PART A:
TRUE/FALSE (1 point each):

1. Employees who are exempt from the FLSA are entitled for overtime pay for hours worked in excess of 40 per week.

2. There is no limit on each employee's total earnings that are subject to Medicare tax.

3. The payroll register contains the earning of all employees for the pay period.

4. Social security and Medicare taxes are paid only by the employer.

5. An employee's total earnings for a payroll period before deductions are called the gross pay.

6. Employees, as well as employers, are required to make payments toward federal and state unemployment insurance.

7. Cumulative earnings in excess of $56,200 are not taxed for social security.

8. Employees submit Form W-4 to their employers to show the number of withholding allowances they claim for federal income taxes withholding purposes.

9. Under the accrual basis of accounting, revenue is recognized in the period when it is earned regardless of when cash related to the transaction is received.

10. When the accrual basis of accounting is used, expenses are recognized only in the period during which they are paid.

11. The balance of the Merchandise Inventory account that appears in the Trial Balance section of the worksheet represents the stock of goods on hand at the beginning of the current period.

12. The debit and credit amounts for the Income Summary account are combined into one number in the Income Statement section of the worksheet.

13. Uncollectible Accounts Expense is a contra asset account.

14. Income that is received before it is earned is called unearned, or deferred, income.
15. The Unearned Subscription Income account is classified as a liability account.

16. Current liabilities are debts that have to be paid within two years.

17. Current ratio is current assets divided by current liabilities.

18. Gross profit is the difference between net sales and operating expenses.

19. Mortgage payable and loans payable are long term liabilities.

20. Merchandise inventory account appears on both income statement and balance sheet.

MULTIPLE CHOICE (1 point each):

21. A person who performs a service for a fixed amount and is not under the specific direction of the party being served is called:
   a. An employer.
   b. An employee.
   c. An independent contractor.
   d. All of these.

22. Types of compensation that an employee might receive include:
   a. A wage.
   b. A salary.
   c. A commission.
   d. All of the above.

23. An employer may withhold portions of an employee's total earnings for:
   a. FICA.
   b. Federal and state taxes.
   c. Medical insurance.
   d. All of the above.

24. The record maintained for each employee, listing the current data on each employee's earning for the period, deductions, and accumulated earnings, is:
   a. The employee's individual earning report.
   b. The payroll register.
   c. The employee's withholding allowance certificate (W-4).
   d. The employee's wage and tax statement.

25. Regarding the federal income tax withholding tables, the amount of each employee's earnings withheld is affected by:
   a. The number of years working for the company.
   b. The marital status.
   c. The age of the employee.
   d. All of the above.
26. The source of information for the employee's individual earnings record is:
   a. The payroll register.
   b. Form W-2.
   c. Employees' time cards.
   d. The general ledger.

27. For which of the following taxes there is NO ceiling (limit) on the amount of annual earnings subject to the tax?
   a. Federal unemployment tax.
   b. Social Security tax.
   c. Medicare tax.
   d. State unemployment tax.

28. Barbara receives an annual salary of $25,500 plus a 5 percent commission on all sales during the year in excess of $100,000. Her sales for the year total $210,000. Her total earning amount to:
   a. $26,775.
   b. $31,000.
   c. $36,000.
   d. $30,500.

29. Elliot's employer pays time-and-a-half for all hours worked in excess of 8 hours per day and double time for all hours worked on Sundays. Elliot's regular hourly rate is $9 per hour. During the week, Elliot worked the following hours: Monday, 8; Tuesday, 8; Wednesday, 9; Thursday, 10; Friday, 8; Sunday, 6. His total gross wages are:
   a. $661.50
   b. $508.50
   c. $441.00
   d. $481.50

30. The portion of FICA taxes designated as Medicare is paid by:
   a. Employees only.
   c. Both employer and employee equally.
   d. Employer only.

