

ACG 201
TEST IA
Fall 2008

NAME _____ **MASTER** _____

Class Time
Circle one: 8:00 9:00

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

- | | |
|--------------------------|--------------------------|
| 1. _____ B _____ | 11. _____ C _____ |
| 2. _____ B _____ | 12. _____ A _____ |
| 3. _____ D _____ | 13. _____ A _____ |
| 4. _____ C _____ | 14. _____ C _____ |
| 5. _____ C _____ | 15. _____ B _____ |
| 6. _____ D _____ | |
| 7. _____ A _____ | |
| 8. _____ C _____ | |
| 9. _____ A _____ | |
| 10. _____ C _____ | |

Multiple Choice	30
Problem I	36
Problem II	24
Problem III	10

	<u>100</u>

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

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

2. If total liabilities 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 assets is a(n)
 - a. \$14,000 increase.
 - b. \$20,000 increase.**
 - c. \$8,000 decrease.
 - d. \$8,000 increase.

3. Water-world Boat Shop purchased a truck for \$12,000, making a down payment of \$5,000 cash and signing a \$7,000 note payable due in 60 days. As a result of this transaction:
 - a. Total assets increased by \$12,000.
 - b. The current ratio probably increased
 - c. From the viewpoint of a short-term creditor, this transaction makes the business more liquid.
 - d. This transaction had no affect on owners' equity in the business.**

4. On a balance sheet, assets are listed in the order of:
 - a. dollar amount (largest first)
 - b. date of acquisition (earliest first)
 - c. ease of conversion to cash**
 - d. importance to the operation of the business

5. Which of the following would not be a cash flow provided by or used in financing activities?
 - a. Issuance of common stock
 - b. Borrowing on a long-term note payable
 - c. Sale of long-term investments in common stock**
 - d. Repayment of principal on a long-term note payable

6. Which of the following would not be a cash flow provided by or used in investing activities?
 - a. Purchase of long-term investments
 - b. Sale of a patent
 - c. Purchase of a building
 - d. Collection of an account receivable from a trade customer**

7. Which of the following is the total amount of net current assets available for expansion of business activities?
- working capital**
 - net income
 - cash from operations
 - cash
8. 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.**
 - Mr. Barker orders a new Mercedes to be delivered in the following fiscal year to be used in the business
9. What information would you find in a statement of cash flows that you would not be able to get from the other two primary financial statements?
- Cash provided by or used in financing activities**
 - Cash balance at the end of the period
 - Total liabilities due to creditors at the end of the period
 - Net income
10. A classified balance sheet is most useful in assessing
- cash flow
 - profitability
 - liquidity**
 - solvency
11. Which of the following is not an activity of accounting as included in the definition of accounting?
- interpreting.
 - classifying.
 - auditing.**
 - reporting.
12. Which of the following is most useful in preparation of financial statements and catching mistakes in accounting:
- trial balance.**
 - general journal.
 - general ledger.
 - chart of accounts.

13. Accounts receivable has a normal balance of \$9,000 on August 1, collections of \$14,000 and new charges of \$7,000 during the month. The ending balance is
- \$2,000 DR**
 - \$2,000 CR
 - \$16,000 DR
 - \$28,000 DR
14. Which of the following is a separate entity from its owner(s) for tax, legal, and borrowing purposes?
- sole proprietorship only
 - partnership only
 - corporation only**
 - sole proprietorship and partnership only
15. A corporation has the following account balances:
- | | |
|-------------------|----------|
| Cash | \$10,000 |
| Equipment | 5,000 |
| Accounts payable | 3,000 |
| Common Stock | 4,000 |
| Retained Earnings | 8,000 |
- What is normally the maximum amount of dividends the Corporation Board of Directors could declare?
- \$10,000
 - \$ 8,000**
 - \$12,000
 - \$15,000

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, 2008 on pages which follow. Average shares outstanding are 1,000.

Accumulated depreciation	\$ 3,000	Dividends	\$ 1,000
Accounts payable	2,100	Insurance Expense	1,200
Accounts receivable	1,500	Supplies	1,400
Cash	2,400	Mortgage payable due in 2010	3,000
Building	19,600	Rent expense	2,400
Sales revenue	30,300	Salaries expense	2,000
Common stock	1,000	Long-term investments	3,000
Retained earnings (beginning)	5,900	Franchises and other intangibles	2,300
Cost of sales	10,000	Notes payable due May, 2009	1,000
Inventory	3,500		
Unearned revenue	4,000		

Financial Statements
 Minor Industries
Income Statement
For the Month Ended September 30, 2008

Sales revenue	30,300
Cost of sales	(10,000)
Insurance expense	(1,200)
Rent expense	(2,400)
Salaries expense	(2,000)

Net Income	<u>14,700</u>
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Earnings per share	\$ <u>14.70</u>
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$$\frac{\mathbf{14,700}}{\mathbf{1,000 \text{ shares}}} = \mathbf{14.70}$$

Retained Earnings Statement
For the Month Ended September 30, 2008

Beginning retained earnings	5,900
Add: Net income	14,700
Less: Dividends	(1,000)

Retained earnings	<u>19,600</u>
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Minor Industries
Classified Balance Sheet
As of September 30, 2008

ASSETS

Cash	2,400	
Accounts receivable	1,500	
Inventory	3,500	
Supplies	<u>1,400</u>	
Total Current assets		8,800
Long term investments		3,000
Building	19,600	
Less: accumulated depreciation	<u>(3,000)</u>	16,600
Franchise and other intangibles		<u>2,300</u>
Total Assets		<u>30,700</u>

LIABILITIES & EQUITY

Current Liabilities		
Accounts payable	2,100	
Unearned revenue	4,000	
Mortgages due 2009	<u>1,000</u>	
Total Current Liabilities		7,100
Long Term Liabilities		
Mortgage payable in 2010		<u>3,000</u>
Total Liabilities		10,100
Stockholder's Equity		
Common stock	1,000	
Retained earnings	<u>19,600</u>	
Total Stockholder's Equity		<u>20,600</u>
Total Liabilities & Equity		<u>30,700</u>

Problem II (24 points)

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

- Oct.
1. The corporation issued its shareholder 6,000 shares of common stock in exchange for cash of \$10,000 and cleaning equipment of \$2,000.
 2. Paid \$200 for routine repairs on the cleaning equipment.
 3. Purchased new 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 from services provided in 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

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

General Journal

Entry	Description	Debit	Credit
Oct. 1	Cash Cleaning equipment Common stock	10,000 2,000	 12,000
Oct. 2	Repair expense Cash	200	 200
Oct. 3	Cleaning equipment Accounts payable	1,400	 1,400
Oct. 4	Lease expense Prepaid lease Cash	300 600	 900
Oct. 7	Accounts payable Cash	700	 700
Oct. 9	Repair expense Cash	40	 40
Oct. 12	Cash Cleaning revenue	980	 980
Oct. 21	Accounts receivable Cleaning revenue	650	 650
Oct. 23	Cash Unearned cleaning revenue	3,000	 3,000
Oct. 27	Cash Accounts receivable	300	 300
Oct. 31	Dividends Cash	350	 350

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	1.45:1	1.85:1	1.25:1	1.60:1
2. Debt to total assets ratio	50%	40%	92%	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: In a short, concise manner, indicate which of the above Wall Street companies are most likely to survive the current upheaval and why.

Lucky company – Has a higher current ratio (liquidity) and a lower debt ratio (solvency)