

ACG 201
TEST IA
Spring 2009

NAME _____

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

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|-----|------------------|-----------------|--------------------|
| 1. | <u> C </u> | | |
| 2. | <u> A </u> | Multiple Choice | 30 |
| 3. | <u> C </u> | Problem I | 36 |
| 4. | <u> D </u> | Problem II | 24 |
| 5. | <u> B </u> | Problem III | 10 |
| 6. | <u> C </u> | | _____ |
| 7. | <u> A </u> | | <u> 100 </u> |
| 8. | <u> D </u> | | |
| 9. | <u> D </u> | | |
| 10. | <u> B </u> | | |
| 11. | <u> D </u> | | |
| 12. | <u> A </u> | | |
| 13. | <u> A </u> | | |
| 14. | <u> B </u> | | |
| 15. | <u> C </u> | | |

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

1. A business organized as a corporation
 - a. is not a separate legal entity in most states.
 - b. requires that stockholders be personally liable for the debts of the business.
 - c. is owned by its stockholders.**
 - d. has tax advantages over a proprietorship or partnership.

2. 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.
Collected \$150,000 from customers.
What was Finley's net cash provided by operating activities?
 - a. \$50,000**
 - b. \$10,000
 - c. \$60,000
 - d. \$46,000

3. 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.

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

5. Notes to the financial statements
 - a. are optional.
 - b. help clarify information presented in the financial statements.**
 - c. are generally brief and few in number.
 - d. need not be read in detail if an unqualified opinion accompanies the financial statements.

6. On a classified balance sheet, marketable securities are classified as
 - a. an intangible asset.
 - b. property, plant, and equipment.
 - c. a current asset.**
 - d. a long-term investment.

7. Franchises would appear in which balance sheet section?
 - a. **Intangible assets**
 - b. Investments
 - c. Property, plant, and equipment
 - d. Current assets

8. Which of the following is not a current liability?
 - a. Wages payable
 - b. Accounts payable
 - c. Taxes payable
 - d. **Bonds payable**

9. Which of the following statements is true?
 - a. Earnings per share is an internal measure and is not used by shareholders.
 - b. The denominator used in computing earnings per share represents the shares of common stock outstanding on the last day of the accounting period.
 - c. Net income is not adjusted when computing earnings per share.
 - d. **By comparing earnings per share of a single corporation over time, a shareholder can evaluate the corporation's relative earnings performance.**

10. 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.

11. What organization issues U.S. accounting standards?
 - a. Security Exchange Commission.
 - b. International Accounting Standards Committee.
 - c. International Auditing Standards Committee.
 - d. **Financial Accounting Standards Board.**

12. 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.

13. An accounting record that includes a list of accounts and their balances at a given time is called a
- a. **trial balance.**
 - b. general journal.
 - c. general ledger.
 - d. chart of accounts.
14. Unearned revenue 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
15. The price earnings ratio is mainly an indicator of
- a. Company liquidity.
 - b. Operation profitability.
 - c. **market prospects.**
 - d. Company solvency.

Problem I – Financial Statements (24 points)

Use the following accounts and information to prepare, in good form, an income statement, a retained earning statement, and a balance sheet for Majors Industries for the month ended January 31, 2009 on pages which follow. Average shares outstanding are 1,000.

Accumulated depreciation	\$ 2,000	Dividends	\$ 3,000
Accounts payable	1,100	Insurance expense	1,200
Accounts receivable	5,000	Supplies	1,400
Buildings	60,000	Notes payable due in 2010	3,300
Cash	18,600	Rent expense	3,400
Service revenue	20,700	Salaries expense	10,000
Common stock	50,000		
Retained earnings (beginning)	25,900		
Prepaid insurance	400		

Financial Statements
Majors Industries
Income Statement
For the Month Ended January 31, 2009

Service Revenue	20,700
Less:	
Insurance Expense	1,200
Rent Expense	3,400
Salary Expense	10,000

Net Income	<u>6,100</u>
Earnings per share	\$ <u>6.10 / share</u>

$6,100 \div 1,000$

Retained Earnings Statement
For the Month Ended January 31, 2009

Beginning retained earnings	25,900
Add: Net income	6,100
Less: Dividends	(3,000)

Retained earnings	<u>29,000</u>
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Majors Industries
Classified Balance Sheet
As of January 31, 2009

ASSETS

Current Assets	
Cash	\$ 18,600
Accounts receivable	5,000
Supplies	1,400
Prepaid insurance	<u>400</u>
Current Assets	25,400
Building	60,000
Less: Accumulated depreciation	<u>(2,000)</u>
Net Property	58,000
	<u>\$ 83,400</u>

LIABILITIES & EQUITY

Current Liabilities	
Accounts payable	\$ <u>1,100</u>
Long term liabilities	
Notes payable	<u>3,300</u>
Total	<u>4,400</u>
Stockholder's Equity	
Common stock	50,000
Retained earnings	<u>29,000</u>
Total	<u>79,000</u>
Total Liabilities and Stockholder's Equity	<u>\$ 83,400</u>

Problem II (20 points)

Journalize the following business transactions for September 2008 in general journal form. Identify each transaction by number. You may omit explanations of the transactions.

- Sept.
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 \$10,000, paying \$3,500 in cash and signed a 30-day, \$6,500, 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 \$2,000 from a client in payment on account for commissions billed in the transaction on September 4.

Chart of Accounts:

Cash
Accounts Receivable
Office Supplies
Office Equipment
Accounts Payable
Notes Payable
Common Stock
Commission Revenue
Rent Expense
Office Salary Expense
Dividends
Advertising Expense

General Journal

Entry	Description	Debit	Credit
1.	Cash Common stock	25,000	25,000
2.	Office supplies Accounts payable	500	500
3.	Office equipment Cash Notes payable	10,000	3,500 6,500
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 expense Cash	2,500	2,500
9.	Dividends Cash	1,200	1,200
10.	Cash Accounts receivable	2,000	2,000

Problem III – Short Answer (6 points) A Exam

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	1.47:1	1.65:1	1.90:1	1.60:1
2. Debt to total assets ratio	73%	85%	86%	95%
3. Earnings per share	\$4.52	\$3.52	\$5.30	\$4.30
4. Cash balance	\$1,000,000	\$900,000	\$900,000	\$1,000,000

A exam :Required: Indicate which company has better **relative liquidity** and why.

Broke, because it has a higher current ratio and the current ratio has improved between years.

B exam :Required: Indicate which company has better **relative solvency** and why

Lucky, because it has relatively less debt then Broke as measured by the debt to equity ratio. Its debt ratio has also declined from 85 to 73 or 12% which is a greater decline than Broke of 9% between years..