

ACG 201
TEST IA
Spring 2004

NAME _____

Class Time
Circle one: 8:00 9:00 11:00

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

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|-----------|-----------|
| 1. _____ | 11. _____ |
| 2. _____ | 12. _____ |
| 3. _____ | 13. _____ |
| 4. _____ | 14. _____ |
| 5. _____ | 15. _____ |
| 6. _____ | 16. _____ |
| 7. _____ | 17. _____ |
| 8. _____ | 18. _____ |
| 9. _____ | 19. _____ |
| 10. _____ | 20. _____ |

Multiple Choice	40
Problem I	30
Problem II	30

	<u>100</u>

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

1. On the Statement of Cash Flows buying and selling products are examples of
 - A. operating activities.
 - B. investing activities.
 - C. financing activities.
 - D. delivering activities.

2. 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.

3. A current asset is
 - A. the last asset purchased by a business.
 - B. an asset which is currently being used to produce a product or service.
 - C. usually found as a separate classification in the income statement.
 - D. expected to be converted to cash or used in the business within a relatively short period of time.

4. Trademarks would appear in which balance sheet section?
 - A. Intangible assets
 - B. Investments
 - C. Property, plant, and equipment
 - D. Current assets

5. Which of the following is a measure of liquidity?
 - A. Current ratio
 - B. Price earnings ratio
 - C. Earnings per share
 - D. Debt to total assets ratio

6. Working capital is
 - A. calculated by dividing current assets by current liabilities.
 - B. used to evaluate a company's liquidity and short-term debt paying ability.
 - C. used to evaluate a company's solvency and long-term debt paying ability.
 - D. calculated by subtracting current assets from current liabilities.

7. A useful measure of solvency is the
 - A. current ratio.
 - B. earnings per share.
 - C. price earnings ratio.
 - D. debt to total assets ratio.

8. The best interpretation of the word credit is the
 - A. offset side of an account.
 - B. increase side of an account.
 - C. right side of an account.
 - D. decrease side of an account.

9. An account will have a credit balance if the
 - A. credits exceed the debits.
 - B. first transaction entered was a credit.
 - C. debits exceed the credits.
 - D. last transaction entered was a credit.

10. Which of the following is an advantage of the sole proprietorship form of business organization?
 - A. No personal liability
 - B. Easy to transfer ownership
 - C. Control of operations by owner
 - D. Easy to raise funds

11. The asset created by a business when it sells coffee beans and coffee cups on credit to customers is termed a(n)
 - A. account payable.
 - B. account receivable.
 - C. revenue.
 - D. expense.

12. The statement of cash flows would disclose the payment of a dividend
 - A. nowhere on the statement.
 - B. in the operating activities section.
 - C. in the investing activities section.
 - D. in the financing activities section.

13. Which of the following financial statements is concerned with the company at a point in time?
 - A. Balance sheet.
 - B. Income statement.
 - C. Retained Earnings statement.
 - D. Statement of cash flows.

14. Which of the following is a cash flow from operating activities?
 - A. Purchase of merchandise for resale.
 - B. Sale of a piece of land no longer used in operations.
 - C. Sale of long-term investments in common stock.
 - D. Payment of a note payable.

15. Earnings per share is unique among financial ratios because
 - A. The lower the ratio, the better the performance of a company
 - B. It usually has little impact on the market price of a share of common stock
 - C. Although it is required to be shown on the face of the income statement of a public company, it should not be compared to other companies
 - D. It is determined by Wall Street investment houses rather than accountants or CPA's

16. Which of the following is a transaction which should be recorded in an accounting

system?

- A. Obtaining the price of a new piece of equipment you are considering ordering
- B. Termination of an employee without pay
- C. Pledging to give 10% of your Company's annual income to a charity
- D. Paying a \$5,000 signing bonus to a new employee who hasn't started working yet.

17. If total liabilities decreased by \$14000 during a period of time and stockholders' equity increased by \$6000 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

Use the following information for questions 19-20.

The following information is available from the 2002 annual reports of Price Company and Stockton Company. Both companies manufacture cash registers

	(amounts in millions)	
	<u>Price</u>	<u>Stockton</u>
Sales	\$26,510	\$34,512
Gross profit	6,610	8,887
Net income	565	1,271
Current assets	11,712	28,447
Beginning total assets	17,102	33,130
Ending total assets	22,088	36,167
Current liabilities	7,966	14,950
Total liabilities	16,136	31,222
Average common shares outstanding	125	240
Year-end share price	50	65
Preferred stock dividends paid	-0-	-0-

The following are the results of the calculation of key ratios for the above two companies along with the industry average

	<u>Price</u>	<u>Stockton</u>
1. Current ratio (Industry 2.00:1)	1.47:1	1.90:1
2. Debt to total assets ratio (industry average 60%)	73%	86%
3. Earnings per share (average \$3.00)	\$4.52	\$5.30
4. Price-earnings ratio (average 15)	11.1 times	12.26 times
5. Gross Profit percentage	24.9%	25.8%

18. Which of the following statements is true concerning the above information:
- A. Long term liabilities of Price are \$8,170.
 - B. Long term liabilities of Stockton are \$46,172.
 - C. Price is more liquid than Stockton.
 - D. Stockton is more solvent than Price.
19. Which of the following statement is true?

- A. The future prospects for Price are more favorable than Stockton.
- B. Stockton is more profitable than Price.
- C. Stockton's total equity is more than Price's total equity.
- D. All of the above are true.

Problem I – Financial Statements(30 points)

You are provided with the following information for Commerce Crusaders, effective as of its April 30, 2004 year end.

Accrued income taxes	\$ 135
Accounts payable	834
Accounts receivable	810
Accumulated depreciation	463
Cash	570
Common stock (900 shares)	900
Copyright	410
Cost of goods sold	820
Current portion of long-term debt	640
Depreciation expense	335
Dividends paid during the year	325
Income tax expense	105
Industrial development bonds	6,000
Interest expense	400
Inventories	2,167
Land	4,400
Property	4,060
Prepaid expenses	12
Pension payable	310
Retained earnings, beginning	1,600
Sales	4,200
Supplies	150
Unearned Revenue	400
Wages expense	1,140
Wages payable	222

Instructions:

- a) Prepare an income statement and a retained earnings statement for Commerce Crusaders for the year ended April 30, 2004.
- b) Prepare a classified balance sheet for Commerce Crusaders as of April 30, 2004.

Commerce Crusaders Financial Statements

Income Statement

Retained Earnings Statement

Balance Sheet

Problem II (30 points) *test A*

Journalize the following business transactions for a real estate company in general journal form. Identify each transaction by number. You may omit explanations of the transactions.

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 \$6,000, paying \$3,500 in cash and signed a 30-day, \$2,500, 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 \$3,000 from a client in payment on account for commissions billed in transaction 4.

General Journal

Date	Description	Debit	Credit

Problem II (30 points) *test B*

Transactions for the Berlson Company for the month of November are presented below. Journalize each transaction and identify each transaction by number. You may omit journal explanations.

1. Stockholders invested an additional \$36,000 cash in the business
2. Purchased land costing \$18,000 for cash.
3. Purchased equipment costing \$9,000 for \$4,500 cash and the remainder on credit.
4. Purchased supplies on account for \$800.
5. Paid \$3,000 for a one-year insurance policy.
6. Received \$2,000 cash for services performed.
7. Received \$4,000 for services previously performed on account.
8. Paid wages to employees for \$2,500.
9. Paid dividends to stockholders of \$400.

General Journal

Date	Description	Debit	Credit