

**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.

1. **A**

11. **B**

2. **C**

12. **D**

Multiple Choice 40

3. **D**

13. **A**

Problem I 30

4. **A**

14. **C**

Problem II 30

5. **A**

15. **B**

6. **B**

16. **A**

 100

7. **D**

17. **B**

8. **C**

18. **B**

9. **A**

19. **A**

10. **C**

20. **B**

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. Which of the following statements concerning the statement of cash flows is true
- A. A net outflow from operating activities indicates a successful economic entity.
 - B. Dividends paid to shareholders are classified as an operating activity.
 - C. Net cash inflows from investing activities indicate an expanding business.
 - D. **Net cash inflows from financing activities most likely indicates that debt is being repaid.**
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. 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
15. Which of the following is not a transaction which should be recorded in an accounting system?
- A. Purchasing a new piece of equipment on credit.
 - B. **Termination of an employee without pay**
 - C. Selling and delivering an item to a customer who will not pay until next month.
 - D. Receiving the phone bill for the previous month.

Use the following information for questions 16-17.

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%

16. Which of the following statements is true concerning the above information:
- Long term liabilities of Price are \$8,170.**
 - Long term liabilities of Stockton are \$46,172.
 - Price is more liquid than Stockton.
 - Stockton is more solvent than Price.
17. Which of the following statement is true?
- The future prospects for Price are more favorable than Stockton.
 - Stockton is more profitable than Price.**
 - Stockton's total equity is more than Price's total equity.
 - All of the above are true.
18. Which of the following is true concerning the account accumulated depreciation?
- It gives an indication of the current market price of the asset.
 - It gives an indication of the age of the related properties.**
 - It is usually determined by the sales department.
 - It appears on the income statements of a company.

19. Generally accepted accounting principles are:
- A. **Set of standards and rules that are recognized as a general guide for financial reporting.**
 - B. Usually established by the Internal Revenue Service.
 - C. The guidelines used to resolve ethical dilemmas in the accounting profession.
 - D. Fundamental truths that can be derived from the laws of nature.
20. The effects on the basic accounting equation of performing services for cash are to:
- A. Increase assets and decrease stockholders' equity.
 - B. **Increase assets and increase stockholders' equity.**
 - C. Increase assets and increase liabilities.
 - D. Increase liabilities and increase stockholders' equity.

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.

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
1.	Cash Common stock	25,000	25,000
2.	Office supplies Accounts payable	500	500
3.	Office equipment Cash Notes payable	6,000	3,500 2,500
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 exp. Cash	2,500	2,500
9.	Dividends	1,200	1,200
10.	Cash 3,000 card A/R	3,000	