

1 Exam Prep

Builders Guide to Accounting Questions

Part 1

1) A contractor's bids a job using the followings costs and cost factors:

Subcontractors:	\$37,500.00
Labor Costs:	\$ 6,700.00
Materials:	\$ 9,200.00
Sales Tax on Materials Only:	6.00%
Job Overhead:	42.00% of labor costs only
Mark-up:	8.00%
Bond:	0.75%

Based on the figures above, the total bid is _____. Assume no other costs or cost factors other than those given above.

- A. \$56,766.00
- B. \$60,104.00
- C. \$61,307.00
- D. \$61,767.00

2) Given: A General Contractor's summary of estimate for a construction project is as follows:

General Conditions and Office Overhead		\$ 15,000.00
Job Conditions and Job Overhead		\$ 32,000.00
Construction Plan, Tools & Equipment		\$ 15,000.00
Subcontracts Total Bid		\$ 450,000.00
Subcontracts Performance Bond Rate Markup		0.75%
Labor Estimate		\$ 300,000.00
Labor Taxes and Insurance Rate Markup		33.00%
Materials Estimate		\$ 850,000.00
Materials Sales Tax Rate Markup		6.00%
Profit Markup		10.00%
First \$100,000	\$9.50 per	\$ 1,000.00
Next \$100,000	\$9.25 per	\$ 1,000.00
Over \$500,000	\$8.50 per	\$ 1,000.00

If all costs to be considered are included in the figures above, the total bid in the project is:

- A. Between \$2,004,000.00 and \$2,008,000.00
- B. Between \$2,008,000.00 and \$2,012,000.00
- C. Between \$2,012,000.00 and \$2,016,000.00
- D. Between \$2,016,000.00 and \$2,020,000.00

BALANCE SHEET AS OF DECEMBER 31

ASSETS		LIABILITIES	
Cash:	157,024.00	Accounts Payable:	311,407.00
Total Accounts Receivable:	302,627.00	Total Current Liabilities:	44,107.00
Total Current Assets:	580,983.00	Total Long Term Debt:	47,109.00
Property and Equipment	54,122.00		
Total Assets:	\$643,171.00	Total Liabilities:	\$402,623.00

3) Refer to the provided financial information. The company's working capital as of December 31st is?

- A. \$178,360.00
- B. \$322,467.00
- C. \$536,876.00
- D. \$640,548.00

4) Refer to the above financial information. During the month of January, the net effect of all business operations was:

Cash decreased:	\$ 42,437.00
Accounts Receivable increased:	\$ 32,116.00
Current Liabilities and long term	
Debt Decreased:	\$ 2,474.00

The net worth of the company at the end of January was_____?

- A. \$168,469.00
- B. \$232,701.00
- C. \$240,548.00
- D. \$250,869.00

5) A construction company is considering borrowing money to purchase a new piece of heavy equipment that will replace an existing piece of equipment. The old equipment and the new equipment will both be rented at an average of 25 hours per week to customers who will be charged \$45.50 per hour of use. During the last year the old equipment averaged \$2,000.00 per month for all repair and maintenance costs.

The new equipment repair and maintenance cost is estimated at \$1,200.00 for the year. The average amount that will be borrowed during the first year of operation (average principal due) will be \$75,000.000.

The new equipment will depreciate \$12,000.000 in value during the first year. Considering only the repair and maintenance costs on the old and new equipment, the interest cost on the loan for the new equipment and the value depreciation of the new equipment, what is the least simple interest rate on a loan that will allow the same gross profit during the first year of operation of the new equipment as the last year operation of the old equipment?

- A. Less than 13.5%
- B. Between 13.5% and 14.0%
- C. Between 14.0% and 14.5%
- D. Greater than 14.5%

6) The earned income, figured on the percent completed method, for a construction company for the year ending December 31st was \$2,474,086.00. The general and administrative expenses for this period were \$127,532.00. The cost of goods sold (contract costs) for this period was \$2,314.098.00. For single family residential construction performed earned income was 55% of the total, general and administrative costs were 60% of the total, and contract costs were 50% of the total.

The net earnings (loss) from single family residential construction for the year was:

- A. Profit of \$203,698.00
- B. Profit of \$127,239.00
- C. Loss of \$76,459.00
- D. Loss of \$159,988.00

BAD DEBT STUDY:

Period	Actual Bad Debt Losses	Total Credit Sales	Month End Accounts Receivable (not including retainage)
January	\$ 700.00	\$ 18,800.00	\$ 21,200.00
February	\$ 0	\$ 15,400.00	\$ 19,300.00
March	\$ 510.00	\$ 22,500.00	\$ 26,400.00
April	\$ 430.00	\$ 27,600.00	\$ 32,400.00
May	\$ 0	\$ 22,400.00	\$ 28,600.00
June	\$ 840.00	\$ 19,700.00	\$ 22,400.00
July	\$ 750.00	\$ 26,600.00	\$ 33,100.00
August	\$ 0	\$ 24,400.00	\$ 30,700.00
September	\$ 0	\$ 19,400.00	\$ 25,300.00
October	\$ 650.00	\$ 18,100.00	\$ 20,900.00
November	\$ 0	\$ 23,200.00	\$ 28,500.00
December	\$ 0	\$ 26,400.00	\$ 31,300.00

7) Refer to the Bad Debt Study above. The current entry to reserve for bad debts for the month of April should be:

- A. Less than \$660.00
- B. Between \$660.00 and \$680.00
- C. Between \$681.00 and \$700.00
- D. More than \$700.00

8) Refer to the Bad Debt Study above. What is the year-to-date bad debt ratio at the end of September?

- A. 0
- B. 1 to 27
- C. 1 to 54
- D. 1 to 61

9) A contractor was involved in three distinct types of work during the last 12 months:

Type A work: Had a total volume of sales of \$450,000.00 with a net profit of \$27,000.00

Type B work: Had a total volume of sales of \$860,000.00 with a net profit of \$30,100.00

Type C work: Had a total volume of sales of \$180,000.00 with a net profit of \$25,200.00

- A. Less than 5.200/0
- B. Between 5.205% and 5.40%
- C. Between 5.41% and 5.60%
- D. More than 5.60%

10) A contractor has established a \$50,000.00 line of credit. During the first six months the average amount borrowed was \$31,500.00, including cost of points. Points at 3.0% (loan costs) based on the full amount of the line of credit, were charged against the line of credit at the time the line of credit was established. Simple annual interest at 11.5% is charged against the amount borrowed. The total cost of the line of credit at the end of the first six months was _____.

- A. Less than \$3,275.00
- B. Between \$3,275.00 and \$3,375.00
- C. Between \$3,376.00 and \$3,475.00
- D. More than \$3,475.00

11) A project currently in progress has had costs to date of \$33,160.00. The total estimated costs for the completed project is \$42,180.00. The amount billed to date is \$36,870.00. The contract price for the project is \$51,670.00. Calculate the % completion for this project.

- A. 64.2%
- B. 78.6%
- C. 87.4%
- D. 90.0%

12) A project currently in progress has had costs to date of \$28,205.00. The estimated cost to complete the project is \$11,410.00. The amount billed to date is \$38,170.00. The contract price for the project is \$31,500.00. What is the amount of "unearned" income?

- A. 0
- B. \$1,445.00
- C. \$1,503.00
- D. \$2,007.00

13) A contractor is planning to enter a new (different) construction market. In this market a few customer will account for the bulk of the business. The contractor's former business success has relied on many small accounts. Which of the following statements could be true of this situation?

- A. A bad debt or customer loss in the new business could be difficult to absorb
- B. A high yields in the new business could drop the overall yield
- C. A large volume of new business with a percentage of profits equal to that of the old business could result in a lower overall yield on investment
- D. The higher the risk of the new business the lower the yield should be

14) Which of the following statements is false?

- A. Only the trend of bad debts needs to be known in order to control accounts receivable
- B. The reserve for bad debts is a reduction in current assets
- C. The estimate of available cash can be totally wrong without a good projection of bad debt loss
- D. The older an outstanding debt becomes, the more likely it is to become a bad debt

15) In terms of profit, which of the following statements is false?

- A. Success in increasing the margin of profit rests on the control of fixed expenses
- B. Selling expenses usually rise in steps and are related to the volume of business
- C. Fixed expenses tend to follow sales volume at the same rate
- D. As volume and cash profits increase, some contractors tend to relax their control over selling expenses

16) When clarifying overhead expenses, which of the following would not be considered a fixed expense?

- A. Postage
- B. Telephone
- C. Travel and Entertainment
- D. Advertising and Promotion

17) A contracting company had initial organizational costs of \$6,470.00. These costs are being amortized over a five-year period. For purposes of amortization, the organizational expenses were first entered into the company's books on January 1st, 2000. The asset amount that should be listed in the books for organizational expenses as of January 1, 2003 is _____.

