I. Questions: (40 points)

1. Define the following terms: (20 points)
   (1) Cash equivalents
   (2) Convertible bonds
   (3) Residual equity
   (4) Accounting cycle
   (5) Current ratio

2. “Debits are bad; credits are good.” Comment on this statement. (5 points)

3. What is the meaning of “market” in the lower of cost or market method for valuation of inventory? Also, what are the upper and lower constrains used in this method? (5 points)

4. Explain the two major criteria for extraordinary items. How should extraordinary items be disclosed in the financial statements? (6 points)

5. Marconi Corporation has $1,000,000 of 8 percent, six-year bonds dated March 1, 20x1, with interest payment dates of March 1 and September 1. Given that effective interest rate is 6 percent, compute the selling price on March 1, 20x1. (Please show your computation and round your answer to the nearest dollar.) (4 points)

II. Riggio Construction Company purchased a new crane for $153,600 on January 1, 20x1. The crane has an estimated residual value of $3,600 and an estimated useful life of five years.

   Required: (10 points) Compute the annual depreciation under each of the following methods:
   (Please show your computation and round your answer to the nearest dollar.)
   (a) Sum-of-the-years’-digits
   (b) Fixed-rate-declining-balance

III. Chappell Company had an Accounts Receivable balance of $350,000 and a credit balance in Allowance for Uncollectible Accounts of $18,000 at January 1, 20x2. During the year, the company recorded the following transactions.

   a. Sales on account, $1,156,500
   b. Sales returns and allowances by credit customers, $44,500
   c. Collections from customers, $983,000
   d. Worthless accounts written off, $21,200
   e. and f. Written-off accounts collected, $4,200

   Required: (14 points)
   1. Record separate general journal entries for each of the six items listed above, summarizing the year’s activity.
   2. Record the general journal entry on December 31 for the estimated uncollectible accounts expense for the year, assuming that management estimates the end-of-year uncollectible accounts receivable to be $23,500.
IV. The Spivy Corporation was involved in the following treasury stock transactions during 20x2:

1. Purchased 10,000 shares of its $10 par value common stock at $30 per share. All shares originally were issued at $25 per share.
2. Sold 5,000 shares of the treasury stock for $32 per share.
3. Retired all the remaining shares of treasury stock.

**Required: (10 points)**
Prepare the journal entries to record the above transactions under the cost method.

V. Pandit Corporation has $500,000 of 9 percent, five-year bonds dated June 1, 20x1, with the interest payment dates of May 31 and November 30. The company’s fiscal year ends December 31. Assume the bonds are issued at 96 on June 1, 20x1, to yield an effective interest rate of 10 percent.

**Required: (14 points)**(Round amounts to the nearest dollar.)
Prepare the journal entries for June 1, November 30, December 31, 20x1, and May 31, 20x2, using the effective interest method to amortize bond premiums or discounts.

VI. In chronological order, the inventory, purchases, and sales of a single product for a recent month are as follows:

| Date  | Description      | Units | Amount  
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Beginning Inventory</td>
<td>300</td>
<td>$ 10</td>
</tr>
<tr>
<td>4</td>
<td>Purchase</td>
<td>800</td>
<td>15</td>
</tr>
<tr>
<td>8</td>
<td>Sale</td>
<td>900</td>
<td>30</td>
</tr>
<tr>
<td>12</td>
<td>Purchase</td>
<td>1,000</td>
<td>20</td>
</tr>
<tr>
<td>16</td>
<td>Sale</td>
<td>700</td>
<td>40</td>
</tr>
<tr>
<td>24</td>
<td>Purchase</td>
<td>1,200</td>
<td>25</td>
</tr>
<tr>
<td>28</td>
<td>Sale</td>
<td>1,300</td>
<td>50</td>
</tr>
</tbody>
</table>

**Required: (12 points)**(Please show your computation and round unit costs to cents and totals to dollars.)
1. Using the periodic inventory system, compute the cost of ending inventory under each of the following methods: (a) weighted-average, and (b) LIFO.
2. Using the perpetual inventory system, compute the cost of ending inventory under each of the following methods: (a) FIFO, and (b) LIFO.