PACE Sample Exam Solutions

Solutions have been provided for selected question to assist in checking your answers to the sample exam.

Question

6. A brand new company has a building costing \$10,000, machinery costing \$5,000, cash of \$700, and a bank loan of \$7,850. What is the owner's equity?

   Accounting Formula: Assets = Liabilities + Equity

   \$10,000 + \$5,000 + \$700 = \$8,750 + **\$8,750**

10. Total Assets equal:

Accounts Receivable	\$ 5,000
Cash	14,000
Equipment	11,000
Supplies on hand	700
Total	\$30,700

11. Net Income equals:

Services performed	\$ 45,000
Insurance expense	(3,000)
Misc.expenses	(900)
Rent expense	(2,500)
Salaries expense	(19,000)
Supplies expense	(1,200)
Net income	\$ 18,400

12. On December 31, if net income equals \$15,000 and the ending owner's equity is \$20,000, and Forbes invested an additional \$2,600 in his business, while withdrawing \$6,000 during the year, the beginning owner's equity for this year was:

Work problem in reverse:

Ending owner's equity	\$ 20,000
Withdrawals	6,000
Owner's investment	(2,600)
Net income	(15,000)
Beginning owner's equity	\$ 8,400

13. Current Assets equal:

Accounts Receivable	\$ 5,000
Cash	14,000
Supplies on hand	700
Current Assets	\$19,700

20. A truck was purchased on July 1 for $20,000. The estimated salvage value is $2,000. The estimated useful life is 3 years. Using straight-line method of depreciation, the amount of depreciation in the adjusting entry at fiscal year-end on December 31 is:

$$\frac{\$20{,}000 - \$2{,}000}{3 \text{ years}} = \$6{,}000 \text{ per year} \ldots\ldots \tfrac{1}{2} \text{ Year} = \$6{,}000 / 2 = \mathbf{\$3{,}000}$$

21. A company paid in advance $4,800 for two years of prepaid insurance, which started on May 1. Insurance expense for the year ended December 31 is:

$4,800 / 24 months = $200 per month.........$200 x 8 months = **$1,600**

27. Rowe Inc. has a contract to construct a building for a price of $100. So far it has spent $60 of costs and it estimates an additional $20 will be needed to finish the building. How much profit can be recognized using the percentage of completion method?

To Date Cost Percentage	=	Cost Incurred	/	Est. Cost of Project
75%	=	$60		$80

Revenue Earned = Price x 75% = ($100 x 75% = $75)

Current Profit = Revenue - Expenses = ($75 - $60 = $15)

28. Warriner, Ltd. Sells widgets for $100, costing $70 with payments to be made in 10 equal installments of $10. If 3 payments have been received this year, using the installment basis of revenue recognition, what is the realized profit?

Profit per Payment		Profit Realized after 3 Payments	
Price of Widget –	$100	Profit per Widget ($30 / 10) =	$ 3
Cost of Widget –	(70)	Payments Received...............	x 3
Profit per Widget –	$ 30	Profit to date........................	$ 9

31. Specific identification inventory is:

Beginning inventory.............	10	@ $3 =	$ 30
April purchase......................	5	@ $5 =	25
June purchase......................	2	@ $7 =	14
August purchase...................	20	@ $8 =	160
Totals.......................	37	....	**$229**

32. FIFO inventory is:

August purchase...................	20	@ $8 =	$ 160
June purchase......................	12	@ $7 =	84
April purchase......................	5	@ $5 =	25
Totals.......................	37	....	**$269**

33. LIFO inventory is:

Beginning inventory............	10 @ $3 =	$ 30
February purchase................	5 @ $4 =	20
April purchase......................	15 @ $5 =	75
June purchase.......................	7 @ $7 =	49
Totals.......................	37.............	**$174**

34. Weighted-Average inventory is:

$369 / 62 units = $ 5.95 per unit.........$5.95 x 37 units = **$220**

37. Second year straight-line depreciation is:

$$\frac{\$80{,}000 - \$20{,}000}{5 \text{ years}} = \$12{,}000 \text{ per year (all years)}$$

38. Second year units-of-production depreciation is:

$$\frac{\$80{,}000 - \$20{,}000}{12{,}000 \text{ units}} = \$5 \text{ per unit}$$ ....$5 x 4,000 units = **$20,000**

39. Second year sum-of-the-year's-digits depreciation is:

$80,000 - $20,000 = $60,000 depreciable cost.........$60,000 x 4/15 = **$16,000**

40. Second year double declining-balance depreciation is:

$$\frac{100\%}{5 \text{ years}} = 20\% \times 2 = 40\% \text{ annual rate}$$

Year 1....$80,000 x 40% = $32,000 depreciation.........Ending Balance....$48,000
Year 2....$48,000 x 40% = **$19,200** depreciation

47. Which appears to have greater financial leverage?

	Firm A	Firm B	Firm C
Debt	$2	$40	$15
Equity	$8	$60	$35
Debt / Equity	25%	67%	43%

48. Which firm appears to have greater financial leverage based on times-interest-earned ratio?

	Firm A	Firm B	Firm C
EBIT	$50	$100	$75
Interest	10	15	5
EBIT / Interest	5	6.7	15