- A. \$107.83
- B. \$2,588.00
- C. \$3,882.00
- D. \$6,470.00

18) A contractor purchased a piece of equipment for use in his/her business for a total price of \$18,000.00. The equipment will have a useful life of five years and a salvage value of \$1,500.00. Maintenance and repair costs will average \$120.00 per month and costs of storage, insurance and taxes will average \$90.00 per month. The contractor will use the equipment for projects on an average of 140 hours per month. The hourly cost for this piece of equipment when assigned to a specific project is _____. Do not include labor, gas, oil or any other costs not given above.

- A. Less than \$3.40 per hour
- B. Between \$3.40 and \$3.50 per hour
- C. Between \$3.51 and \$160 per hour
- D. More than \$3.60 per hour

19) A complete cash plan does not:

- A. Allow for seasonal business fluctuations
- B. Prevent over or under buying of materials
- C. Allow errors in cash planning and direction
- D. Prepare for tax liabilities

20) The method of preparing a cash budget or forecast which involves budgeting only cash flow of actual cash in and out of a business is known as the _____.

- A. Source and application of funds method
- B. Gross margin method
- C. Current ratio method
- D. Cash movement method

21) A contractor who is preparing a cash budget can determine the minimum volume of business necessary to avoid a loss if the contractor knows the _____.

- A. Available cash (only)
- B. Total overhead (only)
- C. Break even point
- D. Trend in charge sale

22) Which of the following is not a sub-contract category for deferred costs and expenses?

- A. Materials
- B. Direct labor
- C. Taxes
- D. General Expenses

23) The best control and documentation method for use for petty cash is the _____.

- A. Cash receipt method
- B. Inprest system
- C. Ledger system
- D. Budgeted account method

24) Which of the following statements concerning a petty cash fund is true?

- A. All expenses for a petty cash fun should be "vouched" for by replacing cash removed with a slip of paper explaining the reason for the expense
- B. A well controlled petty cash fund will always have a positive balance
- C. Expenses paid for through a petty cash fund cannot be deducted for tax purposes
- D. A large amount of cash should be kept in the petty cash fund to anticipate any cash needs

25) The following information is available from the bank statement and the company checkbook at months end:

1. Bank statements ending balance: \$47,705.00
2. Checkbook ending balance: \$47,972.00
3. Bank service charges shown in the bank statement, but not entered in the checkbook totaled: \$47.00
4. Outstanding checks that had not cleared the bank as of the close of the bank statement totaled: \$2,150.00
5. The bank statement disclosed that a check recorded in the checkbook for \$2,190.00 was actually made out for \$1,290.00.
6. Deposits totaling \$3,270.00 that had been entered in the checkbook had not been received prior to the closing date for the bank statement.

After reconciliation, the checkbook would show a balance of _____.

- A. \$47,705.00
- B. \$47,878.00
- C. \$48,332.00
- D. \$48,825.00

26) Expenses recorded earlier than the payment referred to as _____.

- A. Accruals
- B. Deferrals
- C. Prepaid assets
- D. Unearned debts

27) Deferred costs and expenses are classified balance sheet as _____.

- A. Deferred debts
- B. Deferred
- C. Long term liabilities
- D. Long term assets

28) A profit and loss statement shows that net profit is the amount remaining after the total expenses have been subtracted from the _____.

- A. Working Capital
- B. Assets
- C. Gross Profit
- D. Direct Costs

Part 2

1. Which of the following is considered a company's asset?

- A. Debts owed by the company
- B. Cash holdings of the company
- C. Accounts payable
- D. A financial liability

2. The financial statement showing the owner's equity in a business is referred to as the _____.

- A. Balance sheet
- B. Profit and loss statement
- C. Summary of operations
- D. B and C are correct

3. The income statement is also sometimes called _____.

- A. A balance sheet
- B. The profit and loss statement
- C. A statement of cash flow
- D. The general ledger

4. Payments received but not yet earned are referred to as income.

- A. Loss
- B. Profit
- C. Accrued
- D. Unearned

5. Given: A construction project's cost as of September 30th 2008 is \$34,261 the total estimated costs (at completion) are \$43,832.

The contract price for the project is \$54,466 and the amount billed as of September 30th 2008 is \$41,794.

As of September 30th 2008, using the percent completion method, the revenue recognized in exABCs of the amounts billed for this project were _____.

- A. \$763
- B. \$2,038
- C. \$4,004
- D. \$7,533

6. The following financial information is available for a job in. progress September 30th 2008.

TOTAL CONTRACT PRICE	BILLINGS TO DATE	COST TO DATE	ESTIMATED COST TO COMPLETE
\$1,655,400	\$1,247,000	\$1,264,000	\$233,600

As of September 30, 2008, the percent completion of this project was _____.

- A. 71.0%
- B. 78.6%
- C. 85.0%
- D. 89.8%

7. Given: On one of a construction company's project costs to date are \$28,210 the total estimate cost at completion is \$38,463. The contract price for the project is \$48,964 and the amount billed to date is \$28,305. The percent completed for this project is _____.

- A. 57.6% B. 67.8% C. 73.3% D. 99.4%

8. You billed the owner \$57,060 which includes a 10% retainage. The contract amount is \$253,600. You estimate the job is one third complete. Your unearned or accrued income would be _____.

- A. \$27,473 unearned C. \$21,133 unearned
B. \$27,473 accrued D. \$21,133

9. Income earned but payment not yet received is referred to as _____ income.

- A. Lost B. Profit C. Accrue D. Unearned

10. A construction contract which will last 48 months has an expected total profit of \$620,000. Profits will be realized evenly over the term of the contract. Using the percent completion method of accounting, the third year's net profit would be _____.

- A. 0 B. \$155,000 C. \$465,000 D. \$620,000

11. When using the cash method of accounting _____.

- A. Income and expenses are recorded at the time that they are earned or incurred.
B. Income and expenses are recorded at the time they are received or paid.
C. Gives a company more timely financial picture.
D. Give a company a more accurate financial picture.

12. Which of the following statements is false?

- A. The older an outstanding debt becomes, the more likely it is to become a bad debt.
B. Typically, it is better to write off bad debts as a tax loss at the end of the year than continue trying to collect the bad debt.
C. Bad debt losses have little or no effect on cash budgeting.
D. The reserve for bad debts reduces working capital.

13. An analysis of a construction company's past financial performance shows that gross profit has been decreasing in relation to sales. Which of the following would not be a possible factor contributing to this?

- A. Lack of control of material costs.
B. Increase in markup over costs.
C. Inventory losses.
D. Increase in idle time.

14. Given: The following information for projects completed in 2007.

<u>Project Number</u>	<u>Revenue Direct</u>	<u>Direct Costs</u>
103	\$ 21,155	\$ 12,451
104	\$ 34,564	\$ 27,517
105	\$ 75,022	\$ 68,103
106	\$ 116,247	\$ 109,262

Project number _____ contributed the most to the company's 2007 gross profit.

- A. 103 B. 104 C. 105 D. 106

15. A debit memo from your bank could indicate _____.

- A. Interest accrued.
B. A check you wrote for \$100 was cleared at \$10.
C. A charge for printed checks.
D. None of these.

16. In the purchase journal the contractor's total charge purchases are treated as _____.

- A. Accounts payable.
B. Accounts receivable.
C. Inventory exclusions.
D. Accruals.

17. Purchase journals (for recording purchase orders) are best suited for _____.

- A. Inventory controls. C. Accounts payable source document.
B. Checking the register. D. None of these.

18. Which of the following is not a good method of valuing inventories to be charged to a job?

- A. Specific cost. C. Last in-first out.
B. First in-first out. D. Job estimates.

19. Which cost basis valuation method for inventory assumes that the first materials purchased are the first used?

- A. Specific cost. C. Last in-first out.
B. First in-first out. D. Exact purchases price.

20. What is the ratio of Cost of Goods Sold to Average Inventory based on the following data:

Inventory Jan. 1, 2007		\$ 15,760
Labor	\$137,000	
Material Purchased	\$183,500	
Other direct costs	\$ 68,500	
Inventory Dec. 31, 2007		\$12,340

- A. 15.91/1 B. 17.9/1 C. 27.9/1 D. 29.9/1

21. The most useful ratio for checking inventory levels in relation to determining what you should do is _____.

- A. Sales/average inventory.
- B. Cost of goods sold/average inventory.
- C. Material purchased/ average inventory.
- D. Total direct cost/average inventory.

22. A current asset is expected to be convertible to cash within _____.

- A. 1 month
- B. 6 months
- C. 1 year
- D. 5 years

23. Which of the following is not depreciated?

- A. office equipment
- B. a truck
- C. office building
- D. land

24. A piece of equipment is purchased by ABC Contractors for \$6,000. The equipment is to be depreciated over six (6) years. Which depreciation method will yield the smallest depreciation for the first two-(2) years?

