This evaluation exam will be used to determine your knowledge of Financial Accounting and to assist the College in determining your appropriate curriculum.

Topics:
The following topics appear on this exam. Some of these topics are addressed in several questions, while others appear only once. This list is not meant to be all-inclusive; there are topics on the exam not on this list. Preparation for the exam should include review of these topics, referring to a Financial Accounting textbook.

<table>
<thead>
<tr>
<th>Adjusting journal entries</th>
<th>Gross profit/Gross margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Journal entries</td>
<td>Inventory Errors</td>
</tr>
<tr>
<td>The accounting equation</td>
<td>Fixed Asset Sales</td>
</tr>
<tr>
<td>Current ratio</td>
<td>Treasury stock</td>
</tr>
<tr>
<td>Changes in estimates</td>
<td>Statement of cash flows</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>Working capital</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>Diluted EPS</td>
</tr>
<tr>
<td>Allowance for Doubtful Accounts</td>
<td>Deferred Taxes</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Bond interest expense</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>Bond discounts and premiums</td>
</tr>
<tr>
<td>Asset disposals with gains or losses</td>
<td>Effective-interest amortization</td>
</tr>
<tr>
<td>Basic EPS</td>
<td>Straight-line amortization</td>
</tr>
<tr>
<td>Double-declining balance method of depreciation</td>
<td>Prior-period adjustments</td>
</tr>
<tr>
<td>Proceeds from bond issues with present value computations</td>
<td>Leases</td>
</tr>
<tr>
<td>Cash-to-accrual computations</td>
<td>Cost of Goods Sold</td>
</tr>
</tbody>
</table>

Exam Procedures:
You may take the exam at the Troy Campus Testing Center in room 120, the University Center at Macomb Community College, or the Novi Campus. Present this form and the proctor will provide you with the appropriate evaluation exam. Please visit the testing center website for additional guidance. 
http://www.walshcollege.edu/testingcenter
If you have any questions, please contact Deborah Mourray, Accounting Academic Advisor at: Deborah.Mourray@walshcollege.edu
248-823-1290 Office
248-705-8819 Cell
248-823-1161 Fax

Score: _________ Pass/Fail
1. This exam is 25 multiple choice questions. All answers must go on the Scantron card. Be sure to fully erase any stray marks on the Scantron before completion of the exam. Note that the Scantron card is “scrambled” and you must carefully mark the proper line. For example, your answer to Question #1 will not be marked on the top line of the Scantron; instead, you must locate the line for #1, which is included in the top ten lines of the Scantron.

2. You may make notations on the exam, but they will not be a factor in your score. No reference to books or notes is allowed. You are allowed the following during this exam:
   - Pencils
   - Erasers
   - Calculator and scrap paper, both provided by Walsh College

3. Answer all 25 questions. Be sure your name is on both the Scantron card and the exam. Do not include your social security number. Provide your signature and today’s date in the box below.

4. You are allowed 2 hours for this exam. Passing score is 70%.

5. When you have completed the Exam, place the Exam, the scrap paper and the Scantron in the white envelope. Write your name and date on the white envelope. Seal the white envelope. Return the gold envelope and the white envelope to the Proctor.

6. The academic advisor will inform you of your score. You will not be allowed to review the exam or your Scantron card.

I acknowledge that I have been directed to work individually on this exam.

I certify that I have not referred to notes, books, additional calculators, communication devices, or received information from other individuals during the exam.

Signature ____________________________                       Date __________________
Walsh College  
MAC-W Accounting Practice Evaluation  

1. Which of the following errors could result in an overstatement of stockholders’ equity but not current assets?
   a) An understatement of accrued sales expenses  
   b) Current note receivable principal is misclassified as a noncurrent asset  
   c) Annual depreciation on manufacturing machinery is understated  
   d) Holiday pay expense for administrative employees is misclassified as manufacturing overhead  
   e) Amounts earned were classified as unearned revenue  

2. During 2016, Paul Company discovered that the ending inventories reported on its financial statements were incorrect by the following amounts:  
   
