Walsh College Student Name: ________________________

Intermediate Accounting II

Practice Evaluation Exam Phone/Email: ________________________

Date: ________________________________

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.

Earning Per Share Basic Earnings Per Share Diluted Earnings Per Share	**Accounting Errors and Changes** Inventory Errors Self-correcting Errors Prior-period Adjustments Accounting for items prospectively Accounting for items retrospectively
Stockholders' Equity Stock Splits and Stock Dividends Cumulative Preferred Dividends Treasury Stock: cost method Common Stock Preferred Stock Retained Earnings	**Bonds Payable** Premiums and Discounts Bonds Sold Between Interest Dates Effective Rate vs. Stated Rate Effective Interest Method of Amortization Present value computations to determine issue price Interest recognition Carrying value computation
Deferred Tax Future Taxable Amounts Future Deductible Amounts Intraperiod Tax Allocation Interperiod Tax Allocation Permanent Differences Temporary Differences Carryback/Carryforward of Net Losses	**Leases** Capital Leases Operating Leases Direct-financing Leases Sales-type Leases Interest recognition
Pensions Components of Pension Expense Fair Value of Plan Assets Amortization of Unrecognized Prior Service Cost Projected Benefit Obligation	

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:
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Score: _________ Pass/Fail

Routing	Name	Date
Advisor		
Testing Center		
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D Mourray		

Name ________________________________ Start Time ____________________
Date ________________________________ End Time ____________________

Walsh College
Intermediate Accounting II Practice Evaluation Exam

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 75%.

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
Intermediate Accounting II
Practice Evaluation Exam

1. Assume the market value per share of stock is above the par value. How would a 40% (large) stock dividend declared affect the additional paid-in capital and retained earning amounts reported in the owners' equity section?

	Additional paid-in capital	Retained earnings
a)	Increase	Decrease
b)	Increase	Increase
c)	No change	Decrease
d)	No change	Increase
e)	No change	No change

2. Which item would be most likely to result in no change to stockholders' equity?

a) Sale of Treasury Stock above cost
b) Conversion of Convertible Bonds
c) Employees' exercising of stock options
d) Expiration of Stock Rights
e) Sale of Common Stock below par

3. 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

4. When using the “cost” method, the retirement of treasury stock will most likely result in a debit to Retained Earnings if

   a) The purchase price was higher than the original issue price.
   b) The par value of the stock was higher than the purchase price.
   c) The purchase price was equal to the par value.
   d) The original issue price was above par.
   e) The retirement eliminated all treasury stock.

5. Which is a typical result of a declaration of a cash dividend but not a declaration of a stock dividend?

   a) Retained Earnings decreases
   b) Common Stock account increases
   c) Net Income decreases
   d) Liabilities increase
   e) Liabilities decrease

Use the following information to answer the next two questions

Gilley Co. had 200,000 shares of common stock, 20,000 shares of convertible preferred stock, and $1,000,000 of 10% convertible bonds outstanding during 2017. The preferred stock is convertible into 40,000 shares of common stock. 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%.

6. 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

7. Diluted earnings per share for 2017 is (rounded to the nearest cent):

   a) $2.14
   b) $2.23
   c) $2.35
   d) $2.46
   e) $2.70

8. Which of these items would be accounted for prospectively?

a) Change from LIFO to FIFO, but not Declining-Balance Depreciation to Straight-Line Depreciation
b) Change from Declining-Balance Depreciation to Straight-Line Depreciation, but not LIFO to FIFO
c) Both a Change from LIFO to FIFO <u>and</u> Declining-Balance Depreciation to Straight-Line Depreciation
d) Neither a Change from LIFO to FIFO <u>nor</u> Declining-Balance Depreciation to Straight-Line Depreciation

9. A deferred tax liability arises when an expense item is reported for tax purposes in a period:

	After it is reported in financial income	Before it is reported in financial income
a)	Yes	Yes
b)	Yes	No
c)	No	Yes
d)	No	No

10. Which of the following is a temporary difference classified as a revenue or gain that is taxable before it is recognized in financial income?

a) Subscriptions received in advance
b) Excess of tax depreciation over book depreciation.
c) An installment sale accounted for on the accrual basis for financial reporting purposes and on the installment (cash) basis for tax purposes
d) Interest received on a municipal obligation
e) Gain from life insurance on corporate executives

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

	Transfers Ownership by End of Lease?	Contains Bargain Purchase Option?	Collectibility of Lease Payments Assured?	Any Important Uncertainties?
a)	No	No	Yes	No
b)	Yes	No	No	Yes
c)	Yes	No	Yes	No
d)	No	Yes	Yes	Yes
e)	Yes	No	No	No

12. On January 1, 2018, Kinder Co. has the following balances:

Projected benefit obligation	$1,800,000
Fair value of plan assets	2,100,000

The settlement rate is 10%. Other data related to the pension plan for 2018 are:

Service cost	$180,000
Amortization of unrecognized prior service costs	60,000
Contributions	300,000
Benefits paid	105,000
Actual return on plan assets	237,000