- A. 200% declining balance.
- B. 150% declining balance.
- C. 125% declining balance
- D. Straight line

25. The job cost ledger for a project in progress shows the following information for completed site excavation work:

Superintendent:	\$3,050
General labor:	\$4,260
Equipment rental:	\$4,500
Dewatering:	\$3,800
Fuel:	\$1,200
Net profit from sale of soil	\$6,000

The total volume of material excavated was 12,300 cubic yards at an estimated cost of \$2.10 per cubic yard. Based on the above information the estimated cost for the excavation was_____.

- A. \$ 180 too low
- B. equal to the actual cost
- C. \$ 5,820 too high
- D. \$ 15,020 too high

26. According to the Builder's Guide to Accounting the best way for a small company to handle disbursements for small day-to-day expenses such as postage, C.O.D. deliveries and other expenses too small to write a check for is to _____.

- A. Require employees to pay with their own money and reimburse them monthly.
- B. Use only those vendors which extend credit.
- C. Assign one individual to be responsible for payment and reimburse daily.
- D. Set up a "petty cash" and voucher system with enough currency on hand to suit routine periodic needs, balancing and reimbursing the fund, periodically.

27. ABC Contractors receives their December 2007 bank statement:

The balance shown on the bank statement is \$12,720.

A \$300 charge against the account was incorrectly made by the bank.

A \$450 check was received by the bookkeeper on December 29, 2007 when it was deposited into the ABC account.

Outstanding checks totaled \$2,740 as of December 31, 2007.

Deposits not posted by December 31, 2007 were \$4,280.

Service charge for the month was \$22.

An "uncollected funds" charge was \$20.

ABC checkbook balance is \$14,602 on December 31, 2007.

The actual balance as of December 31, 2007 is _____.

A. unable to be computed without additional information.

B. \$14,602 is the correct balance.

C. \$14, 560 is the correct balance.

D. \$15,010 is the correct balance.

28. Prepaid insurance is carried as a/an _____ on the Balance Sheet.

A. liability

B. fixed asset

C. asset

D. capital

29. Given XYZ Corporation's balance sheet:

Cash	\$10,000
Accounts payable	\$ 2,500
Contracts payable	\$ 1,700
Note payable	\$ 3,600
Other liabilities	\$ 87,500
Accounts receivable	\$ 3,000
Inventory	\$ 7,000
Other assets	\$ 97,500

What is the corporation's net worth?

A. \$18,800

B. \$20,060

C. \$21,500

D. \$22,200

30. The balance sheet showing the financial status of the company _____ while the profit and loss statement measures the expense versus return _____.

A. over a period of time-----over a period of time.

B. over a period of time-----on a specific date.

C. on a specific date -----over a period of time

D. on a specific date -----on a specific date.

31. Given:	Direct costs	\$137,500
	Gross sales	\$ 250,000
	Selling expenses	\$ 56,000

Based on this information the gross profit is and the net income is

- A. \$98,000--\$46,000
- B. \$33,000--\$23,500
- C. \$112,500--\$56,500
- D. \$112,500--\$66,250

32. A construction company has an estimated income (sales) of \$300,000 for 2007. In order to achieve a gross profit ratio of 45% the cost of goods sold should be _____ .

- A. \$135,000
- B. \$165,000
- C. \$195,000
- D. \$205,000

33. Refer to the balance sheet shown below:

BALANCE SHEET AS OF SEPTEMBER 30, 2008

<u>ASSETS</u>		<u>LIABILITIES</u>	
Cash	\$ 5,100	Accounts payable	\$35,540
Accounts receivable	\$50,075	Current liabilities	\$41,540
Current assets	\$61,575	Long term debt	\$16,000
Property and equipment	\$28,225		
Total Assets	\$95,000	Total Liabilities	\$58,540

During the month of October 2008 the net effect of all business operations was:

Cash increased \$9,240

Accounts receivable decreased \$4,481

Current liabilities acid long term debt increased \$725

The net worth of the company at the end of October 2008 is _____.

- A. \$25,014
- B. \$26,464
- C. \$35,426;
- D. \$37,494

34. Refer to the balance sheet shown below:

CURRENT ASSETS

Cash	\$ 38,800.38
Accounts receivable	\$ 53,850.73
Reserve for bad debt	\$ 899.78
Net accounts receivable	\$ 52,950.95
Inventory	\$ 24,783.16
Total Current Assets	\$ 116,534.49

CURRENT LIABILITIES Total Current Liabilities \$ 110,543.77

What is the "quick ratio" for this company?

- A. 0.81 B. 0.83 C. 0.89 D. none of these

35. Based on the balance sheet of problem 38, how much cash must be added to the assets to increase the "quick ratio" to 1.25.

- A. \$44,689.13 B. \$46,428.38 C. \$47,867.45 D. none of these

Questions 36 through 38 use the following data:

	COMPANY			
	A	B	C	D
Current assets	180,000	220,000	110,000	200,000
Total assets	410,000	480,000	360,000	460,000
Current liabilities	110,000	120,000	50,000	130,000
Total liabilities	340,000	360,000	310,000	410,000
Net income	21,000	23,000	14,000	24,000
Total sales	1,050,000	1,250,000	350,000	1,350,000

36. Which of the above companies has the largest current ratio?

- A. company A C. company C
B. company B D. company D

37. Which company has the greatest margin of profit?

- A. company A C. company C
B. company B D. company D

38. Which company has the greatest amount of working capital?

- A. company A C. company C
B. company B D. company D

39. An unsecured contract is payable to Bank One in monthly payments of \$744.00 plus simple interest at 11% per annum on the unpaid balance. The balance due as of December 31, 2007 was \$13,392.00. How much of the January 2008 loan payment to Bank One was for interest?

- A. \$122.76 B. \$344.03 C. \$744.00 D. \$982.08

Part 3

1. In a petty cash system, you _____ for all expenses by replacing cash removed with a _____.
 - A. account - daily log
 - B. vouch - slip of paper
 - C. account - journal
 - D. vouch – voucher

2. Most builders need a cash fund for the little expenses that come up from day to day such as _____.
 - A. expenses less than \$100
 - B. expenses less than \$75
 - C. coffee and donuts, C.O.D. deliveries, and postage due
 - D. accounts receivables less than \$200

3. Controlling your overhead expenses is important, therefore your record of _____ is the best indication of what you can expect in the future.
 - A. accounts receivables
 - B. future expenses
 - C. fixed overhead expenses
 - D. past overhead expenses

- 4 Entries into the bookkeeping system for bills received but not yet paid are called _____ entries.
 - A. accrual
 - B. prepaid expenses
 - C. deferral
 - D. cash accounts

5. Financial and operating ratios are useful to builders and contractors who understand their meaning. These ratios tell the _____ trend of your business.
 - A. day-to-day
 - B. week-to-week
 - C. month-to-month
 - D. year-to-year

6. _____ help you find the good and the bad situations and show the relative health of your business.
 - A. accounts payable
 - B. accounts receivables
 - C. chart of accounts
 - D. ratios

7. The account entry to record accounts receivable is _____.
- A. defer the account
 - B. credit the account
 - C. debit the account
 - D. accrue the account
8. In order for the general ledger to be correct it must _____.
- A. have the debit side greater than the credit side
 - B. be balanced
 - C. have a positive balance on the credit side
 - D. have the credit side greater the than debit side
9. Which of the following formulas is correct regarding a balance sheet?
- A. liabilities + net worth = assets
 - B. assets = net worth - liabilities
 - C. assets = liabilities - net worth
 - D. assets = liabilities ÷ net worth
10. The _____ shows the source of funds and summary of cash management.
- A. check register
 - B. income statement
 - C. balance sheet
 - D. cash flow statement
11. A contractor has received a payment of \$41,199 on a job which he is 35% complete. The payment represents 62% of the total contract. Based on the percentage method of accounting, what is the unearned income?
- A. \$17,942
 - B. \$23,257
 - C. \$32,184
 - D. \$66,450
12. The advantage of using percentage of completion versus the completed contract method of accounting is _____.
- A. income and profits are based on estimates
 - B. you can recognize income before a payment is received
 - C. allows for periodic financial statements
 - D. results in deferred income and profit

13. The method of accounting almost always used for small jobs and any other job of short duration is _____.
- A. accrual method
 - B. unearned income method
 - C. completed contract method
 - D. percentage of completion method
14. Assume that a contractor had several moderate and ongoing large contracts underway. Which method of accounting will distort the true financial picture over several monthly accounting periods?
- A. accrual method
 - B. unearned income method
 - C. completed contract method
 - D. percentage of completion method
15. A contractor is using the "completed contract method" of accounting. Under this method and according to Builder's Guide to Accounting, income is received when _____.
- A. an application for payment is made
 - B. the project is completed
 - C. an application for payment is made based on the percentage of completion of the total contract price
 - D. at the owners' discretion and if the project is at least 75% complete
16. The method of accounting for long duration projects is _____.
- A. accrual method
 - B. cash method
 - C. completed contract method
 - D. percentage of completion method
17. There are two accepted ways to record income. When comparing these two methods it is found that financial statements are not realistic under the _____ method of accounting.
- A. contract
 - B. percentage of completion
 - C. completed contract
 - D. combined accounting

18. An alternative accrual method for builders is called the cash method. Under cash accounting, entries are made and reported only when _____.