31. If the limit on unemployment taxes is $7,000, and Smith's accumulated earnings prior to his check of $960 are $6,750, the amount of his check that is taxable for unemployment is:
   a. $250.00
   b. $7,000.00
   c. $840.00
   d. $6,750.00
32. Employers pay the following taxes:
   a. SUTA
   b. FUTA
   c. FICA
   d. All of the above.

33. Linda gets a salary of $2,250 per month. She is entitled to overtime pay (one-an-a-half) for all hours worked in excess of 40 during a week. If this past week she worked 44 hours, what would be her total gross pay for the week?
   a. $597.11
   b. $621.00
   c. $77.88
   d. $519.20

34. Which document is referred to as "the payroll bible?"
   a. Form W-4.
   b. The payroll register.
   c. Circular E.
   d. None of the above.

35. Allowance for Doubtful Accounts is:
   a. Deducted from Sales in the Revenue section of the income statement.
   b. Subtracted from Accounts receivable in the Assets section of the balance sheet.
   c. Listed in the Operating Expenses section of the income statement.
   d. Listed in the Liabilities section of the balance sheet.

36. An adjusting entry is usually not required for an expense item
   a. When it is paid for and recorded in one period but not fully used until the later period.
   b. When it is used in one period but not paid for or recorded until later period.
   c. When it is paid for, recorded, and used in one period.
   d. None of the above.

37. The adjusting entry for uncollectible accounts requires:
   a. A debit to Uncollectible Accounts Expense and a credit to Allowance for Doubtful Accounts.
   b. A debit to Allowance for Doubtful Accounts and a credit to Accounts Receivable.
   c. A debit to Uncollectible Accounts Expense and a credit to Accounts Receivable.
   d. A debit to Allowance for Doubtful Accounts and a credit to Uncollectible Accounts Expense.
38. On November 1, 2004, a firm accepted a 4-month, 10 percent note for $900 from a customer. The accrued interest recorded on this note for the year ended December 31, 2004 is:
   a. $75.
   b. $30.
   c. $15.
   d. $90.

39. Which of the following long-term assets is not depreciated?
   a. Equipment.
   b. Supplies.
   c. Building.
   d. Land.

40. On January 2, 2004, a firm purchased equipment for $8,500. Annual depreciation expense for 2004, given the straight-line method, a 5-year useful life, and a salvage value of $1,500, is:
   a. $1,500.
   b. $1,700.
   c. $1,800.
   d. $1,400

41. A simple income statement that has only two sections, revenues and expenses, is known as:
   a. Simple income statement.
   c. Classified income statement.
   d. Account-based income statement.

42. Gross Profit on Sales is:
   a. The difference between net sales and COGS.
   b. The difference between sales and operating revenues.
   c. The difference between purchases and net sales.
   d. The difference between gross sales and operating revenues.

43. Which of the following accounts is NOT listed in the COGS section of income statement?
   a. Sales Discounts.
   b. Purchases Discounts.
   c. Merchandise Inventory.
   d. Purchases Returns and Allowances.
44. Beginning merchandise inventory and the net delivered cost of purchases is known as:
   a. Cost of goods sold.
   b. Ending merchandise inventory.
   c. Total merchandise available for sale.
   d. Net merchandise after sales.

45. Which of the following financial statement does not have a classified format?
   a. Income statement.
   b. Statement of Owner’s Equity.
   c. Balance Sheet.
   d. None of the above.

46. Current assets are listed on the balance sheet in order of _____________.
   a. Importance.
   b. Priority of payment.
   c. Cash value.
   d. Liquidity.

47. Which of the following fixed assets will NOT be depreciated?
   a. Equipment.
   b. Building.
   c. Land.
   d. Computer.

48. ____________ are debts of the business that are due more than one year in the future.
   a. Long-term liabilities.
   b. Fixed liabilities.
   c. Current liabilities.
   d. Intangible liabilities.