The balance of the projected benefit obligation at December 31, 2018 is:

a) $2,085,000
b) $2,385,000
c) $2,355,000
d) $2,337,000
e) $2,112,000

13. 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

14. On September 1, 2018, Zelner Company reacquired 10,000 shares of its $5 par value common stock for $12 per share. Zelner uses the cost method to account for treasury stock. The journal entry to record the reacquisition of the stock should debit:

a) Treasury Stock for $120,000
b) Common Stock for $120,000
c) Common Stock for $50,000 and Paid-in Capital in Excess of Par for $70,000
d) Treasury Stock for $50,000
e) Common Stock for $50,000

15. In a defined-benefit plan, the process of funding refers to:

a) Determining the projected benefit obligation
b) Determining the accumulated benefit obligation
c) Making the periodic contributions to a funding agency to ensure that funds are available to meet retirees' claims
d) Determining the amount that might be reported for pension expense

16. On January 1, 2016, Kinney Corp. signed a five-year noncancelable lease for certain machinery. The first of five equal annual payments of $20,000 was made on January 1, 2016. The machinery has an estimated useful life of 7 years and no salvage value. Kinney uses the straight-line method of depreciation for all of its fixed assets. Kinney accordingly accounts for this lease transaction as a capital lease. The minimum lease payments were determined to have a present value of $83,397 at an effective interest rate of 10%. With respect to this capitalized lease, for 2017 Kinney should record:

a) Interest expense of $4,974 and depreciation expense of $16,679
b) Interest expense of $4,974 and depreciation expense of $11,914
c) Interest expense of $6,340 and depreciation expense of $11,914
d) Interest expense of $7,174 and depreciation expense of $16,679
e) Interest expense of $6,340 and depreciation expense of $16,679

17. A company using a perpetual inventory system neglected to record a purchase of merchandise on account at year end. This merchandise was included the year-end physical count. How will these errors affect assets, liabilities, and stockholders' equity at year-end and net income for the year?

	Assets	Liabilities	Stockholders' Equity	Net Income
a)	No effect	Understate	Overstate	Overstate
b)	No effect	Overstate	Understate	Understate
c)	Understate	Understate	No effect	No effect
d)	Understate	No effect	Understate	Understate
e)	Understate	No effect	No effect	No effect

18. In accounting for a pension plan, the difference between the PBO and the Fair Value of Plan Assets should be reported as:

a) An offset to the liability for prior service cost
b) Pension asset/liability
c) Other comprehensive income (G/L)
d) Accumulated other comprehensive income (PSC)

Use the following information to answer the next two questions

Washington Inc. is a calendar-year corporation. Its financial statements for the years ended 12/31/18 and 12/31/19 contained the following errors:

	2018	2019
Ending inventory	$15,000 understatement	$24,000 understatement
Depreciation expense	6,000 understatement	12,000 understatement

19. Assume that the 2018 errors were not corrected and that no errors occurred in 2017. By what amount will 2018 income before income taxes be overstated or understated?

a) $21,000 overstatement
b) $9,000 overstatement
c) $21,000 understatement
d) $9,000 understatement
e) $6,000 overstatement

20. Assume that no correcting entries were made at 12/31/18 or 12/31/19. Ignoring income taxes, by how much will Retained Earnings at 12/31/19 be overstated or understated?

a) $24,000 overstatement
b) $21,000 overstatement
c) $36,000 understatement
d) $6,000 understatement
e) $30,000 understatement

21. Neasha Corporation reported the following results for its first three years of operation:

2016 income (before income taxes)	$ 100,000
2017 loss (before income taxes)	(900,000)
2018 income (before income taxes)	1,000,000

There were no permanent or temporary differences during these three years. Assume a corporate tax rate of 40% for 2016 and 2017, and 30% for 2018.

Assuming that Neasha elects to use the carryback provision, what income (loss) is reported in 2017? (Assume that any deferred tax asset recognized is more likely than not to be realized.)

a) $(900,000)
b) $ -0-
c) $(600,000)
d) $(550,000)
e) $(620,000)

22. 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?

	2.5%	3.0%	5.0%	6.0%
Present value of a single sum for 5 periods	.88385	.86261	.78353	.74726
Present value of a single sum for 10 periods	.78120	.74409	.61391	.55839
Present value of an annuity for 5 periods	4.64583	4.57971	4.32948	4.21236
Present value of an annuity for 10 periods	8.75206	8.53020	7.72173	7.36009

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

23. On January 1, 2017, Foley Co. sold 12% bonds with a face value of $300,000. The bonds mature in five years, and interest is paid semiannually on June 30 and December 31. The bonds were sold for $323,100 to yield 10%. Using the effective-interest method of amortization, interest expense for 2017 is approximately:

a) $38,772
b) $30,000
c) $36,000
d) $32,218
e) $32,310

24. 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 coincided
d) No necessary relationship exists between the two rates

25. When the interest payment dates of a bond are July 1 and January 1, and a bond issue is sold on June 1, the amount of cash received by the issuer will be:

a) Increased by accrued interest from January 1 to June 1
b) Increased by accrued interest from June 1 to July 1
c) Decreased by accrued interest from January 1 to June 1
d) Decreased by accrued interest from June 1 to July 1

Intermediate Accounting II

Practice Evaluation Exam Answer Key

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