- A. checks are written
- B. cash changes hands
- C. cash is received daily
- D. logged in journal

19. An aging list of accounts receivables not only shows you how long it is taking to collect account receivables but also _____.

- A. the amount of working capital at hand
- B. the amount of cash tied up in receivables (excluding retainages)
- C. the amount of cash tied up in inventory
- D. what percentage of total receivables are past due (excluding retainages)

20. What is the trend in the average length of receivables for a company given the following information:

<u>Month</u>	<u>Avg. Receivables</u>	<u>12 Mo. Charge Sales</u>
April	\$32,518.00	\$350,116.00
May	\$28,267.00	\$286,300.00
June	\$30,112.00	\$290,482.00

- A. the average length of receivables is fluctuating
- B. the average length of receivables is increasing
- C. the average length of receivables is decreasing
- D. the company's net worth is increasing

21. A bill for \$3,000 was received by a contractor with an invoice date of June 10th. Terms of the agreement are, 2% discount if paid within 10 days of the invoice date, net 30. The bill was paid by the contractor on June 19th of the same month. The correct check amount should be _____.

- A. \$3,000.00
- B. \$2,904.00
- C. \$2,940.00
- D. \$2,490.00

22. How does a business get their credit customers to pay faster?

- A. by controlling the average days of outstanding receivables
- B. by offering invoice discounts such as: "2% - 10 days, net 30"
- C. by preparing and mailing monthly statements regularly
- D. by assigning the accounts receivables over to a professional collection agency

23. For estimating bad debt losses, you need only the _____ and bad debt losses for a two-year period.
- A. total credit sales
 - B. bad debt reserve
 - C. journal entries
 - D. total delinquent sales
24. What should be done with bad debts at the end of the year?
- A. write them off if they are over 30 days delinquent
 - B. credit the revenue account
 - C. credit the expense account
 - D. adjust accounts receivables for bad debts
25. The journal entry to record an uncollectable bad debt is _____.
- A. debit bad debt expense
 - B. credit reserve for bad debts
 - C. debit accounts receivable
 - D. credit accounts receivable
26. The older an outstanding balance becomes, the more likely it is to become a/an_____.
- A. bad debt
 - B. account receivable
 - C. delinquent payable
 - D. reserve for bad debt
27. When summarizing a company's bad study report, which of the following would indicate a favorable trend?
- A. delinquent receivables are increasing
 - B. the ratio of delinquent receivables to total receivables are decreasing
 - C. delinquent receivables remain the same while bad debts increase
 - D. delinquent receivables and bad debts remain the same while credit sales decrease in relation to total sales
28. A contractor must control his accounts receivable. To do so, he only needs to know the trend of his _____.
- A. credit sales
 - B. delinquent account
 - C. bad debts
 - D. bad debts and credit sales

29. The reserve for bad debts account is a reduction of your _____ and should appear in the general ledger immediately after the accounts receivable.

- A. current liabilities
- B. current assets
- C. cash flow
- D. fixed assets

30. A contractor is considering entering a new market with only a few customers. This new market will account for the bulk of his business. Which of the following is most correct?

- A. one bad debt or customer loss could hurt the business bad
- B. more volume would create a larger profit
- C. a good idea since overhead will not increase much
- D. bad debts or customer losses could be absorbed

31. What will the sales price need to be for a contractor to make a 10% gross profit on a job with total direct costs of \$437,000?

- A. \$473,595
- B. \$480,350
- C. \$485,556
- D. \$490,800

32. You are putting a bid together using the information listed below. After submitting your bid to the owner, he counters your bid by saying he can only afford to pay \$79,000 for the job. If you accept his counter offer and the job, what will be your net profit?

Subcontractors bids \$40,000
Labor estimate \$20,000
Material estimate \$8,000
Indirect expenses on labor 8%
Profit mark-up 10%

- A. \$2,440
- B. \$6,960
- C. \$9,400
- D. \$11,000

33. Selling expenses usually rise in steps and are related to the volume of business. As volume and cash profits increase, some builders _____.

- A. tend to relax their control over fixed expenses
- B. budget their accounts payable
- C. relax their control of petty cash
- D. tend to relax their control over selling expenses

34. In construction projects, which of the following is not the largest direct cost to a builder?
- A. material costs
 - B. subcontracts
 - C. labor costs
 - D. cost of general conditions
35. According to *Builder's Guide to Accounting*, materials comprise approximately what percent of direct costs?
- A. 8% to 10 %
 - B. 25%
 - C. 50%
 - D. 60%
36. The labor costs of moving materials from the curb line to the installation point on residential projects is estimated to be about _____.
- A. 4% to 6%
 - B. 8% to 10%
 - C. 15% to 17%
 - D. 23% to 25%
37. The most simplest method of controlling material handling and scheduling is by _____.
- A. delivery schedules
 - B. purchase orders
 - C. controlling costs
 - D. controlling inventory
38. The best way to provide control of materials entering your storage yard from vendors is by _____.
- A. signing and keeping copies of invoices
 - B. performing weekly inventory
 - C. making sure it gets unloaded when materials arrive
 - D. summarizing your purchase orders on a purchase journal
39. Some builders use the purchase journal as a source document for accounting entries. The total purchases are treated as _____.
- A. credits
 - B. accounts receivables
 - C. debits
 - D. accounts payable

40. According to *Builder's Guide to Accounting*, the real usefulness of a purchase journal is _____.

- A. to control accounts receivable
- B. to control accounts payable
- C. to control the bad debts of a company
- D. to control inventory

41. Lack of planning and controlling your inventory can leave you with too much material at any given time. This ties _____ up that could be better used.

- A. inventory
- B. material
- C. working capital
- D. labor

42. There are various methods of controlling inventory. Under one of the methods, the latest materials purchased are the first ones used. This method of keeping inventory is referred as _____.

- A. first in, first out
- B. specific cost
- C. last in, first out
- D. first in, last out

43. According to *Builder's Guide to Accounting* good inventory control does which one of the following?

- A. reduces the need for office space
- B. maximizes investments of capital inventory
- C. minimizes obsolescence losses
- D. helps avoid construction litigation

44. According to *Builder's Guide to Accounting*, what is the suggested method to avoid payroll problems?

- A. use double-stub payroll checks
- B. issue all checks from one general account
- C. established a separate payroll checking account
- D. use the pegboard system to write payroll checks

45. Which copy of the W-2 wage and tax statement should be given to the employee to file with his/her income tax return?
- A. Copy A
 - B. Copy B
 - C. Copy C
 - D. Copy D
46. According to *Builder's Guide to Accounting*, the form required for depositing federal *FICA* and *withholding taxes* with local banks is _____.
- A. Form 8109
 - B. Form 940
 - C. Form 941
 - D. Form 508
47. According to *Builder's Guide to Accounting*, which one of the following is not a variable expense?
- A. payroll taxes on direct labor
 - B. property taxes
 - C. job site equipment rental
 - D. travel and entertainment
48. Which one of the following is true, when setting up a plan for budgeting overhead expenses?
- A. budgeting controls accounts receivable
 - B. budgeting reduces the bidding process
 - C. controls the accounts payable
 - D. budgeting should be based on past results and your estimate of reasonable expectations
49. A monthly budget for fixed expenses should be prepared _____ in advance.
- A. 60 days
 - B. 6 months
 - C. 1 year
 - D. 2 years
50. According to *Builder's Guide to Accounting*, using the accrual method of accounting, how often should a contractor make entries in the general ledger?
- A. weekly
 - B. every two weeks
 - C. monthly
 - D. every six months

51. Every contractor should keep good purchasing records of equipment. In addition to these good records a contractor should develop detailed records for _____.

- A. operators who use the equipment
- B. brake horsepower of equipment
- C. equipment depreciation
- D. yearly cost of equipment operators

52. Every builder should keep certain information to establish an hourly cost of his equipment. Such information should be _____.