49. San Leandro Pet Hospital’s current liabilities are $485,000, its current assets are $988,000, inventory is $87,000, and prepaid expenses are $200,000. What is the company’s acid-test ratio?
   a. 2.04:1
   b. 3.16:1
   c. 1.45:1
   d. 0.69:1

50. To accurately evaluate a firm’s financial ratios, you should compare the ratios to:
   a. Other firms in the same industry.
   b. Firms in the same geographic region of the country.
   c. The norms established by GAAP.
   d. To the largest firms in the country.
PART B:

PROBLEMS (various points - see below - total of 52 pts, including 2 extra points):

1. During one week, three employees of the Snowshoe Lodge worked the number of hours shown below. All these employees receive overtime for any hours worked beyond 40 in a week. Compute regular earnings, overtime earnings, and gross pay for each employee (6 points).

<table>
<thead>
<tr>
<th>Employee Name</th>
<th>Regular Hourly Rate</th>
<th>Hours Worked</th>
<th>Regular Earnings</th>
<th>Overtime Earnings</th>
<th>Gross Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Janet Jones</td>
<td>$22.00</td>
<td>46</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miguel Rodriguez</td>
<td>$12.00</td>
<td>44</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Melanie Young</td>
<td>$8.50</td>
<td>45</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. The monthly salaries for December and the year-to-date earnings as of November 30 for the three employees of the Lakeview Medical Center are listed below. Compute the amount of social security tax and Medicare tax to be withheld from each employee's gross pay for December (6 points).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vince Kim</td>
<td>$5,500</td>
<td>$90,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adriana Greitas</td>
<td>7,000</td>
<td>87,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Andy Smitsky</td>
<td>6,500</td>
<td>85,500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. The Rollins Company has two office employees and two shipping employees. A summary of their earnings and deductions for the week ended June 14, 2004, is shown below. On page 6 of a general journal (use the form below), record the June 14 payroll and the entry on June 16 to issue the paychecks (7 pts).

<table>
<thead>
<tr>
<th>Earnings and Deductions</th>
<th>Office Employees</th>
<th>Shipping Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Earnings</td>
<td>$1,150.00</td>
<td>$980.00</td>
</tr>
<tr>
<td>Social Security Tax</td>
<td>71.30</td>
<td>60.76</td>
</tr>
<tr>
<td>Medicare Tax</td>
<td>16.68</td>
<td>14.21</td>
</tr>
<tr>
<td>Income Tax</td>
<td>135.00</td>
<td>94.00</td>
</tr>
<tr>
<td>Health Insurance</td>
<td>23.00</td>
<td>23.00</td>
</tr>
<tr>
<td>Net Pay for Week</td>
<td>$904.02</td>
<td>$788.03</td>
</tr>
</tbody>
</table>
4. On July 31, 2004, after one month of operation, the general ledger of Dakota Consulting contained the following accounts and balances. The firm adjusts losses from uncollectible accounts only at the end of the fiscal year. Monthly adjustments are listed below. Journalize the adjustments. (15 pts).

<table>
<thead>
<tr>
<th>ACCOUNT</th>
<th>BALANCE</th>
<th>ACCOUNT</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$13,425 Dr</td>
<td>Interest Payable</td>
<td>--</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>9,500 Dr.</td>
<td>Salaries Payable</td>
<td>$600 Cr.</td>
</tr>
<tr>
<td>Allowance for Doubtful Accts</td>
<td>125 Cr.</td>
<td>Key Dakota, Capital</td>
<td>22,800 Cr.</td>
</tr>
<tr>
<td>Supplies</td>
<td>650 Dr.</td>
<td>Key Dakota, Drawing</td>
<td>2,600 Dr.</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>3,000 Dr.</td>
<td>Fees Incomes</td>
<td>16,500 Cr.</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>14,500 Dr.</td>
<td>Salaries Expense</td>
<td>11,050 Dr.</td>
</tr>
<tr>
<td>Accum Depr - Office Equipment</td>
<td>--</td>
<td>Supplies Expense</td>
<td>--</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>14,000 Cr.</td>
<td>Insurance Expense</td>
<td>--</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>700 Cr.</td>
<td>Depr Exp - Office Equipment</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interest Expense</td>
<td>--</td>
</tr>
</tbody>
</table>

