

ACG 201  
TEST IA  
Fall 2006

NAME \_\_\_\_\_

Class Time

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

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

- |                          |                          |
|--------------------------|--------------------------|
| 1. _____ <b>C</b> _____  | 14. _____ <b>C</b> _____ |
| 2. _____ <b>A</b> _____  | 15. _____ <b>D</b> _____ |
| 3. _____ <b>C</b> _____  | 16. _____ <b>D</b> _____ |
| 4. _____ <b>D</b> _____  | 17. _____ <b>C</b> _____ |
| 5. _____ <b>B</b> _____  | 18. _____ <b>B</b> _____ |
| 6. _____ <b>C</b> _____  | 19. _____ <b>D</b> _____ |
| 7. _____ <b>A</b> _____  | 20. _____ <b>B</b> _____ |
| 8. _____ <b>D</b> _____  | 21. _____ <b>C</b> _____ |
| 9. _____ <b>C</b> _____  | 22. _____ <b>A</b> _____ |
| 10. _____ <b>D</b> _____ | 23. _____ <b>A</b> _____ |
| 11. _____ <b>B</b> _____ | 24. _____ <b>B</b> _____ |
| 12. _____ <b>B</b> _____ | 25. _____ <b>C</b> _____ |
| 13. _____ <b>B</b> _____ |                          |

Multiple Choice 50

Problem I 24

Problem II 20

Problem III 6

\_\_\_\_\_

100

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

1. A business organized as a corporation
  - a. is not a separate legal entity in most states.
  - b. requires that stockholders be personally liable for the debts of the business.
  - c. is owned by its stockholders.**
  - d. has tax advantages over a proprietorship or partnership.
  
2. Finley Company recorded the following cash transactions for the year:  
Paid \$90,000 for salaries.  
Paid \$40,000 to purchase office equipment.  
Paid \$10,000 for utilities.  
Paid \$4,000 in dividends.  
Collected \$150,000 from customers.  
What was Finley's net cash provided by operating activities?
  - a. \$50,000**
  - b. \$10,000
  - c. \$60,000
  - d. \$46,000
  
3. The company's policy toward dividends and growth could best be determined by examining the
  - a. Balance sheet.
  - b. Income statement.
  - c. Retained earnings statement.**
  - d. Statement of cash flows.
  
4. If total liabilities increased by \$14,000 during a period of time and stockholders' equity decreased by \$6,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)
  - a. \$14,000 increase.
  - b. \$20,000 increase.
  - c. \$8,000 decrease.
  - d. \$8,000 increase.**
  
5. Notes to the financial statements
  - a. are optional.
  - b. help clarify information presented in the financial statements.**
  - c. are generally brief and few in number.
  - d. need not be read in detail if an unqualified opinion accompanies the financial statements.
  
6. On a classified balance sheet, marketable securities are classified as
  - a. an intangible asset.
  - b. property, plant, and equipment.
  - c. a current asset.**
  - d. a long-term investment.

7. Franchises would appear in which balance sheet section?
- Intangible assets**
  - Investments
  - Property, plant, and equipment
  - Current assets
8. Which of the following is not a current liability?
- Wages payable
  - Accounts payable
  - Taxes payable
  - Bonds payable**
9. On a classified balance sheet, companies usually list current assets
- in alphabetical order.
  - with the largest dollar amounts first.
  - in the order in which they are expected to be converted into cash.**
  - in the order of acquisition.
10. Which of the following statements is true?
- Earnings per share is an internal measure and is not used by shareholders.
  - The denominator used in computing earnings per share represents the shares of common stock outstanding on the last day of the accounting period.
  - Net income is not adjusted when computing earnings per share.
  - By comparing earnings per share of a single corporation over time, a shareholder can evaluate the corporation's relative earnings performance.**
11. The relationship between current assets and current liabilities is important in evaluating a company's
- profitability.
  - liquidity.**
  - market value.
  - solvency.
12. Working capital is
- calculated by dividing current assets by current liabilities.
  - used to evaluate a company's liquidity and short-term debt paying ability.**
  - used to evaluate a company's solvency and long-term debt paying ability.
  - calculated by subtracting current assets from current liabilities.
13. M Corporation has a debt to total assets ratio of 73%. This tells the user of M's financial statements
- M is getting a 27% return on its assets.
  - There is a risk that M cannot pay its debts as they come due.**
  - 73% of the assets are financed by the stockholders.
  - Based on this measure, the user should not invest in M.

