Chp5Ex10
37. C Chp5Ex10
38. A Chp5Ex10
39. A Chp5Ex10
40. E Chp5Ex10
41. D Chp5Ex10
42. E Chp5Ex10
43. D Chp5Ex10
44. A Chp5Ex10
45. B Chp5Ex10
46. B Chp5Ex10
47. D Chp5Ex8
48. E Chp5Ex8
49. A Chp5Ex8
50. E Chp5Ex8