

ACG 201
TEST IA
Fall 2007

NAME _____ **MASTER** _____

Class Time
Circle one: 8:00 9:00

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

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|--------------------------|--------------------------|-----------------|------------|
| 1. _____ B _____ | 11. _____ D _____ | | |
| 2. _____ A _____ | 12. _____ C _____ | Multiple Choice | 40 |
| 3. _____ C _____ | 13. _____ C _____ | Problem I | 30 |
| 4. _____ D _____ | 14. _____ D _____ | Problem II | 20 |
| 5. _____ B _____ | 15. _____ C _____ | Problem III | 10 |
| 6. _____ C _____ | 16. _____ C _____ | | _____ |
| 7. _____ C _____ | 17. _____ B _____ | | <u>100</u> |
| 8. _____ A _____ | 18. _____ A _____ | | |
| 9. _____ A _____ | 19. _____ A _____ | | |
| 10. _____ C _____ | 20. _____ B _____ | | |

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

1. Which of the following is true
 - a. Corporate shareholders are personally liable for the liabilities of the corporation if the company is unable to pay them.
 - b. Partners are personally liable for the liabilities of the partnership if the partnership is unable to pay.**
 - c. Normally, corporate shareholders can collect in cash from the corporation an amount equal to their ownership interest whenever they wish..
 - d. Partners can normally transfer their partnership interests with ease.

2. When comparing football to the world of business, the functions of a Board of Directors of a corporation is most like that of which of the following:
 - a. Coach**
 - b. Quarterback
 - c. Scorekeeper
 - d. Owner

3. Which of the following regarding retained earnings is false?
 - a. Retained earnings is an indication of total possible dividends.
 - b. Retained earnings is a component of stockholders' equity on the balance sheet.
 - c. Retained earnings is a liability on the balance sheet.**
 - d. Retained earnings represents earnings not distributed to stockholders in the form of dividends.

4. If total assets increased by \$14,000 during a period of time and stockholders' equity increased by \$6,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total liabilities is a(n)
 - a. \$14,000 increase.
 - b. \$20,000 increase.
 - c. \$8,000 decrease.
 - d. \$8,000 increase.**

5. All of the following are qualitative characteristics of accounting information EXCEPT:
 - a. Relevance.
 - b. Predictability.**
 - c. Reliability.
 - d. Comparability.

6. Which of the following describes how assets are listed on the balance sheet?
 - a. in alphabetical order.
 - b. in order of magnitude, lowest value to highest value.
 - c. from most current to least current.**
 - d. from least current to most current.

7. Which of the following is false regarding the balance sheet?
- The accounts shown on a balance sheet represent the basic accounting equation for a particular business.
 - The retained earnings balance shown on the balance sheet must agree to the ending retained earnings balance shown on the statement of retained earnings.
 - The balance sheet summarizes the net changes in specific account balances over a period of time.**
 - 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 results in a total dollar measure of liquidity?
- Working capital**
 - Current ratio
 - Debt ratio.
 - Price/earnings ratio.
9. If a company decides to record an expenditure as an asset rather than as an expense, how will this decision affect net income in the current period?
- Net income will be higher.**
 - Net income will be lower.
 - Net income will not be affected by this decision.
 - It's a mystery; nobody really knows.
10. Which of the following events is a transaction to be recorded in the general journal of R. B. Corporation, owned by R. Barker?
- Mr. Barker buys a sofa for his living room at home.
 - Mr. Barker, an employee of R. B. Corporation, fires the accountant who had been earning \$20,000 a year.
 - Mr. Barker collects a retainer of \$3,000 for a job that R. B. Corporation will do next month.**
 - all of the above.
11. Which of the following is true?
- FASB creates SEC.
 - GAAP creates FASB.
 - SEC creates CPA.
 - FASB creates GAAP.**
12. An accountant is uncertain about the best estimate of an amount for a business transaction. If two amounts are about equally likely, the amount least likely to overstate the assets and income is selected. This is an example of applying the constraint of
- comparability.
 - neutrality.
 - conservatism.**
 - materiality.

13. A classified balance sheet is most useful in assessing
- a. cash flow
 - b. profitability
 - c. liquidity**
 - d. conservatism
14. A \$1,500 debit item is accidentally posted as a \$1,050 debit. The trial balance totals will therefore differ by
- a. \$900.
 - b. \$550.
 - c. \$950.
 - d. \$450.**
15. A high price earnings ratio indicates
- a. high net income and optimism by management .
 - b. high debt and pessimism by the bank.
 - c. net income and optimism by Wall Street.**
 - d. high liquidity for paying bills.
16. Which of the following is not an activity of accounting as included in the definition of accounting?
- a. interpreting.
 - b. classifying.
 - c. auditing.**
 - d. reporting.
17. A businesses balance sheet cannot be used to predict accurately what the business might be sold for because
- a. it does not identify all the assets and liabilities of the business.
 - b. assets are listed on the balance sheet at their historical cost, not their current value.**
 - c. it gives the results of operations for the current period .
 - d. some of the assets and liabilities on the balance sheet may actually be those of another entity.
18. Which of the following is most useful in preparation of financial statements and catching mistakes in accounting:
- a. trial balance.**
 - b. general journal.
 - c. general ledger.
 - d. chart of accounts.