<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$60,000 understated</td>
</tr>
<tr>
<td>2015</td>
<td>75,000 overstated</td>
</tr>
</tbody>
</table>
   
   Prior to any adjustments for these errors and ignoring income taxes, Paul’s retained earnings at December 31, 2016, would be:  
   a) Correct  
   b) $15,000 overstated  
   c) $15,000 understated  
   d) $135,000 overstated  
   e) $75,000 overstated  

3. During the current year, assets of Ace Plumbing increased from $68,000 to $76,000, and liabilities increased from $25,000 to $28,000. If no additional capital contributions were made during the year, owner’s withdrawals totaled $3,000, and expenses totaled $30,000, what was Ace Plumbing’s revenue for the year?  
   a) $ 38,000  
   b) $ 44,000  
   c) $ 40,000  
   d) $ 14,000  
   e) $ 36,000
4. At January 1, 2015, a firm had $407,500 in current assets, $500,000 in stockholders’ equity, and a current ratio of 2.20. During the year, only the following transactions occurred:

- performed $1,340,000 of services for customers, receiving $960,000 in cash and the rest on account
- purchased $210,000 of land on a short-term note
- paid $42,800 on accounts payable
- recorded accrued income tax expense of $32,300
- paid $1,000,000 of general expenses, of which $920,000 was for 2015 and the rest was for 2014

What is the current ratio at December 31, 2015 (rounded)?

a) 2.31
b) 2.04
c) 1.97
d) 1.85
e) 1.68

5. Conn Co. reported a retained earnings balance of $400,000 at December 31, 2014. In August 2016, Conn determined that insurance premiums of $60,000 for the four-year period beginning January 1, 2014, had been paid and fully expensed in 2014. Conn has a 30% income tax rate. No differences exist between the accounting treatment and tax treatment of this item. What amount should Conn report as adjusted 1/1/15 retained earnings?

a) $421,000
b) $368,500
c) $431,500
d) $355,000
e) $445,000

6. Accumulated other comprehensive income should be reported on the balance sheet as a component of:

<table>
<thead>
<tr>
<th>Stockholders’ Equity</th>
<th>Additional paid-in capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) No</td>
<td>Yes</td>
</tr>
<tr>
<td>b) Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>c) Yes</td>
<td>No</td>
</tr>
<tr>
<td>d) No</td>
<td>No</td>
</tr>
</tbody>
</table>
7. Porter Corporation reports the following information:

Net income $250,000
Depreciation expense 70,000
Decrease in accounts receivable 30,000
Purchase of equipment 40,000

Porter should report cash provided by operating activities of:

a) $150,000
b) $210,000
c) $290,000
d) $350,000
e) $250,000

8. Burnett Corporation had a 1/1/17 balance in the Allowance for Doubtful Accounts of $15,000. During 2017, it wrote off $10,800 of accounts and collected $3,150 on accounts previously written off. The balance in Accounts Receivable was $360,000 at 1/1 and $300,000 at 12/31. Credit sales in 2017 totaled $1,000,000. At 12/31/17, Burnett estimates that 2% of credit sales will prove to be uncollectible. What should Burnett report as its Allowance for Doubtful Accounts at 12/31/17?

a) $2,650
b) $13,350
c) $6,000
d) $27,350
e) $20,000

9. Pine Company purchased a depreciable asset for $360,000. The estimated salvage value is $24,000, and the estimated useful life is 10 years. The double-declining balance method will be used for depreciation. What is the depreciation expense for the second year on this asset?

a) $33,600
b) $63,000
c) $67,500
d) $57,600
e) $53,760
10. On January 1, 2017, the Accumulated Depreciation—Machinery account of a particular company showed a balance of $370,000. At the end of 2017, after the adjusting entries were posted, it showed a balance of $395,000. During 2017, one of the machines which cost $125,000 was sold for $60,500 cash. This resulted in a gain of $4,000. Assuming that no other assets were disposed of during the year, how much was depreciation expense for 2017?

   a) $85,500  
   b) $93,500  
   c) $25,000  
   d) $60,500  
   e) $35,500

11. Eddy Corp.'s 2018 income statement showed pretax accounting income of $750,000. To compute the federal income tax liability, the following 2018 data are provided:

   EPA fine for environmental damage $  30,000
   Depreciation deducted for tax purposes in excess of depreciation deducted for financial statement purposes 60,000
   Estimated federal income tax payments made 150,000
   Enacted corporate income tax rate 30%

What amount of current federal income tax liability should be included in Eddy's December 31, 2018 balance sheet?

   a) $57,000  
   b) $66,000  
   c) $75,000  
   d) $198,000  
   e) $48,000
12. Limeway Company issues $7,000,000, 6%, 5-year bonds dated January 1, 2017 on January 1, 2017. The bonds pay interest semiannually on June 30 and December 31. The bonds are issued to yield 5%. What are the proceeds from the bond issue?

<table>
<thead>
<tr>
<th></th>
<th>2.5%</th>
<th>3.0%</th>
<th>5.0%</th>
<th>6.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of a single sum for 5 periods</td>
<td>.88385</td>
<td>.86261</td>
<td>.78353</td>
<td>.74726</td>
</tr>
<tr>
<td>Present value of a single sum for 10 periods</td>
<td>.78120</td>
<td>.74409</td>
<td>.61391</td>
<td>.55839</td>
</tr>
<tr>
<td>Present value of an annuity for 5 periods</td>
<td>4.64583</td>
<td>4.57971</td>
<td>4.32948</td>
<td>4.21236</td>
</tr>
<tr>
<td>Present value of an annuity for 10 periods</td>
<td>8.75206</td>
<td>8.53020</td>
<td>7.72173</td>
<td>7.36009</td>
</tr>
</tbody>
</table>

a) $6,370,743  
b) $7,000,000  
c) $7,303,092  
d) $7,304,231  
e) $7,306,333

13. A company issues $150,000, 8%, 5-year bonds to yield 10% on January 1, 2017. Interest is paid on June 30 and December 31. The proceeds from the bonds are $138,417. Using effective-interest amortization, approximately how much interest expense will be recognized in 2017?

a) $11,073  
b) $10,842  
c) $13,888  
d) $11,093  
e) $13,842

14. Using straight-line amortization, what is the carrying value of the bonds on December 31, 2018?

a) $143,050  
b) $145,367  
c) $140,733  
d) $136,083  
e) $143,954
15. The following changes in Vel Corp.’s account balances occurred during 2016:

<table>
<thead>
<tr>
<th>Category</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>$89,000 increase</td>
</tr>
<tr>
<td>Liabilities</td>
<td>27,000 increase</td>
</tr>
<tr>
<td>Capital stock</td>
<td>60,000 increase</td>
</tr>
<tr>
<td>Additional paid-in-capital</td>
<td>6,000 increase</td>
</tr>
</tbody>
</table>

Except for a $13,000 dividend payment and the year’s net income, there were no changes in retained earnings for 2016. No other equity changes existed.

What was Vel’s net income for 2016?

a) $ 4,000  
b) $ 9,000  
c) $50,000  
d) $37,000  
e) $63,000

16. Equipment was purchased at the beginning of 2015 for $156,000. At the time of its purchase, the equipment was estimated to have a useful life of six years and a salvage value of $30,000. The equipment was depreciated using the straight-line method of depreciation through 2017. At the beginning of 2018, the estimate of useful life was revised to a total life of eight years (5 years remaining) and the expected salvage value was changed to $18,000. The amount to be recorded for depreciation for 2018, reflecting these changes in estimates, is:

a) $31,800  
b) $19,800  
c) $37,800  
d) $23,625  
e) $15,000

17. Stone, Inc. issued bonds with a maturity amount of $200,000 and a maturity ten years from date of issue. If the bonds were issued at a discount, this indicates that:

a) The effective yield or market rate of interest exceeded the stated (nominal) rate  
b) The nominal rate of interest exceeded the market rate  
c) The market and nominal rates were the same  
d) No necessary relationship exists between the two rates
18. Decker Company assigns some of its patents to other enterprises under a variety of licensing agreements. In some instances advance royalties are received when the agreements are signed, and in others, royalties are remitted within sixty days after each license year-end. The following data are included in Decker’s December 31 balance sheet:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royalties receivable</td>
<td>$90,000</td>
<td>$75,000</td>
</tr>
<tr>
<td>Unearned royalties</td>
<td>60,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>

