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In its 2016 annual report, GE reported the following: "We provide for estimated product warranty expenses when we sell the related products." This note exemplifies GE's use of what principle?

- ☒ A. Expense recognition
 - ☐ B. Economic entity
 - ☐ C. Conservatism principle
 - ☐ D. Revenue recognition
-

2

The Malga Winery requires two months to make wine, two years to age it, one month to bottle it, two months to sell it, and one month to collect the receivable. Its operating cycle is

- ☒ A. 30 months.
- ☐ B. 3 months.
- ☐ C. 6 months
- ☐ D. 12 months.

3. Listed below are account balances (in millions of dollars) taken from the records of Mikilos Stores.

	Debit	Credit
Accounts receivable–trade	730	
Building and equipment	920	
Cash–checking	34	
Interest receivable	30	
Inventory	16	
Land	150	
Notes receivable (long-term)	450	
Petty cash fund	5	
Prepaid rent	20	
Supplies	8	
Trademark	40	
Accounts payable–trade		560
Accumulated depreciation		80
Additional paid-in capital		485
Allowance for uncollectible accounts		20
Cash dividends payable		30
Common stock, at par		15
Income tax payable		65
Notes payable (long-term)		800
Retained earnings		308
Deferred revenues		40
TOTALS	<u>2,403</u>	<u>2,403</u>

What would Mikilos report as total assets?

- ☒ A. \$2,338
- ☐ B. \$2,323
- ☐ C. \$2,303
- ☐ D. \$2,318

4. On November 1, 2015, Toys-R-Us borrows \$30,000,000 at 9% to finance the holiday sales season. The note is for a six-month term and both principal and interest are payable at maturity. What should be the balance of interest payable for the loan as of December 31, 2015?

- ☐ A. \$1,350,000
- ☒ B. \$450,000
- ☐ C. \$225,000
- ☐ D. \$112,500

5. The Bluth Corporation's accountant included a note in its financial statements that described a pending lawsuit against the company. Do you agree or disagree with the financial reporting practice employed? Explain.

- ☒ A. I agree. The company is conforming to the full disclosure principle.
- ☐ B. I disagree. This is a violation of the historical cost (original transaction value) principle.
- ☐ C. I agree. The company is conforming to the conservatism principle.
- ☐ D. I disagree. This is a violation of matching.

6. What can be said about the results of efforts to converge US and international accounting standards between 2002 and 2012?

- ☐ A. The SEC staff concluded that it's *not* feasible for the United States to adopt IFRS.
- ☐ B. No material efforts were made to converge the two standards.
- ☒ C. The SEC staff concluded that it's feasible for the United States to adopt IFRS.
- ☐ D. The SEC staff concluded that there aren't any important differences between US and international accounting standards.

7.0

What happens when a company accrues salaries at the end of the accounting period?

- ☒ A. Its debt to equity ratio increases
- ☐ B. Its acid-test ratio increases
- ☐ C. Its current ratio increases
- ☐ D. Its debt to equity ratio decreases

8.

8. On September 1, 2015, Kromcast sold 600 one-year subscriptions for \$81 each. The total amount received was credited to deferred subscriptions revenue. What would be the required adjusting entry at December 31, 2015?

- ☐ A.

Deferred subscriptions revenue	48,600
Subscriptions revenue	16,200
Prepaid subscriptions	32,400
- ☐ B.

Deferred subscriptions revenue	16,200
Subscriptions payable	16,200
- ☐ C.

Deferred subscriptions revenue	16,200
Subscriptions revenue	16,200
- ☐ D.

Deferred subscriptions revenue	16,200
Subscriptions payable	16,200

9. Which of the following is a temporary account?

- ☐ A. Inventory
- ☐ B. Cash
- ☒ C. Salaries payable
- ☐ D. Depreciation expense

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What would Mikilos report as total current assets?

- ☐ ~~A. \$1,696~~
- ☐ B. \$823
- ☐ C. \$843
- ☐ D. \$838

11. A company may compare the amount of receivables in the current year to the amount of receivables in the previous year to estimate a trend in the company's ability to collect cash from customers. What is this type of analysis known as?

- ☐ A. Vertical analysis
- ☒ B. Horizontal analysis
- ☐ C. Time analysis
- ☐ D. Turnover analysis

12. What are notes payable that are due in two years considered?

- ☐ A. Long-term investments
- ☐ B. Current liabilities
- ☒ C. Long-term liabilities
- ☐ D. Long-term intangible assets

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What would Mikilos report as shareholders' equity?

- ☐ A. \$838
☐ B. \$323
☐ C. \$928
☒ D. \$808

14. Which of the following accounts has a balance whereby debits normally exceed credits?

- ☐ ~~A.~~ Accounts payable
- ☐ B. Advertising expense
- ☐ C. Accumulated depreciation
- ☐ D. Accrued taxes

15. What's required when creating an adjusting entry when amounts were previously recorded as deferred revenues?

- ☐ A. A credit to an asset
- ☐ ~~B.~~ A credit to a liability
- ☐ C. A debit to a liability
- ☐ D. A debit to an asset

16. What would be an example of fraud?

- ☐ A. Forgetting to accrue salaries and wages payable
- ☐ B. Knowingly classifying a material long-term receivable as a current receivable
- ☐ C. Buying raw materials from an affiliated company
- ☐ ~~D.~~ Issuing a purchase order without first securing bids

17. Listed below are account balances (in millions of dollars) taken from the records of Mikilos Stores.

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How much working capital does Mikilos have?

- ☐ A. \$98
☒ B. \$113
☐ C. \$143
☐ D. \$128

18. Which of the following accounts has a balance whereby debits normally exceed credits?

- ☐ A. Land
- ☒ B. Accrued income taxes payable
- ☒ C. Salary expense accounts payable
- ☐ D. Prepaid rent

19. What implies a cause-and-effect relationship when recognizing revenues and expenses?

- ☐ A. The going concern assumption
- ☒ B. Revenue recognition
- ☒ C. Expense recognition
- ☐ D. Historical cost

20. Based on recent financial statement data for Quantity Foods, Inc. (QF), shown below, what's QF's long term debt-to-equity ratio? (rounded)

Current liabilities	\$ 180	Income before interest and taxes	\$ 125
10% Bonds, long-term	360	Interest expense	36
Total liabilities	540	Income before tax	89
Shareholders' equity		Income tax	27
Capital stock	200	Net income	<u>\$ 62</u>
Retained earnings	280		
Total shareholders' equity	480		
Total liabilities and equity	<u>\$1,020</u>		

- ☐ A. 133.3%
- ☐ B. 0%
- ☒ C. 180%
- ☒ D. 75%