19. Cash has a normal balance of \$9,000 on August 1, collections of \$14,000 and payments of \$7,000 during the month. The ending balance is
- \$16,000 DR**
 - \$4,000 CR
 - \$14,000 DR
 - \$28,000 CR
20. The best absolute measure of a company's ability to pay obligations due within the next year is the
- current ratio
 - working capital amount**
 - Total cash balance
 - total current asset balance

Problem I – Financial Statements (30 points)

Use the following accounts and information to prepare, in good form, an income statement, a retained earning statement, and a classified balance sheet for Minor Industries for the month ended September 30, 2007 on pages which follow. Average shares outstanding are 1,000.

Accumulated depreciation	\$ 3,000	Dividends	\$ 3,000
Accounts payable	2,100	Prepaid insurance	1,200
Accounts receivable	1,500	Supplies expense	1,400
Cash	20,400	Bonds payable due in 2010	6,000
Equipment	19,600	Rent expense	3,400
Sales revenue	34,300	Salaries expense	10,000
Common stock	10,000	Short term investments	3,000
Retained earnings (beginning)	22,900	Patents	2,300
Cost of sales	10,000	Current maturities of bonds	1,000
Inventory	3,500		

Financial Statements
 Minor Industries
Income Statement
For the Month Ended September 30, 2007

Sales revenue	<u>34,300</u>
Less: Supplies expense	(1,400)
Cost of sales	(10,000)
Rent expense	(3,400)
Salary expense	<u>(10,000)</u>
	(24,800)
 Net Income	 <u>9,500</u>
 Earnings per share	 \$ <u>9.50</u>
<u>9,500</u>	
1,000	

Retained Earnings Statement
For the Month Ended September 30, 2007

<u>Beginning RE</u>	22,900
<u>Net Income</u>	9,500
<u>Less: Dividends</u>	(3,000)
	<hr/>
Retained earnings	<u>29,400</u>

Minor Industries
Classified Balance Sheet
As of September 30, 2007

ASSETS

Current Assets	
Cash	20,400
Short term investments	3,000
Accounts receivable	1,500
Inventory	3,500
Prepaid insurance	<u>1,200</u>
Total Current Assets	<u>29,600</u>
Equipment	19,600
Less: Accumulated depreciation	<u>(3,000)</u>
	<u>16,600</u>
Patents	<u>2,300</u>
Total Assets	<u>48,500</u>

LIABILITIES & EQUITY

Current Liabilities	
Accounts payable	2,100
Current maturities of bonds	<u>1,000</u>
Total Current Liabilities	3,100
Long Term Liabilities	
Bonds payable due in 2010	<u>6,000</u>
Total Liabilities	<u>9,100</u>
Stockholder's Equity	
Common stock	10,000
Retained earnings	<u>29,400</u>
Total Stockholder's Equity	<u>39,400</u>
Total Liabilities and Equity	<u>48,500</u>

Problem II (20 points)

Hiroshi Tanaka began an upholstery-cleaning business on October 1 and engaged in the following transactions during the month:

- Oct.
1. Began business by depositing \$6,000 in a bank account in the name of the corporation in exchange for 6,000 shares of \$1 par value common stock.
 2. Paid for cleaning supplies received of \$500.
 3. Purchased cleaning equipment on account, \$1,400.
 4. Leased a van by making a payment for October of \$300 and two months' lease payments in advance(November and December), \$600.
 7. Paid half the balance owed for the cleaning equipment purchased on October 3.
 9. Paid for repairs on the van with cash, \$40.
 12. Received cash for cleaning upholstery, \$980.
 21. Billed customers for cleaning upholstery, \$650.
 - 23 Received a deposit of \$3000 for an upholstery job to be performed in November.
 - 27 Received \$300 from the customers billed on October 21.
 - 31 Declared and paid a dividend of \$350.

Required:

The following is the chart of accounts:

Cash

Accounts receivable

Cleaning supplies

Prepaid lease

Cleaning equipment

Accounts payable

Common stock

Dividends

Cleaning revenue

Unearned cleaning revenue

Repair expense

Lease expense

Record the above transactions directly in the general journal on following page.

General Journal

Entry	Description	Debit	Credit
Oct. 1	Cash	6,000	
	Common stock		6,000
2.	cleaning supplies	500	
	Cash		500
3.	Cleaning equipment	1,400	
	Accounts payable		1,400
4.	Lease expense	300	
	Prepaid lease	600	900
	Cash		
7.	Accounts payable	700	
	Cash		700
9.	Repair expense	40	
	Cash		40
12.	Cash	980	
	Cleaning revenue		980
21.	Accounts receivable	650	
	Cleaning revenue		650
23.	Cash	3,000	
	Unearned cleaning revenue		3,000
27.	Cash	300	
	Accounts receivable		300
28.	Dividends	360	
	Cash		360

Problem III – Short Answer (10 points)

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	1.85:1	1.65:1	1.55:1	1.60:1
2. Debt to total assets ratio	40%	45%	95%	86%
3. Earnings per share	\$4.52	\$3.52	\$4.30	\$5.30
4. Cash balance	\$800,000	\$900,000	\$2,000,000	\$1,000,000
5. Price Earnings ratio	18:1	11:1	9:1	15:1

Required: Indicate which company has greatest solvency and why.

Lucky because it only has a debt of 40%.