

ACCT 3110 – Professor Mayper
Answer Key – Exam I – Spring 2003

PART 1

I. Matching: 2, W, B, 7, N, U, Q, G

II. Adjusting Entries

	DR	CR
1. Unearned revenue	4,900	
Sales revenue		4,900
2. Bad debt expense	3,080	
Allowance for uncollectible accounts		3,080
3. Prepaid insurance	1,400	
Insurance expense		1,400
4. Depreciation expense – building	23,000	
Accumulated depreciation – building		23,000
5. Interest expense	10,000	
Interest payable		10,000
6. Rent expense	7,250	
Prepaid rent		6,600
Rent payable		650
****OR****		
6. Rent expense	6,600	
Prepaid rent		6,600
Rent expense	650	
Rent payable		650
7. Supplies	325	
Supplies expense		325

III. Closing Entries

	column 1	column 2
Wage Expense	YES	INC
Accumulated Depreciation	NO	BAL
Income Summary	YES	NONE
Cost of Goods Sold	YES	INC
Dividends Declared	YES	SSE
Gain due to change in depreciation methods	YES	INC

IV. Discontinued Operations

Income (Loss) from Discontinued Operations: (85,000) for 2002; (13,000) for 2003

Gain (Loss) due to Impairment: (4,000) for 2002; zero for 2003

Gain (Loss) from Sale of Discontinued Operation: zero for 2002; 4,500 for 2003

V. Essay: SEE BOOK for applicable accounting theory

VI. Income Statement and Retained Earnings

A.]

DJ's
INCOME STATEMENT
for the year ending 12/31/02

Income from continuing operations before income taxes	\$430,000
Income tax expense	<u>(172,000)</u>
Income from continuing operations	258,000
Cumulative effect of change in accounting principle (net of \$5,200 tax expense)	<u>7,800</u>
Net Income	\$265,800

B.] \$241,500

PART 2

I Multiple Choice: 1.A, 2.C, 3.D, 4.D, 5.A

II. Long Term Construction Contracts—Financial Statement Interpretation

- a. \$4,646,000
- b. \$3,000,000
- c. \$4,000,000
- d. 37.5%

III. Revenue Recognition—Long term construction

A.] 1.

2001

CURRENT ASSETS:

Accounts Receivable 59,000

CURRENT LIABILITIES:

Billings 6,000,000
Less: CIP (3,895,000)
2,105,000

2. None in 2001; 1,800,000 in 2002

3. 800,000 in 1999; 2,852,500 in 2000

B.] i.) 4,200,000 in 2000; 5,700,000 in 2001

ii) 947,500 in 2000; 457,500 in 2001; (5,000) in 2002

IV. Cash Flow/Cash-Accrual

REVENUES: Sales 165,400

EXPENSES: Cost of goods sold 58,100; Rent expense 17,350; Wages expense 88,160

NET INCOME 1,790.