

ACG 201
TEST IA
Fall 2005

NAME _____

Class Time

Circle one: 10:00 12:00 1:00

MULTIPLE CHOICE: There is only one BEST answer. 2 points each.

1. D

11. C

2. D

12. D

Multiple Choice 40

3. D

13. B

Problem I 30

4. A

14. B

Problem II 20

5. C

15. C

Problem III 10

6. B

16. C

 100

7. D

17. C

8. D

18. C

9. A

19. A

10. B

20. A

21. A

BONUS

Multiple Choice – (2 points each) select *the ONE best answer*

1. The going concern assumption assumes that the business
 - A. Will be liquidated in the near future.
 - B. Will be purchased by another business.
 - C. Is in a growth industry.
 - D. Will remain in operation for the foreseeable future.**

2. In the annual report, which of the following is *not* the primary responsibility of management?
 - A. Notes to the financial statements.
 - B. Statement of cash flows.
 - C. Balance sheet.
 - D. Auditor's report.**

3. The writing down of inventory to market because losses are expected follows the constraint of
 - A. Consistency.
 - B. Materially.
 - C. Full disclosure.
 - D. Conservatism.**

4. Which of the following ratios is **most** useful in helping an investor determine whether to buy or sell a share of common stock in a public company?
 - A. Price earnings ratio.**
 - B. Current ratio.
 - C. Debt ratio.
 - D. Earnings per share.

5. A practical decision to always expense small capital expenditures rather than record them as property, plant, and equipment and depreciate them **cannot** be defended on the basis of the characteristic of
 - A. Consistency.
 - B. Materially.
 - C. Full disclosure.**
 - D. Conservatism.

6. The relationship between current assets and current liabilities is important in evaluating a company's
 - A. Profitability.
 - B. Liquidity.**
 - C. Market value.
 - D. Solvency.

7. Purposes of an accounting system include all of the following *except*:
 - A. Interpret and record the effects of business transactions.
 - B. Classify the effects of transactions to facilitate the preparation of reports.
 - C. Summarize and communicate information to decision makers.
 - D. Dictate the specific types of business transactions that the enterprise may engage in.**

8. How many of the following are true regarding *debits* and *credits*?
- In any given transaction, the total dollar amount of the debits and the total dollar amount of the credits must be equal.
 - Debits decrease certain accounts and credits decrease certain accounts.
 - Liabilities and Stockholders' Equity accounts usually end in credit balances, while assets usually end in debit balances.
- A. None
 B. One
 C. Two
D. Three
9. In the statement of cash flows, the purchase of a building for cash would be classified as a(n)
- A. Investing activity on a statement of cash flows.**
 B. Operating activity on a statement of cash flows.
 C. Financing activity on a statement of cash flows.
 D. Current asset on the balance sheet.
10. The accumulated depreciation account is most useful in helping the reader of a financial statement do which of the following?
- A. Determine the amount of profit on a dollar of revenue.
B. Estimate the relative age of property, plant and equipment.
 C. Determine the market value of buildings and equipment.
 D. Systemically allocate the cost of land over a minimum of 50 years
11. A corporation has which of the following set of characteristics?
- A. Shared control, tax advantages, increased management skills and resources.
 B. Simple to set up and maintains control with founder.
C. Easier to transfer ownership and raise funds, no personal liability.
 D. Harder to raise funds and gives owner control.
12. Based on the information provided, which of the following companies is most likely to meet its current and long term obligations as they become due:

	<u>Current Ratio</u>	<u>Debt Ratio</u>	<u>Equity Ratio</u>
A. Coastal	2.93	27%	73%
B. Best Buy	1.08	62%	38%
C. Circuit City	2.20	39%	61%
D. Tootsie Roll	5.30	18%	82%

13. Successful companies usually generate the greatest percentage of their annual cash inflows from:
- A. Borrowing money.
 - B. Daily operations.**
 - C. The sale of fixed assets.
 - D. The sale of stock.
14. Which of the following statements is *not* consistent with generally accepted accounting principles relating to asset valuation?
- A. Many assets are originally recorded in accounting records at their cost to the business entity.
 - B. Subtracting total liabilities from total assets indicates what the owners' equity in the business is worth under current market conditions.**
 - C. Accountants assume that assets such as office supplies, land, and buildings will be used in business operations rather than sold at current market prices.
 - D. Accountants prefer to base the valuation of assets upon objective, verifiable evidence rather than upon appraisals or personal opinion.
15. Which of the following is false regarding the balance sheet?
- A. The accounts shown on a balance sheet represent the basic accounting equation for a particular business.
 - B. The retained earnings balance shown on the balance sheet must agree to the ending retained earnings balance shown on the statement of retained earnings.
 - C. The balance sheet summarizes the net changes in specific account balances over a period of time.**
 - D. The balance sheet reports the amount of assets, liabilities, and stockholders' equity of a business at a point in time.
16. Which of the following regarding retained earnings is false?
- A. Retained earnings is increased by net income.
 - B. Retained earnings is a component of stockholders' equity on the balance sheet.
 - C. Retained earnings is an asset on the balance sheet.**
 - D. Retained earnings represents earnings not distributed to stockholders in the form of dividends.
17. Which of the following transactions will increase the debt-to-assets ratio?
- A. The company issues stock to investors.
 - B. The company uses cash to buy land.
 - C. The company issues a note payable to buy machinery.**
 - D. None of the above.