- A. hourly cost of equipment operator
- B. repair and maintenance depreciation
- C. cost of equipment minus estimated salvage value
- D. estimated life of each driver

53. According to *Builder's Guide to Accounting*, which of the following is *not* a unit cost of equipment?

- A. salvage value
- B. purchase price
- C. cost of storage
- D. idle time

54. A piece of equipment was purchased new for \$5,000 and sold two years later for \$3,350, using 15% straight line annual depreciation of acquisition cost, the net gain or loss on the sale is a _____. Assume a 7 year useful life.

- A. gain of \$350.00
- B. loss of \$150.00
- C. gain of \$150.00
- D. loss of \$350.00

55. According to the Modified Accelerated Cost Recovery System (MACRS), office furniture has a depreciable life class of _____.

- A. 3 years
- B. 5 years
- C. 7 years
- D. 10 years

56. The decision to buy equipment can be a major step for any contractor. One of the advantages of leasing equipment is _____.
- A. on a long term basis, leasing is cheaper
 - B. an immediate tax deduction is available
 - C. depreciation can begin immediately
 - D. on a short-term basis, buying is cheaper
57. According to *Builder's Guide to Accounting*, which of the following statements is correct regarding leasing of equipment?
- A. lease-purchased equipment is carried as an asset on financial statements even though offsetting liabilities are not included.
 - B. in the short term, owning is cheaper than leasing
 - C. for equipment that will receive regular long-term use, leasing is cheaper than buying
 - D. depreciation can be claimed on equipment that is leased-purchased
58. Under a lease purchase agreement, which one of the following is not true?
- A. full value of the equipment is included as an asset
 - B. depreciation is not allowed
 - C. the full liability less equity is listed as payable
 - D. depreciation on the equipment can begin immediately
59. When equipment is sold, the books have to be cleared of all entries relating to that asset. This includes taking out the _____ of the asset and the _____ on it.
- A. market value - organizational expense
 - B. accumulated depreciation - net value
 - C. gross value - accumulated appreciation
 - D. gross value - accumulated depreciation
60. A complete cash budgeting plan does much more than simply budget a certain amount of cash for a specific future use. It also _____.
- A. raises immediate cash
 - B. liquidates current assets
 - C. allows for bonds to be sold
 - D. prevents errors in cash planning and direction
61. There are several ratios you can use to judge your cash position. They are called _____ and indicate the relative asset strength of a business.
- A. cash movement ratios
 - B. cash control ratios
 - C. liquidity tests
 - D. leveraging ratios

62. The cash movement method and the source and application of funds method are two principle methods of preparing a cash budget. The cash movement method involves budgeting only the _____.
- A. accounts payable
 - B. accounts receivable
 - C. source of application
 - D. flow of cash
63. According to *Builder's Guide to Accounting*, a good cash planning budget can accomplish_____.
- A. controlling the purchase of materials and helps prevent under- or over-buying
 - B. preparation for tax assets
 - C. planning adequate levels of purchasing in advance
 - D. serving as a model for control of accounts payable
64. A contractor wants to improve the current ratio on it's balance sheet. How is this done?
- A. increasing current assets
 - B. increasing net worth
 - C. decreasing long-term liabilities
 - D. decreasing current liabilities
65. There are several ratios a company can use to judge its cash position. One of those ratios is _____.
- A. expenses to sales
 - B. income to net profit
 - C. current liabilities to capitalization
 - D. current assets to long-term liabilities
66. When preparing a cash budget, which method is especially valuable for builders who have wide variations in their business volume from month to month?
- A. cash budgeting method
 - B. pegboard system
 - C. cash movement method
 - D. source and application of funds method
67. Which of the following statements is the most correct concerning a cash movement budget?
- A. cash movement method recognizes accounts receivable
 - B. cash movement method is not valuable for builders who have wide variations in business volume
 - C. source of applications of funds method has the advantage of simplicity
 - D. cash movement method involves budgeting only the flow of actual cash

68. There are two principal methods of preparing a cash budget or forecast: the cash movement method and the source and application of funds method. The source and application of funds method is _____.

- A. less accurate
- B. for wide variations of business volume
- C. more precise than the cash movement method
- D. based on actual cash flow

69. A break-even point does not encourage growth. It merely tells you the _____ you need to break even.

- A. minimum amount of direct costs
- B. minimum amount of gross profit
- C. minimum amount of sales
- D. amount of budgeting

70. C.A.M. Construction Co. wants to figure their gross sales break-even point. If their fixed overhead is \$95,000 and the selling expenses are \$150,000, what is their break-even point if cost of contracts is 60% of sales (revenue)?

- A. \$245,000
- B. \$612,500
- C. \$545,800
- D. \$925,395

71. A new construction company estimates it's fixed overhead to be \$35,000, sales expenses of 19%, and direct costs of 55%. In order to break even during it's first year of operation, the company must achieve a total sales volume of _____. Select the closest answer.

- A. \$77,778
- B. \$184,210
- C. \$155,850
- D. \$134,615

72. A company wishes to break even in sales volume. The company has operating expenses of \$29,000 and gross profit represents 30% of gross income. What is the total direct cost?

- A. \$96,667
- B. \$29,667
- C. \$48,667
- D. \$67,667

73. Cash can be stolen in different ways. Which of the following is not a way for a contractor to lose cash through theft from employees?

- A. adjusting the check book
- B. lapping
- C. double use of petty cash receipts
- D. recording cash sales

74. A crew has a performance standard ratio of 1.2 to 1. The crew is to be sent on a job that will require 80 standard man-hours. According to the crew's performance standard, how many man-hours will it take the crew to complete the job?

- A. 96.0
- B. 76.4
- C. 66.7
- D. 66.6

75. A 3-man construction crew has consistently had an average performance standard ratio of 1.2 to 1 (actual to standard). This crew is scheduled for a job with a predetermined performance standard time requirement of 98 man-hours. If the crew works at the 1.2 to 1 performance standard ratio, the total actual time the crew will work on the scheduled job is _____.

- A. 39.2 crew-hours
- B. 78.4 crew-hours
- C. 117.6 crew-hours
- D. 156.8 crew-hours

76. Which of the following is not a classification of a deferred cost or expense account?

- A. materials
- B. direct labor
- C. taxes
- D. general expenses (allocated)

77. Deferred income is neither a current nor a long-term liability. It is a _____.

- A. deferred debit
- B. deferred credit
- C. deferred accrual
- D. long term liability

78. According to *Builder's Guide to Accounting*, costs and expenses are neither current nor long term. On a balance sheet they are classified as _____.

- A. deferred income
- B. deferred debits
- C. deferred expenses
- D. deferred credits

79. The only reasonable way to assign fixed overhead expenses is in proportion to _____.

- A. total direct cost
- B. gross sales
- C. total direct labor hours
- D. total direct labor cost

80. Which of the following is true, regarding the use of a *job cost ledger*?

- A. the system provides useful information but is not practical
- B. the system is time consuming and burdensome
- C. materials and payroll expenses are posted directly to the job cost ledger as you write checks to pay bills
- D. you can see project-to-date costs and expenses and the system is practical and provides useful information

81. Which of the following is the best way to control petty cash?

- A. withhold cash from a bank deposit
- B. write out a check to "petty cash" as funds are needed
- C. set up an imprest system
- D. make the fund difficult to use

82. Controlling the flow of information for cash payments is not difficult with a/an_____.

- A. cash voucher
- B. imprest fund
- C. receipt
- D. petty cash system

83. You are reconciling your company checkbook against your bank statement. Your checkbook indicates a balance of \$18,500. There was a \$65.00 service charge on the statement. You note a check you had entered in your checkbook as \$690.00, was actually written for \$960.00. Outstanding checks not posted in statement: \$950.00, deposits not posted in statement: \$870.00. What is the checkbook balance?

- A. \$18,165
- B. \$18,085
- C. \$17,885
- D. \$17,215

84. The most important information for accurate bidding is _____.
- A. estimated wage rates
 - B. current material prices
 - C. cost records of jobs completed
 - D. subcontractor bids
85. The builder who has kept up a _____ on all previous work and has made a good material take-off should have no trouble estimating the true material cost.
- A. square foot cost
 - B. job cost card
 - C. performance standard record
 - D. labor cost
86. Every builder should add a contingency to cover unknown conditions in his estimate, this contingency should be added _____.
- A. after the profit markup
 - B. in the material estimate only
 - C. at the end of estimate, just before adding the profit
 - D. in the labor estimate only
87. The best method for allocating overhead is on the basis of _____.
- A. total cost of job as a percentage of total sales
 - B. total labor hours
 - C. percentage of gross profit
 - D. percentage of net profit
88. Assume that the total projected direct labor hours estimated for C.A.M. Construction Co. are 21,000 man-hours for next year (12 months). Job #9149 is estimated to require 7,000 man hours to complete, and will last eight months. What dollar amount should be charged to job #9149 every month to cover C.A.M. Construction's general and administrative expenses for next year? Select the closest answer. The total projected general and administrative expenses for next year (12 months) is \$52,500.00.
- A. \$2,188.00
 - B. \$6,563.00
 - C. \$8,940.00
 - D. \$17,500.00
89. The best time to control costs on a construction project is _____.
- A. whenever you approve invoice statements for payment
 - B. monthly as the job progresses along
 - C. within each phase of construction that has been assigned a budget
 - D. immediately following the project review

90. _____ are expenses recorded earlier than the payment is made.

