

**ACG 201**  
**TEST IA**  
Spring 2005

NAME \_\_\_\_\_

Class Time  
Circle one: 8:00 9:00

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

1.     D    

2.     D    

3.     A    

4.     A    

5.     C    

6.     C    

7.     C    

8.     B    

9.     C    

10.    D   

11.    A   

12.    C   

13.    B   

14.    B   

15.    A   

16.    A   

17.    A   

18.    A   

19.    C   

20.    D   

Multiple Choice      40

Problem I            30

Problem II           20

Problem III          10

\_\_\_\_\_  
  100

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. Management discussion and analysis section.
  - C. Balance sheet.
  - D. **Auditor's report.**
  
3. The repayment of a note payable would be classified as a(n)
  - A. **Financing activity on a statement of cash flows.**
  - B. Current asset on the balance sheet.
  - C. Operating activity on a statement of cash flows.
  - D. Investing activity on a statement of cash flows.
  
4. A good accountant must have integrity, follow the rules, have basic math skills, and objectively document reality. These characteristics are most like those of
  - A. **A scorekeeper in a football game.**
  - B. A politician in Washington.
  - C. A lawyer in a courtroom.
  - D. A construction worker after the hurricane.
  
5. Assume a company has a current ratio of 1.5 and working capital equal to \$25,000. Total current liabilities are equal to:
  - A. \$75,000.
  - B. \$37,500
  - C. **\$50,000**
  - D. Cannot be determined with the information given.
  
6. 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.
  
7. 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.

8. Which of the following is not an example of conservatism in accounting?
- A. Expensing tires when purchased even though they last two years.
  - B. Recording gains in market value of short term investments.**
  - C. Recording depreciation on equipment during its useful life rather than waiting to record the loss at the time it is sold.
  - D. Estimating and recording the estimated expense of defending a lawsuit when it is filed.
9. In the statement of cash flows, the issuance of stock 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. Under the definition of accounting, which of the following is not one of the activities performed on the transactions of a business entity?
- A. Summarizing.
  - B. Interpreting.
  - C. Classifying.
  - D. Forecasting.**
11. A partnership 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. The cost principle states that:
- A. Assets should be initially recorded at cost and adjusted when the market value changes.
  - B. Activities of an entity be kept separate and distinct from its owner.
  - C. Assets should be recorded at their cost.**
  - D. Only transaction data capable of being expressed in terms of money should be included in the accounting records.
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 financial statements would a potential investor most likely use to evaluate a company's overall financial performance for the current period?
- A. Retained earnings statement.
  - B. Income statement.**
  - C. Balance sheet.
  - D. Statement of cash flows.

15. Which of the following statements about basic assumptions is *incorrect*?
- A. **Basic assumptions are the same as accounting principles.**
  - B. The economic entity assumption states that there should be a particular unit of accountability.
  - C. The monetary unit assumption enables accounting to measure economic events.
  - D. An important part of the monetary unit assumption is the stable monetary unit assumption.
16. What is the proper order for the statement of cash flows?
- A. **Operating activities, investing activities, and financing activities.**
  - B. Investing activities, financing activities, and operating activities.
  - C. Financing activities, investing activities, and operating activities.
  - D. Operating activities, financing activities, and investing activities.
17. A good accountant must have integrity, follow the rules, have basic math skills, and objectively document reality. These characteristics are most like those of
- A. **A scorekeeper in a football game.**
  - B. A politician in Washington.
  - C. A lawyer in a courtroom.
  - D. A construction worker after the hurricane.
18. If assets increase \$115,000 during a given period and liabilities increase \$25,000 during the same period, stockholders' equity must
- A. **Increase \$90,000.**
  - B. Increase \$140,000.
  - C. Decrease \$90,000.
  - D. Decrease \$140,000.
19. Stocks with a high price/earnings ratio:
- A. Would typically be found in older, stable industries where little future growth is expected.
  - B. Are often purchased by smart investors who interpret an increase in the P/E ratio as a signal to buy a stock.
  - C. **Tend to be more risky**
  - D. Tend to be less risky.
20. Which of the following is true?
- A. FASB creates SEC.
  - B. GAAP creates FASB.
  - C. SEC creates CPA.
  - D. **FASB creates GAAP.**