18. How many of the following statements regarding the statement of cash flows are true?
- The statement of cash flows separates cash inflows and outflows into three major categories: operating, investing, and financing.
 - The ending cash balance shown on the statement of cash flows must agree with the amount shown on the balance sheet at the end of the same period.
 - The total increase or decrease in cash shown on the statement of cash flows must agree to the "bottom line" (net income or not loss) reported on the income statement.
- A. None
B. One
C. Two
D. Three
19. Which of the following is not a typical footnote included in an annual report?
- A. A note describing the auditors' opinion of the management's past and future financial planning for the business.**
- B. A note providing more detail about a specific item shown in the financial statements.
C. A note describing the accounting rules applied in the financial statements.
D. A note describing financial disclosures about items not appearing in the financial statements.
20. Abe Cox is the sole owner and manager of Cox Auto Repair Shop. In 20A, Cox purchased a new automobile for personal use and continued to use an old truck in the business. Which of the following fundamentals prevents Cox from recording the cost of the new automobile as an asset to the business?
- A) Separate-entity assumption.**
B) Revenue principle.
C) Full disclosure.
D) Cost principle.

BONUS

21. Who won the Wisconsin vs North Carolina football game on September 17, 2005
In Chapel Hill?
- A. Wisconsin**
B. North Carolina
C. Duke
D. NC State

Problem I – Financial Statements (30 points)

You are provided with the following information for Number Crunchers, Inc, effective as of its December 31, 2004 year end.

Accounts receivable	\$ 450
Accrued expenses	600
Accumulated depreciation	1,460
Cash	570
Common stock (900 shares)	900
Cost of goods sold	44,720
Current maturities of long-term debt	910
Depreciation expense	435
Dividends paid during the year	225
Franchise(intangible asset)	18,220
Income tax payable	105
Industrial revenue bonds	11,000
Interest expense	400
Merchandise Inventories	2,500
Land held as an investment	5,000
Notes payable due 6-1-2005	4,800
Office equipment	13,060
Prepaid income tax	200
Retained earnings, beginning	3,400
Salary expense	1,245
Sales	64,800
Supplies	150
Short term investments	2,600
Vendor payables	1,400
Unearned Revenue	400

Instructions:

- a) Prepare an income statement and a retained earnings statement for Number Crunchers, Inc for the year ended December 31, 2004. Be sure to include headings and earnings per share.
- b) Prepare a classified balance sheet for Number Crunchers, Inc. as of December 31, 2004.

Financial Statements
Number Crunchers, Inc.
Income Statement
For the year ended December 31, 2004

Sales	64,800
Cost of goods sold	(44,720)
Salary expense	(1,245)
Depreciation expense	(435)
Interest expense	(400)

Net Income	<u>18,000</u>
Earnings per share	<u>\$18,000/900 (shares) = \$20</u>

Retained Earnings Statement
For the year ended December 31, 2004

<u>Retained Earnings, Beginning</u>	3,400
<u>Net Income</u>	18,000
<u>Dividends Paid</u>	(225)
Retained earnings	<u>21,175</u>

Classified Balance Sheet
As of December 31, 2004

ASSETS

Cash	570
Short term investments	2,600
Accounts receivable	450
Merchandise inventories	2,500
Prepaid income tax	200
Supplies	<u>150</u>
Current assets	<u>6,470</u>
Land held as an investment	<u>5,000</u>
Office equipment	13,060
Less: accumulated depreciation	<u>(1,460)</u>
	<u>16,600</u>
Franchise	<u>18,220</u>
	<u>41,290</u>

LIABILITIES & EQUITY

Unearned revenue	400
Vendor payables	1,400
Note payable	4,800
Income tax payable	105
Accrued expense	600
Current maturities of long term debt	<u>910</u>
Total current liabilities	<u>8,215</u>
Industrial revenue bonds	<u>11,000</u>
Total liabilities	<u>19,215</u>
Common stock	900
Retained earnings	<u>21,175</u>
	<u>22,075</u>
Total Liabilities & Equity	<u>41,290</u>

Problem II (20 points)

In March 2005, Mary Tone organized a corporation to provide package delivery services. The company, called Tone Deliveries, Inc., began operations immediately. Certain transactions during the month of March were as follows:

- Mar. 2** The corporation issued 40,000 shares of capital stock to Mary Tone in exchange for \$80,000 cash.
- Mar. 4** Purchased a truck for \$45,000. Made a \$15,000 cash down payment and issued a note payable for the remaining balance.
- Mar. 5** Paid Sloan Properties \$2,500 to rent office space for the month.
- Mar. 9** Billed customers \$11,300 for services for the first half of March.
- Mar. 15** Paid \$7,000 in salaries earned by employees during the first half of March.

The account titles used by Tone Deliveries are:

Cash	Retained Earnings
Accounts Receivable	Dividends
Truck	Service Revenue
Notes Payable	Maintenance Expense
Accounts Payable	Fuel Expense
Dividends Payable	Salaries Expense
Capital Stock	Rent Expense

Instructions

Record the above transactions in the general journal provided below.

General Journal

Entry	Description	Debit	Credit
March 2	Cash Capital Stock	80,000	80,000
March 4	Truck Cash Note payable	45,000	15,000 30,000
March 5	Rent Expense Cash	2,500	2,500
March 9	Accounts Receivable Service Revenue	11,300	11,300
March 15	Salaries Expense Cash	7,000	7,000

Short Answer – Question III (10 points)

Intracoastal Real Estate has owned a sales office on the Causeway at Wrightsville Beach for more than 20 years. The Company originally purchased the building and land for \$150,000. Today the property tax value is about \$600,000 and a church recently offered them \$850,000. The church plans to tear down the building and use it as a parking lot. Jim Wallace, an owner of Intracoastal says he has no plans to sell the building.

Required: At what value should the sales office be recorded in the financial statements of Intracoastal Real Estate under generally accepted accounting principles? Select one or more of the following principles, assumptions, or constraints to concisely defend your answer (cost, materiality, relevance, consistency, full-disclosure, comparability, conservatism, and going concern).