- A. deferred debits
- B. deferred credits
- C. accruals
- D. pre-paid assets

91. Other than for contracts, accruals are recorded to show accounts and taxes payable, prepaid assets, and any other _____ that you expect will result in cash changing hands in the future.

- A. non-cash exchange
- B. cash exchange
- C. transaction
- D. deferrals

92. All sales on accounts receivables should be _____ because no cash changes hands.

- A. deferred
- B. advertised
- C. depreciated
- D. accrued

93. Insurance policy not expensed out is carried on the asset side of balance sheet as _____.

- A. accruals too low
- B. accruals too high
- C. deferrals too low
- D. deferrals too high

94. Details of the changes in current assets and current liabilities would be found on the _____.

- A. source of application of funds budget
- B. cash movement budget
- C. balance sheet
- D. income statement

95. The _____ is a general indicator of the strength of a contractor's operation and how well his business is able to finance its commitments.

- A. income statement
- B. balance sheet
- C. cash flow statement
- D. source and application method

96. Which of the following statements is true regarding a trial balance sheet?

- A. total credits must equal total debits
- B. total debits must equal total accruals
- C. total accruals must equal total credits
- D. current assets must equal current liabilities

97. The first step in preparing financial statements at the close of an accounting period and after all entries have been posted in the general ledger, is to put together a _____.

- A. post ledger
- B. cash flow statement
- C. chart of accounts
- D. trial balance sheet

98. Current assets are liquid assets that can be reasonably turned into cash within _____.

- A. 12 months
- B. 8 months
- C. 6 months
- D. 1 month

99. Fixed assets are classified as fixed, because they can not be reasonably to be turned into cash within _____.

- A. 1 month
- B. 6 months
- C. 8 months
- D. 12 months

100. Current liabilities are liabilities that are payable within _____.

- A. 1 month
- B. 6 months
- C. 1 year
- D. 2 years

101. Liability amounts that are not payable within 1 year are entered on a builder's books as _____.

- A. long-term accruals
- B. long-term liabilities
- C. current liabilities
- D. deferred expenses

102. Assume a contractor obtained a four year note from a bank. Which portion of that note would be considered a current liability?

- A. all 48 months
- B. the first 36 months
- C. the last 12 months
- D. the first 12 months

103. When equipment is sold or abandoned, the _____ should be removed from the books on that asset.

- A. accumulated depreciation only
- B. gross value only
- C. gross value and accumulated depreciation
- D. market value

104. Which of the following will be listed as an intangible asset?

- A. goodwill
- B. furniture & fixtures
- C. improvements
- D. retainage

105. According to *Builder's Guide to Accounting* which of the following accounts will be affected by dividends paid?

- 1. Cash: current assets
- 2. Accounts payable: current liabilities
- 3. Retained earnings: net worth
- 4. Accumulated depreciation: fixed assets

- A. 1 & 2
- B. 1 & 3
- C. 2 & 3
- D. 3 & 4

106. Accounting ratios will interpret and draw attention to significant conditions and trends such as _____.

- A. general indicators of business health at a given time
- B. show day-to-day business trends
- C. cash budgeting
- D. controlling selling expenses

107. According to *Builder's Guide to Accounting*, what is the preferred minimum current ratio for contractors?

- A. 1 to 1
- B. 2 to 1
- C. 3 to 1
- D. 4 to 1

108. The formula to compute current ratio is _____.

- A. $\text{assets} \div \text{liabilities}$
- B. $\text{current assets} \div \text{total liabilities}$
- C. $\text{fixed assets} \pm \text{current liabilities}$
- D. $\text{current assets} \div \text{current liabilities}$

109. Which one of the following ratios best portray a company's immediate ability to pay current debts?

- A. current ratio
- B. quick assets ratio
- C. working capital ratio
- D. margin of profit ratio

110. Financial planners at 1 Exam Prep Co. will use _____ when determining the business's ability to meet it's short term obligations.

- A. quick ratio
- B. current ratio
- C. working capital
- D. profit margin

111. Current assets minus inventories, divided by current liabilities equal _____.

- A. quick ratio
- B. net quick ratio
- C. working capital
- D. real turn over

112. Current assets minus current liabilities equal _____.

- A. quick ratio
- B. net quick ratio
- C. working capital
- D. real turn over

113. The type of ratios that compare accounts on the income statement to accounts on the balance sheet are called _____.
- A. combined ratios
 - B. balance sheet ratios
 - C. income account ratios
 - D. comparative ratios
114. What type of ratio is the *real turnover* ratio?
- A. a combined ratio
 - B. a balance sheet ratio
 - C. an income account ratio
 - D. an expense control ratio
115. The ratio that indicates the number of times that inventory is replaced in one year is referred to as _____ ratio.
- A. current
 - B. true investment yield
 - C. expense control
 - D. real turnover
116. Cost of sales divided by inventory at cost equal _____.
- A. cost of sales percent
 - B. trend in charge sales
 - C. net quick ratio
 - D. real turn over
117. Which of the following best describes how a true investment yield ratio may be obtained from financial statements?
- A. net income divided by net worth
 - B. gross sales divided by net profit
 - C. gross profit divided by net profit
 - D. owners equity divided by net profit
118. Gross profit divided by sales equal _____.
- A. percentage of net profit
 - B. gross profit percent
 - C. expense control percent
 - D. margin of profit

119. Operating expenses divided by sales volume equal _____.

- A. percentage of net profit
- B. gross profit percent
- C. expense control percent
- D. margin of profit

120. Net income divided by sales equal _____.

- A. percentage of net profit
- B. gross profit percent
- C. expense control percent
- D. margin of profit

121. Use the following information to determine which company has the most working capital.

<u>Company</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
Current Assets	\$ 270,000	\$160,000	\$250,000	\$198,000
Current Liabilities	\$ 180,000	\$100,000	\$110,000	\$115,000
Avg Length Receivables	45	23	20	30
Sales	\$1,400,000	\$965,000	\$2,410,000	\$110,000

- A. Company 1
- B. Company 2
- C. Company 3
- D. Company 4

122. According to the income statement for 1 Exam Prep. Construction Co., the gross profit margin Is _____. **Use Exhibit #1**

- A. 10%
- B. 27%
- C. 35%
- D. 37%

123. According to the financial documents given for 1 Exam Prep. Construction Company, the expense control ratio is _____. **Use Exhibit #1**

- A. 14.2%
- B. 14.7%
- C. 22.3%
- D. 20.8%

124. 1 Exam Prep. Construction Company's margin of profit for the calendar year is _____. **Use Exhibit #1**

- A. 7.4%
- B. 9.9%
- C. 12.3%
- D. 15.5%

125. In order for 1 Exam Prep. Construction Co. to have a gross profit of 40%, the cost of contracts would need to _____. **Use Exhibit #1.**

- A. increase by \$212,835
- B. decrease by \$212,835
- C. increase by \$1,702,674
- D. decrease by \$1,702,674

126. 1 Exam Prep. Construction Co. wishes to increase their sales in the next year following the year shown on Exhibit #1. They anticipate no increase in operating expenses for the next year, and wish the expense to sales ratio to be 20%. To achieve this, sales must be _____.

Use Exhibit #1

- A. \$851,336
- B. \$4,256,684
- C. \$4,427,595
- D. \$7,023,527

127. According to the financial information given, the current ratio for 1 Exam Prep. Construction Co. is _____. **Use Exhibit #2**

- A. 1.39:1
- B. 1.59:1
- C. 1.75:1
- D. 1.96:1

128. The quick ratio for 1 Exam Prep. Construction Co. is _____. **Use Exhibit #2**

- A. 1.32:1
- B. 1.46:1
- C. 1.63:1
- D. 1.79:1

129. The working capital for 1 Exam Prep. Construction Co. is _____. **Use Exhibit #2**

- A. \$318,375
- B. \$487,896
- C. \$523,465
- D. \$631,983

130. According to the financial information given in Exhibit #3, what is the percentage of total sales for the Remodeling Division of 1 Exam Prep. Construction Co.?