14. Generally accepted accounting principles
  - a. are accounting rules formulated by the Internal Revenue Service.
  - b. are sound in theory but rarely used in real life.
  - c. are accounting rules that are recognized as a general guide for financial reporting.**
  - d. have eliminated all errors in accounting.
  
15. What organization issues U.S. accounting standards?
  - a. Security Exchange Commission.
  - b. International Accounting Standards Committee.
  - c. International Auditing Standards Committee.
  - d. Financial Accounting Standards Board.**
  
16. All of the following are characteristics of accounting information except
  - a. Reliability.
  - b. Comparability.
  - c. Relevance.
  - d. Flexibility.**
  
17. Adherence to the procedure of choosing the accounting method that will be least likely to overstate assets and income is an example of the constraint of
  - a. relevance.
  - b. reliability.
  - c. conservatism.**
  - d. comparability.
  
18. A practical decision to expense small capital expenditures such as staples and wastebaskets rather than record them as property, plant, and equipment and depreciate them probably is made on the basis of the characteristic of
  - a. consistency.
  - b. materiality.**
  - c. full disclosure.
  - d. conservatism.
  
19. Which accounting assumption assumes that an enterprise will continue in operation long enough to carry out its existing objectives and commitments?
  - a. Monetary unit assumption
  - b. Economic entity assumption
  - c. Time period assumption
  - d. Going concern assumption**
  
20. It is assumed that the activities of Ford Motor Corporation can be distinguished from those of General Motors because of the
  - a. going concern assumption.
  - b. economic entity assumption.**
  - c. monetary unit assumption.
  - d. time period assumption.

21. The ACE Company has five plants nationwide that cost \$300 million when purchased. The current replacement value of the plants is \$500 million and the current market value is \$450 million. The plants will be reported as assets at
- \$200 million.
  - \$450 million.
  - \$300 million.**
  - \$500 million.
22. The usual sequence of steps in the recording process is to
- analyze each transaction, enter the transaction in the journal, and transfer the information to the ledger accounts.**
  - analyze each transaction, enter the transaction in the ledger, and transfer the information to the journal.
  - analyze each transaction, enter the transaction in the book of accounts, and transfer the information to the journal.
  - analyze each transaction, enter the transaction in the book of original entry, and transfer the information to the journal.
23. An accounting record that includes a list of accounts and their balances at a given time is called a
- trial balance.**
  - general journal.
  - general ledger.
  - chart of accounts.
24. Unearned revenue has a normal balance of \$9,000 on August 1, debit posting of \$12,000 and credit posting of \$7,000 during the month. The ending balance is
- \$14,000 CR
  - \$4,000 CR**
  - \$14,000 DR
  - \$28,000 CR
25. The accounting practice of recording depreciation during the life of an asset instead of when sold and the practice of not recording real estate gains until sold are applications of
- materiality
  - reliability
  - conservatism**
  - giving concern

**Problem I – Financial Statements** (24 points)

Use the following accounts and information to prepare, in good form, an income statement, a retained earning statement, and a balance sheet for Majors Industries for the month ended August 31, 2007 on pages which follow. Average shares outstanding are 1,000.

Accumulated depreciation	\$ 2,000	Dividends	\$ 3,000
Accounts payable	1,100	Insurance expense	1,200
Accounts receivable	5,000	Supplies	1,400
Buildings	60,000	Notes payable due in 2010	3,300
Cash	18,600	Rent expense	3,400
Service revenue	20,700	Salaries expense	10,000
Common stock	50,000		
Retained earnings (beginning)	25,900		
Prepaid insurance	400		

**Financial Statements**  
Majors Industries  
Income Statement  
**For the Month Ended August 31, 2007**

<b>Service Revenue</b>	<b>20,700</b>
<b>Less:</b>	
<b>Insurance Expense</b>	<b>1,200</b>
<b>Rent Expense</b>	<b>3,400</b>
<b>Salary Expense</b>	<b>10,000</b>