Adjustments (mark both a debit and a credit with the corresponding letter):
(a) On July 31, an inventory of the supplies showed that items costing $250 were on hand.
(b) On July 31, one month of a 3-month prepaid insurance expired.
(c) On July 1, the firm issued a 3-month, 9 percent note for $4,000.
(d) On July 1, the firm purchased office equipment for $14,500. The office equipment is expected to have a useful life of 5 years and a salvage value of $1,000.
(e) On July 31, accrued salaries to part-time employees were $2,000. The salaries will not be paid until August 2.

GENERAL JOURNAL

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>POST. REF.</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<td></td>
<td>1</td>
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<td>2</td>
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<tr>
<td>14</td>
<td></td>
<td></td>
<td></td>
<td>14</td>
</tr>
</tbody>
</table>

5. Calculate the cost of goods section of the income statement (for the period of the year ended December 31, 2005), using those of the following account balances, which are required (8 pts):
   Cash $10,180
   Accounts Receivable 26,420
   Merchandise Inventory, January 1, 2005 42,160
   Merchandise Inventory, December 31, 2005 44,300
   Equipment 38,000
   Accounts Payable 41,200
   Mortgage Payable 9,000
   Purchases 81,300
   Freight In 600
   Purchase Returns and Allowances 2,900
   Purchase Discounts 1,510
   Sales 141,800
COST OF GOODS SOLD:

(show your calculations here)

6. The following accounts appear on the worksheet of East Bay Pet Clinic. Indicate the section of the classified income statement or classified balance sheet in which each account will be reported (10 points).

Sections of Classified Income Statement or Balance Sheet:
- Operating Revenue
- Cost of Goods Sold
- Operating Expenses
- Other Income
- Other Expenses
- Current Assets
- Plant and Equipment (Fixed Assets)
- Current Liabilities
- Long-Term Liabilities
- Owner’s Equity

<table>
<thead>
<tr>
<th>Letter(s)</th>
<th>Accounts:</th>
</tr>
</thead>
<tbody>
<tr>
<td>___</td>
<td>1. Sales Returns and Allowances</td>
</tr>
<tr>
<td>___</td>
<td>2. Office Supplies</td>
</tr>
<tr>
<td>___</td>
<td>3. Olga Ramirez, Capital</td>
</tr>
<tr>
<td>___</td>
<td>4. Purchase Discounts</td>
</tr>
<tr>
<td>___</td>
<td>5. Medicare Tax Payable</td>
</tr>
<tr>
<td>___</td>
<td>6. Truck</td>
</tr>
<tr>
<td>___</td>
<td>7. Sales Discounts</td>
</tr>
<tr>
<td>___</td>
<td>8. Accumulate Depreciation – Medical Equipment</td>
</tr>
<tr>
<td>___</td>
<td>9. Salaries Expense</td>
</tr>
<tr>
<td>___</td>
<td>10. Merchandise Inventory</td>
</tr>
<tr>
<td>___</td>
<td>11. Prepaid Advertising</td>
</tr>
<tr>
<td>___</td>
<td>12. Rent Income</td>
</tr>
<tr>
<td>___</td>
<td>13. Notes Payable (on 2- and 3-year notes)</td>
</tr>
<tr>
<td>___</td>
<td>14. Accounts Receivable</td>
</tr>
<tr>
<td>___</td>
<td>15. Depreciation Expense – Medical Equipment</td>
</tr>
<tr>
<td>___</td>
<td>16. Purchases</td>
</tr>
<tr>
<td>___</td>
<td>17. Building</td>
</tr>
<tr>
<td>___</td>
<td>18. Interest Expense</td>
</tr>
<tr>
<td>___</td>
<td>19. Truck Expense</td>
</tr>
<tr>
<td>___</td>
<td>20. Petty Cash Fund</td>
</tr>
</tbody>
</table>