- A. 28%
- B. 37%
- C. 45%
- D. 55%

131. The gross profit percentage for the New Construction Division of 1 Exam Prep. Construction Co. is _____. **See Exhibit #3.**

- A. 23.2%
- B. 32.7%
- C. 41.0%
- D. 49.4%

132. The margin of profit for the Remodeling Division of 1 Exam Prep. Construction Co. is _____. **See Exhibit #3**

- A. 23.2%
- B. 49.4%
- C. 2.4%
- D. 29.3%

133. The operating expenses of the Remodeling Division of 1 Exam Prep. Construction Co. are _____ of the total operating expense. **See Exhibit #3.**

- A. 20.2%
- B. 29.4%
- C. 43.6%
- D. 57.3%

134. Refer to the Schedule of Contracts in Progress (**Exhibit #4**) to determine the percentage of completion on job #9135. This job is estimated to be _____ complete.

- A. 37.8%
- B. 40.0%
- C. 41.5%
- D. 70.8%

135. Job #9135 has _____ of accrued/unearned income to date. **Use Exhibit #4.**

- A. \$3,293 accrued
- B. \$3,293 unearned
- C. \$69,375 accrued
- D. \$69,375 unearned

136. The lift truck on **Exhibit #5** will depreciate _____ for the first year.

- A. \$5,400
- B. \$6,500
- C. \$8,100
- D. \$10,800

137. The backhoe listed on **Exhibit #5** will depreciate _____ for the first year.

- A. \$15,000
- B. \$17,500
- C. \$22,500
- D. \$30,000

138. A company traded its old computer for a new model at the end of two years. The old computer has a useful life of six years. The following information is pertinent to this transaction:

- | | |
|---------------------------------------|---------|
| • Cost of old computer | \$6,000 |
| • List price of new model | \$8,000 |
| • Trade-in allowance for old computer | \$4,500 |

According to *Builder's Guide to Accounting*, to defer tax on gains or losses until the new computer is sold, the adjusted basis for depreciation of the new asset would be _____.

Use straight-line depreciation and assume no salvage value.

- A. \$ 7,500
- B. \$10,500
- C. \$11,000
- D. \$12,000

139. If the actual profits on a current job are too high at the beginning of the job schedule, it may indicate that you will _____.

- A. finish the project late
- B. make a smaller overall job profit
- C. need to reschedule labor and material for later dates
- D. finish the project early

140. If the profit curve on a current job do not do not swing up soon enough or fast enough at the beginning of the job schedule, it can mean that you will _____.

- A. finish the project early
- B. make a larger overall job profit
- C. need to examine the estimate to determine why the job is on schedule
- D. need to delay scheduled labor and material until later dates

141. What information would not be required on a loan application?

- A. an income statement for one year
- B. a federal income tax return for the previous year
- C. a cash flow statement
- D. a current balance sheet

142. Which of the following is true regarding the Small Business Administration?

- A. The SBA guarantees loans from private banks lending to small businesses
- B. The SBA lends money to all small businesses independently owned
- C. The SBA is the largest lender of loans in the United States
- D. The SBA does not require collateral

143. The balance sheet account entry for taxes payable is _____.

- A. long-term liability
- B. current liability
- C. fixed liability
- D. deferred expenses

144. A contractor established a \$150,000 line of credit with a bank. When it was established, 2 points were charged on the full amount of the line of credit. Simple annual interest at 10.5% was charged against the amount borrowed. During the first 6 months, the average amount borrowed was \$99,000. What was the total cost of the line of credit at the end of 6 months?

- A. \$6,697.50
- B. \$8,197.50
- C. \$10,395.00
- D. \$13,395.00

145. A contractor borrows \$112,500 from a bank at 13% simple annual interest. Two points are deducted from the loan proceeds at closing. The annual percentage interest rate is _____. Interest payments are made monthly. The principle plus accrued interest are paid at the end of the loan period. The loan is for 12 months.

- A. 13.0%
- B. 13.27%
- C. 13.34%
- D. 13.76%

146. A contractor took a \$75,000, 6-month, 12% simple interest rate construction loan from a bank. The bank required monthly payments of this interest-only loan and deducted a 2-point origination fee from the loan amount. How much will the monthly payments be?

- A. \$735.00
- B. \$750.00
- C. \$3,045.00
- D. \$9,000.00

147. A contractor took a \$100,000, 9-month, 10% simple interest rate construction loan from a bank. The bank required monthly payments of this interest-only loan and deducted a 2-point origination fee from the loan amount. How much did the contractor pay the bank on the final payment?

- A. \$98,816.67
- B. \$100,000.00
- C. \$100,833.33
- D. \$107,500.00

EXHIBIT #1
INCOME STATEMENT

Income:

Construction income (sales)	\$4,256,684
Cost of contracts	<u>\$2,766,845</u>
Gross profit	\$1,489,839

Operating expenses:

Selling expenses	\$ 359,824
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General & administrative expenses:

Salaries	\$ 433,195
Utilities	\$ 13,000
Office	\$ 37,000
Insurance	\$ 18,000
Miscellaneous	<u>\$ 24,500</u>

<u>Total operating expenses:</u>	\$ 885,519
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<u>Operating profit:</u>	\$ 604,320
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<u>Net income before taxes:</u>	\$ 604,320
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Taxes	<u>\$ 181,996</u>
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<u>Net income:</u>	\$ 422,324
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EXHIBIT #2 BALANCE SHEET

Current assets:

Cash in bank	\$ 198,357
Petty cash	1,000
Accounts receivable	965,368
Materials in inventory	107,641
Prepaid items	<u>38,000</u>

Total current assets: \$ 1,310,366

Fixed assets:

Equipment & machinery	\$ 450,000
Building & improvements	965,258
Accumulated depreciation	<u>(143,000)</u>

Total fixed assets: \$ 1,272,258

Total assets: \$ 2,582,624

Current liabilities:

Accounts payable	\$ 583,259
Notes payable	163,852
Payroll taxes payable	<u>75,359</u>

Total current liabilities: \$ 822,470

Long term liabilities:

Notes & mortgages	<u>422,453</u>
Total liabilities	\$ 1,244,923

Capital (net worth):

Capital stock	150,000
Retained earnings	765,377
Net income (year-to-date)	<u>422,324</u>

Total capital: \$ 1,337,701

Total liabilities & capital: \$ 2,582,624

EXHIBIT #3
PROFIT AND LOSS STATEMENT

	<u>Total</u>	<u>Less: New Construction</u>	<u>Remodeling Only</u>
Gross income:	\$ 4,256,684	\$ 2,341,176	\$ 1,915,508
Direct cost:	2,766,845	1,798,449	968,396
	100%		
Gross profit:	\$ 1,489,839	\$ 542,727	
Operating expenses:			
Selling expenses	359,824	210,731	149,593
G & A expenses	525,695	288,857	236,338
Total operating expenses	\$ 885,519	\$ 499,588	\$ 385,931
Net profit:	\$ 604,320	\$ 43,139	\$ 561,181
Margin:	_____	_____	_____

EXHIBIT #4
SCHEDULE OF CONTRACTS IN PROGRESS

Project <u>Number</u>	Total <u>Contract</u>	Billings <u>to Date</u>	Estimated <u>Cost to Date</u>	Estimated Cost <u>To Complete</u>
9134	\$175,000	\$100,000	\$90,000	\$58,000
9135	225,000	90,000	85,000	120,000
9136	120,000	40,000	30,000	76,000
9137	125,000	52,000	40,000	60,000
9138	350,000	265,000	275,000	90,000
9139	500,000	460,000	450,000	40,000
9140	138,000	20,000	20,000	115,000
9141	55,000	12,000	10,000	38,000
9142	<u>985,000</u>	<u>980,000</u>	<u>1,100,000</u>	<u>5,000</u>
	\$2,673,000	\$2,019,000	\$2,100,000	\$602,000

EXHIBIT #5

EQUIPMENT SCHEDULE

<u>Depreciation</u>	<u>Description</u>	<u>Purchase Date</u>	<u>Purchase Price</u>	<u>Useful Life</u>
Straight Line	Car	05/18/94	25,000	3 years
200% Declining Balance	Lift truck	08/28/95	27,000	5 years
150% Declining Balance	Back-hoe	11/07/95	150,000	10 years
150% Declining Balance	Pay loader	06/19/95	220,000	7 years

ANSWER KEY

Part 1

1. D

Step 1: Determine the cost of the materials including tax:

$$\$9,200 \times .06 (6\%) = \$552.00 \text{ tax}$$

$$\$9,200 + \$552 = \$9,752 \text{ total cost of materials}$$

Step 2: Determine the job overhead cost (42% of labor cost):

$$\$6,700 (\text{labor}) \times .42 (42\%) = \$2,814$$

Step 3: Add the following figures:

Subcontractors: \$37,500

Labor Costs: \$6,700

Materials: \$9,752

Job Overhead: \$2,814

$$\$37,500 + \$6,700 + \$9,752 + \$2,814 = \$56,766$$

Note: \$56,766 is total price of bid before factoring the mark-up and bond.