During 2016 Decker received royalty remittances of $200,000. In its income statement for the year ended December 31, 2016, Decker should report royalty income of:

a) $195,000  
b) $235,000  
c) $220,000  
d) $205,000  
e) $165,000

19. Based solely upon the following sets of circumstances indicated below, which set gives rise to a Capitalized lease for a lessor?

<table>
<thead>
<tr>
<th>Transfers Ownership by End of Lease?</th>
<th>Contains Bargain Purchase Option?</th>
<th>Collectibility of Lease Payments Assured?</th>
<th>Any Important Uncertainties?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>b) Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>c) Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>d) No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>e) Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

20. At the end of 2015, Ritzcar Co. failed to accrue wages earned by employees during 2015 but paid in 2016. Ritzcar recorded the expense when the wages were paid early in 2016. Ritzcar properly accrued wages at the end of 2016. What was the effect of the error on 2016 ending working capital and on the 2015 ending retained earnings balance?

<table>
<thead>
<tr>
<th></th>
<th>2016 ending working capital</th>
<th>2015 ending retained earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>Overstated</td>
<td>Overstated</td>
</tr>
<tr>
<td>b)</td>
<td>No effect</td>
<td>Overstated</td>
</tr>
<tr>
<td>c)</td>
<td>No effect</td>
<td>No effect</td>
</tr>
<tr>
<td>d)</td>
<td>Overstated</td>
<td>No effect</td>
</tr>
<tr>
<td>e)</td>
<td>Understated</td>
<td>Overstated</td>
</tr>
</tbody>
</table>
Use the following information to answer the next two questions

Gilley Co. had 200,000 shares of common stock, 20,000 shares of preferred stock, and $1,000,000 of 10% convertible bonds outstanding during 2017. During 2017, Gilley paid dividends of $.90 per share on the common stock and $4.90 per share on the preferred stock. Each $1,000 bond is convertible into 60 shares of common stock. The net income for 2017 was $600,000 and the income tax rate was 30%.

21. Basic earnings per share for 2017 is (rounded to the nearest cent):
   a) $2.21  
   b) $2.42  
   c) $2.51  
   d) $2.70  
   e) $3.00

22. Diluted earnings per share for 2017 is (rounded to the nearest cent):
   a) $2.51  
   b) $2.20  
   c) $2.32  
   d) $2.58  
   e) $1.93

23. A deferred tax liability arises when an expense item is reported for tax purposes in a period:
<table>
<thead>
<tr>
<th>After it is reported in financial income</th>
<th>Before it is reported in financial income</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>b) Yes</td>
<td>No</td>
</tr>
<tr>
<td>c) No</td>
<td>Yes</td>
</tr>
<tr>
<td>d) No</td>
<td>No</td>
</tr>
</tbody>
</table>

24. The excess of the fair value of leased property at the inception of the lease over its cost or carrying amount should be classified by the lessor as:
   a) Unearned income from a sales-type lease  
   b) Unearned income from a direct-financing lease  
   c) Manufacturer’s or dealer’s profit from a sales-type lease  
   d) Manufacturer’s or dealer’s profit from a direct-financing lease  
   e) Earned income from a direct-financing lease
25. Which of these accounts would be shown in the Stockholders’ Equity section of the balance sheet?

<table>
<thead>
<tr>
<th>Convertible Bonds</th>
<th>Treasury Stock</th>
<th>Retained Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>b) No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>c) No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>d) No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>e) Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
MAC Accounting Practice Evaluation
Answer Key

1. c
2. a
3. a
4. a
5. c
6. c
7. d
8. d
9. d
10. b
11. b
12. e
13. c
14. a
15. b
16. e
17. a
18. d
19. c
20. b
21. c
22. b
23. c
24. c
25. b