Net Income	<u>6,100</u>
Earnings per share	\$ <u>6.10 / share</u>

$6,100 \div 1,000$

Retained Earnings Statement  
**For the Month Ended August 31, 2007**

<b>Beginning retained earnings</b>	<b>25,900</b>
<b>Add: Net income</b>	<b>6,100</b>
<b>Less: Dividends</b>	<b>(3,000)</b>

Retained earnings	<u>29,000</u>
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Majors Industries  
Classified Balance Sheet  
As of August 31, 2007

ASSETS

<b>Current Assets</b>	
Cash	\$ 18,600
Accounts receivable	5,000
Supplies	1,400
Prepaid insurance	<u>400</u>
<b>Current Assets</b>	<b>25,400</b>
Building	60,000
Less: Accumulated depreciation	<u>(2,000)</u>
<b>Net Property</b>	<b>58,000</b>
	<b>\$ <u>83,400</u></b>

LIABILITIES & EQUITY

<b>Current Liabilities</b>	
Accounts payable	\$ <u>1,100</u>
<b>Long term liabilities</b>	
Notes payable	<u>3,300</u>
<b>Total</b>	<b><u>4,400</u></b>
<b>Stockholder's Equity</b>	
Common stock	50,000
Retained earnings	<u>29,000</u>
<b>Total</b>	<b><u>79,000</u></b>
<b>Total Liabilities and     Stockholder's Equity</b>	<b>\$ <u>83,400</u></b>

## Problem II (20 points)

Journalize the following business transactions for September 2006 in general journal form. Identify each transaction by number. You may omit explanations of the transactions.

- Sept.
1. Stockholders invest \$25,000 in cash in starting a real estate office operating as a corporation.
  2. Purchased \$500 of office supplies on credit.
  3. Purchased office equipment for \$10,000, paying \$3,500 in cash and signed a 30-day, \$6,500, note payable.
  4. Real estate commissions billed to clients amount to \$4,000.
  5. Paid \$700 in cash for the current month's rent.
  6. Paid \$250 cash on account for office supplies purchased in transaction 2.
  7. Received a bill for \$500 for advertising for the current month.
  8. Paid \$2,500 cash for office salaries.
  9. Paid \$1,200 cash dividends to stockholders.
  10. Received a check for \$2,000 from a client in payment on account for commissions billed in the transaction on September 4.

Chart of Accounts:

Cash  
Accounts Receivable  
Office Supplies  
Office Equipment  
Accounts Payable  
Notes Payable  
Common Stock  
Commission Revenue  
Rent Expense  
Office Salary Expense  
Dividends  
Advertising Expense

General Journal

Entry	Description	Debit	Credit
1.	Cash Common stock	25,000	25,000
2.	Office supplies Accounts payable	500	500
3.	Office equipment Cash Notes payable	10,000	3,500 6,500
4.	Accounts receivable Commission revenue	4,000	4,000
5.	Rent expense Cash	700	700
6.	Accounts payable Cash	250	250
7.	Advertising expense Accounts Payable	500	500
8.	Office salaries expense Cash	2,500	2,500
9.	Dividends Cash	1,200	1,200
10.	Cash Accounts receivable	2,000	2,000

### Problem III – Short Answer (6 points) A Exam

The following information is determined from the annual reports of Lucky Company and Broke Company.

	Lucky		Broke	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
1. Current ratio	1.47:1	1.65:1	1.90:1	1.60:1
2. Debt to total assets ratio	73%	85%	86%	95%
3. Earnings per share	\$4.52	\$3.52	\$5.30	\$4.30
4. Cash balance	\$1,000,000	\$900,000	\$900,000	\$1,000,000

**A exam** :Required: Indicate which company has better **relative liquidity** and why.

*Broke, because it has a higher current ratio and the current ratio has improved between years.*

**B exam** :Required: Indicate which company has better **relative solvency** and why

*Lucky, because it has relatively less debt then Broke as measured by the debt to equity ratio. Its debt ratio has also declined from 85 to 73 or 12% which is a greater decline than Broke of 9% between years..*