Step 4: Determine the mark-up on the bid:

$$\$56,766 \times .08 (8\%) = \$4,541.28$$

$$\$56,766 + \$4,541.28 = \$61,307.28$$

Note: \$61,307.28 is total price of bid before factoring the bond.

Step 5: Determine the bond on the bid (.75% of total bid price after mark-up):

$$\$61,307.28 \times .0075 (.75\%) = \$459.8046$$

$$\$61,307.28 + \$459.8046 = \$61,767.084$$

Total BID Price is: \$61,767.00 rounded to nearest dollar

2. C

3. C Page 269

4. B

5. C

6. B

7. C

8. D

9. C

10. B

11. B

12. C

13. A

14. A

15. C

16. C

- 17. B
- 18. B
- 19. C
- 20. D
- 21. C
- 22. C
- 23. B
- 24. A
- 25. D
- 26. A
- 27. A
- 28. C

Part 2

- 1. B
- 2. A
- 3. B
- 4. D
- 5. A
- 6. C
- 7. C
- 8. B
- 9. C
- 10. B
- 11. B
- 12. C
- 13. B
- 14. A
- 15. B
- 16. A
- 17. A
- 18. D
- 19. B
- 20. C
- 21. B
- 22. C
- 23. D
- 24. D
- 25. D
- 26. D
- 27. C
- 28. C
- 29. D
- 30. C
- 31. C
- 32. B

- 33. D
- 34. B
- 35. B
- 36. C
- 37. C
- 38. B
- 39. A

Part 3

- 1. D 10

Answer D is selected over B because a "slip of paper" is not necessarily a voucher and a voucher is not necessarily a "slip of paper". If Answer D was not among the choices Answer B would be satisfactory.

- 2. C 10
- 3. D 11
- 4. A 11, 149
- 5. C 12
- 6. D 12
- 7. C 15 chart (lower right)
- 8. B 17, 278 or 281
- 9. A 17
- 10. D 18
- 11. A 23

$\$41,199 / .62 = 66,450$
 $66,450 \times .35 = 23,257.50$
 $41,199 - 23,257.50 = \$17,941.50$
- 12. B 24
- 13. C 25
- 14. C 25
- 15. B 25
- 16. D 26

17.	C	26	
18.	B	32	
19.	D	46	
20.	B	54, 55	$32,518/350,116 \times 365 = 33.52$ days $28,267/286,300 \times 365 = 36.04$ days $30,112/290,482 \times 365 = 37.84$ days
21.	C	59	$\$3,000 \times .98 = \$2,940$
22.	B	59	
23.	A	64	
24.	D	64	
25.	D	64	
26.	A	66	
27.	B	66, 67	
28.	D	67	
29.	B	68	
30.	A	80	
31.	C	82	Figure 7-4 $100\% - 10\% = 90\%$ (direct cost) $437,000/.90 = \$485,555.56$
32.	C	90	$40,000 + 20,000 + 8,000 + (20,000 \times .08) = 69,600$ $79,000 - 69,600 = \$9,400$
33.	D	91	
34.	D	115	
35.	C	115	

36.	B	115	
37.	B	116	
38.	D	118	
39.	D	118	
40.	D	118	
41.	C	119	
42.	C	120	
43.	C	121, 122	
44.	C	126	
45.	B	137	
46.	A	138	
47.	B	142, Figure 12-1 or 142 & 143	
48.	D	144	
49.	C	145	
50.	C	149 or 239	
51.	C	159	
52.	C	159, 160	
53.	A	159, 160	
54.	B	163, 170	$5,000 \times .15 \times 2 = 1,500$ $5,000 - 1,500 = 3,500 - 3,350 = \150 loss
55.	C	167	
56.	B	169	
57.	D	169, 170	
58.	B	169, 170	

59.	D	170	
60.	D	173	
61.	C	174	
62.	D	176	
63.	A	173, 174	
64.	D	174	
65.	A	175	
66.	C	176	
67.	D	176	
68.	C	176	
69.	C	178, 179	
70.	B	178, 179	$100\% - 60\% = 40\%$ (gross profit %) $95,000 + 150,000 = 245,000$ (gross profit amount) $245,000 / .40 = \$612,500$
71.	D	178, 179	$100\% - 55\% = 45\%$ (gross profit) $45\% - 19\% = 26\%$ (fixed exp. %) $35,000 / .26 = \$134,615.38$
72.	D	178, 179	$100\% - 30\% = 70\%$ (direct costs) $0 + 29,000 = 29,000$ (gross profit) $29,000 / .30 = 96,666.67 \times .70 = \$67,666.67$
73.	D	180, 181, 182	
74.	A	189 & 190, Fig.15-3	$80 \times 1.2 = 96$ man hours
75.	A	190	$98 \times 1.2 = 117.6$ man hrs $117.6 / 3 = 39.76$. C 191
76.	C	191	

77.	B	191	
78.	B	191	
79.	C	201	
80.	D	203	
81.	C	207, 208	
82.	B	208	
83.	A	213, 214, 215	Check Book = $18,500 - 65 - 270 (960 - 690) = \$18,165$
84.	C	225	
85.	B	227	
86.	C	227	
87.	B	228	
88.	A	228, 229	$52,500/21,000 =$ $\$2.50/\text{hour} \times 7,000/8 = \$2,187.50$
89.	C	231	
90.	C	238	
91.	A	237	
92.	D	239	
93.	B	239, 240	
94.	C	247	
95.	B	249	
96.	A	250	
97.	D	250 or 281	
98.	A	252	
99.	D	252	

100.	C	253
101.	B	253
102.	D	253
103.	C	252, 253
104.	A	253
105.	B	254
106.	A	268
107.	B	268
108.	D	268 or 273
109.	B	269
110.	A	269
111.	A	269 or 273
112.	C	269 or 273
113.	A	270
114.	A	270 271 or 273
115.	D	271
116.	D	271 or 273
117.	A	272 or 273
118.	B	272 or 273
119.	C	272 or 273
120.	D	272 or 273
121.	C	273

Current Assets - Current Liabilities

1 = 270,000 - 180,000 = \$90,000

2 = 160,000 - 100,000 = \$60,00

$$3 = 250,000 - 110,000 = \$140,000$$

$$4 = 198,000 - 115,000 = \$83,000$$

122.	C	273	Gross profit/Sales $1,489,839/4,256,684 = .35 = 35\%$
123.	D	273	Operating Exp./Sales $885,519/4,256,684 = .208 = 20.8\%$
124.	B	273	Net income/Sales $422,324/4,256,684 = .099 = 9.9\%$
125.	B	general knowledge	$4,256,684 \times .40 = 1,702,673.60 - 1,489,839$ $= \$212,834.60$ decrease
126.	C	general knowledge	$885,519/.20 = \$4,427,595$
127.	B	273	Current Assets/Current Liabilities = $1,310,366/822,470 = 1.59$ to 1.00
128.	B	273	Current Assets - Inventory/Current Liabilities $1,310,366 - 107,641/822,470 = 1.46$ to 1.00
129.	B	273	Current Assets - Current Liabilities $1,310,366 - 822,470 = \$487,896$
130.	C	88, 89	$1,915,508/4,256,684 = .45 = 45\%$
131.	A	273	$542,727/2,341,176 = .232 = 23.2\%$
132.	D	273	$561,181/1,915,508 = .293 = 29.3\%$
133.	C	88, 89	$385,931/885,519 = .436 = 43.6\%$
134.	C	24	$85,000/(85,000 + 120,000) = .415 = 41.5\%$
135.	A	23, 24	$85,000/(85,000 + 120,000) \times 225,000 =$

93,292.68 earned income — 90,000 =
\$3,292.68 accrued income

136. D 164, 165
27,000/5 years x 2 (200%) = \$10,800
137. C 164, 165
150,000/10 years x 1.5 (150%) = \$22,500
138. A 163, 170
Original cost — accumulated depreciation
= book value + new asset — trade-in =
adjusted depreciation basis on new asset.
Accumulated depreciation =
6,000/6 years x 2 = \$2,000
6,000 — 2,000 = \$4,000 (book value) +
8,000 — 4,500 = \$7,500 =
adjusted new basis for depreciation
139. D 308
140. D 308
141. C 317
142. A 319
143. B 327
144. B general knowledge
 $(150,000 \times .02) + (99,000 \times .105/12 \times 6)$
= \$8,197.50
145. B general knowledge
Annual percentage rate =
Interest per year/net proceeds
 $112,500 \times .13/112,500 \times .98 =$
 $14,625/110,250 = .1327 = 13.27\%$
146. B general knowledge
 $75,000 \times .12/12 \text{ months} = \750.00
147. C general knowledge
last payment due = principal due
plus the last month of interest
 $100,000 \times .10/12 = 833.33 + 100,000$
= \$100,833.33