### 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 payable	\$ 553
Accumulated depreciation	1,460
Building	10,000
Cash	570
Common stock (900 shares)	900
Cost of goods sold	29,820
Current portion of long-term debt	910
Depreciation expense	435
Dividends paid during the year	225
Equipment	3,060
Franchise	1,000
Income tax payable	105
Interest expense	400
Inventories	2,052
Land	15,400
Long term investments	9,240
Long term mortgage debt	4,800
Pension expense	81
Prepaid income tax	147
Retained earnings, beginning	3,400
Salary expense	1,245
Sales	64,800
Supplies	150
Short term investments	2,600
Trade receivables	1,125
Unearned Revenue	400
Wages payable	222

*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 12-31-04

	Sales	64,800
	Less Expenses:	
	Cost of Sales	(29,820)
	Depreciation Expense	(435)
	Pension Expense	(81)
	Salary Expense	(1,245)
	Interest Expense	(400)
		<hr/>
	Net Income	<u>32,819</u>
32,819/900=	Earnings per share	\$ <u>36.46</u>

Retained Earnings Statement  
For the Year Ended 12-31-04

	Beginning Retained Earnings	3,400
	Add: Net Income	32,819
	Less: Dividends	(225)
		<hr/>
	Retained earnings	<u>35,994</u>

A

Balance Sheet  
As of December 31, 2004

ASSETS

Cash	\$	570
Short term investments		2,600
Trade revceivable		1,125
Inventories		2,052
Supplies		150
Prepaid income tax		<u>147</u>
Total current assets		<u>6,644</u>
Long term investments		<u>9,240</u>
		<u>15,884</u>
Land		15,400
Building		10,000
Equipment		3,060
Less: Accumulated depreciation		<u>(1,460)</u>
		<u>27,000</u>
Franchise		<u>1,000</u>
		<u>\$ 43,884</u>

LIABILITIES & EQUITY

Accounts payable	\$	553
Income tax payable		105
Wages payable		222
Current portion of LT debt		910
Unearned Revenue		<u>400</u>
Current liabilities		<u>2,190</u>
Long term mortgage debt		<u>4,800</u>
Total Liabilities		<u>6,990</u>
Common stock		900
Ending retained earnings		<u>35,994</u>
		<u>36,894</u>
Total liabilities & equity		<u>\$ 43,884</u>

Problem II (20 points)

Ratio	2001 Target	2001 Wal-Mart
(All dollars are in millions)		
(a) Working capital	$\$7,304 - \$6,301 = \$1,003$	$\$26,555 - \$28,949 = (\$2,394)$
(b) Current ratio	1.2:1 ( $\$7,304 \div \$6,301$ )	.92:1 ( $\$26,555 \div \$28,949$ )
(c) Debt to total assets ratio	66.6% ( $\$12,971 \div \$19,490$ )	59.9% ( $\$46,787 \div \$78,130$ )
(d) Earnings per share	$\$1.40 = \frac{\$1,264}{904}$	$\$1.41 = \frac{\$6,295}{4,465}$
(e) Price-earnings ratio	$26.4 = \frac{\$36.97}{\$1.40}$	$40.3 = \frac{\$56.80}{\$1.41}$

Based on the above information, answer the following questions:

1. Which company is more profitable? Indicate which ratio helped you answer the question and why.

*-Walmart, EPS 1.41, net income \$6,295 much higher than \$1,264.*

2. Which company is better able to meet its long term obligations? Indicate which ratio helped you answer the question and why.

*-Walmart, debt ratio is 59.9 indicates relatively less obligation.*

3. Which company has better future prospects according to Wallstreets. which ratio helped you answer the question and why?

*-Walmart, prime earnings is 40.3 which is much higher than normal range of 10-20.*

**Short Answer – Question III** (10 points)

At UNCW waste baskets are recorded at the price when purchased and depreciated over their useful lives. The Vice Chancellor for financial affairs is considering changing methods to expensing waste baskets.

Required: Do you agree with UNCW's plans to change accounting methods for waste baskets? 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).

Agree, conservatism & materialism support it.

Disagree, cost, comparability and consistency say shouldn't change.