

ACG 201
TEST IA
Spring 2008

NAME _____

Class Time
Circle one: 8:00 9:00

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

1. _____

11. _____

2. _____

12. _____

Multiple Choice 30

3. _____

13. _____

Problem I 35

4. _____

14. _____

Problem II 25

5. _____

15. _____

Problem III 10

6. _____

100

7. _____

8. _____

9. _____

10. _____

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

1. 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
 - Received \$15,000 on a loan
 - Collected \$150,000 from customers

What was Finley's net cash (used) or provided by operating activities?

- a. \$50,000 provided
 - b. \$100,000 provided
 - c. \$6,000 provided
 - d. \$10,000 provided
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. If total assets decreased 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 liabilities is a(n)
- a. \$14,000 increase.
 - b. \$20,000 increase.
 - c. \$8,000 decrease.
 - d. \$8,000 increase.
4. On a classified balance sheet, companies usually list current assets
- a. in alphabetical order.
 - b. with the largest dollar amounts first.
 - c. in the order in which they are expected to be converted into cash.
 - d. in the order of acquisition.
5. Which of the following is least useful in evaluating liquidity?
- a. amount of working capital.
 - b. current ratio.
 - c. net income per share.
 - d. cash flow from operating activities.

6. What organization is primarily responsible for enforcing or policing U.S. accounting standards?
 - a. Security Exchange Commission (SEC).
 - b. International Accounting Standards Committee (IASC).
 - c. American Institute of Certified Public Accountants (AICPA).
 - d. Financial Accounting Standards Board (FASB).

7. 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.

8. The usual sequence of steps in the recording process is to
 - a. analyze each transaction, enter the transaction in the journal, and transfer the information to the ledger accounts.
 - b. analyze each transaction, enter the transaction in the ledger, and transfer the information to the journal.
 - c. analyze each transaction, enter the transaction in the book of accounts, and transfer the information to the journal.
 - d. analyze each transaction, enter the transaction in the book of original entry, and transfer the information to the journal.

9. A list of accounts to be used in accounting for transactions is called a
 - a. trial balance.
 - b. general journal.
 - c. general ledger.
 - d. chart of accounts.

10. Inventory 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
 - a. \$14,000 CR
 - b. \$4,000 CR
 - c. \$14,000 DR
 - d. \$28,000 CR

11. The best absolute measure of a company's ability to pay obligations due within the next year is the
 - a. current ratio
 - b. working capital amount
 - c. Total cash balance
 - d. total current asset balance

12. Which of the following does not indicate an accounting error?
 - a. Debits do not equal credits in a transaction in the journal.
 - b. Total debits on a trial balance do not equal total credits on the trial balance.
 - c. The total debits to cash in a general ledger do not equal the total credits to the same cash account in the general ledger.
 - d. The total assets on the balance sheet does not equal the total liabilities plus equity on the balance sheet.

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

| | <u>Lucky</u> | | <u>Broke</u> | |
|-------------------------------|--------------|-------------|--------------|-------------|
| | <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 |

13. Which of the following is true?
 - a. The price earnings ratio indicates Wall Street likes Lucky better in 2006 than 2005.
 - b. The price earnings ratio indicates Wall Street likes Broke better in 2006 than Lucky.
 - c. Broke's profitability has improved between 2005 and 2006.
 - d. Broke's ability to pay its maturing obligations improved in 2006 versus 2005.

14. In assessing long term solvency and ability to meet obligations the best indicator in evaluating Lucky and Broke is
 - a. Debt to total assets, which is more favorable for Lucky than Broke in both years.
 - b. Debt to total assets, which is more favorable for Broke in 2006 than 2005.
 - c. Current ratio which is better for Lucky than Broke in 2006.
 - d. Cash balance which is better for Broke than Lucky in 2006.

15. In assessing profitability, the best single indicator for one company year to year is
 - a. earnings per share
 - b. prior earnings ratio
 - c. current ratio
 - d. cash balance

16. The role of an accountant in business is most like which of the following in a football game?
- Scorekeeper
 - Coach
 - Quarter back
 - Bench warmer
17. Which professional football team won the Super bowl in February, 2008?
- Green Bay Packers
 - New England Patriots
 - New York Giants
 - Carolina Panthers
18. 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
19. 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
20. 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 until next month

Problem I – Financial Statements (35 points)

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

| | | | |
|-------------------------------|----------|---------------------------|----------|
| Accumulated depreciation | \$ 3,000 | Dividends | \$ 3,000 |
| Accounts payable | 1,100 | Insurance expense | 1,200 |
| Accounts receivable | 1,500 | Supplies | 1,400 |
| Buildings | 19,200 | Bonds payable due in 2010 | 1,800 |
| Cash | 18,600 | Rent expense | 3,400 |
| Sales revenue | 31,500 | Salaries expense | 10,000 |
| Common stock | 10,000 | Short term investments | 3,000 |
| Retained earnings (beginning) | 25,900 | Trademarks | 2,000 |
| Cost of sales | 9,000 | Accrued liabilities | 1,500 |
| Inventory | 3,500 | Unearned admissions | 2,200 |
| Prepaid expenses | 1,200 | | |

Financial Statements
Minor Industries
Income Statement

Net Income _____
Earnings per share \$ _____

Retained Earnings Statement

Retained earnings _____

Minor Industries
Classified Balance Sheet

ASSETS

LIABILITIES & EQUITY

Problem II (25 points)

On April 1 Far and Wide Travel Agency, Inc. was established. These transactions were completed during the month.

- April
1. Stockholders invested \$20,000 cash in the company in exchange for common stock.
 2. Paid \$900 cash for April office rent.
 3. Purchased office equipment for \$2,800 cash.
 4. Purchased \$200 of advertising in the *Chicago Tribune*, on account.
 5. Paid \$500 for office supplies.
 6. Earned \$9,000 for services provided: Cash of \$1,000 is received from customers, and the balance of \$8,000 is billed to customers on account.
 7. Paid \$400 cash dividends.
 8. Paid *Chicago Tribune* amount due in transaction (4).
 9. Paid employees' salaries \$1,200.
 10. Received \$8,000 in cash from customers who have previously been billed in transaction (6).

Chart of Accounts:

Cash
Equipment
Investment
Accounts Receivable
Office Supplies
Aircraft
Accounts Payable
Notes Payable
Capital Stock
Service Revenue
Advertising Expense
Maintenance Expense
Rent Expense
Salary Expense
Dividends
Retained Earnings

General Journal

| Entry | Description | Debit | Credit |
|-------|-------------|-------|--------|
| | | | |

Problem III – Short Answer (10 points)

For each of the two situations below indicate what form of business entity you would recommend and why. (sole propriety, partnership, or corporation)

A. Three physics professors at MIT have formed a business to improve the speed of information transfer over the Internet for stock exchange transactions. Each has contributed an equal amount of cash and knowledge to the venture. Although their approach looks promising, they are concerned about the legal liabilities that their business might confront.

B. Andrew Carpenter, a college student looking for summer employment, opened a bait shop in a small shed at a local marina.