

**ACG 201
TEST I
Fall 2003**

NAME _____

Class Time:

Circle one: 10:00 12:00 1:00

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

- | | |
|-----------------------------|-----------------------------|
| 1. <u> C </u> | 11. <u> C </u> |
| 2. <u> D </u> | 12. <u> D </u> |
| 3. <u> A </u> | 13. <u> A </u> |
| 4. <u> B </u> | 14. <u> A </u> |
| 5. <u> D </u> | 15. <u> A </u> |
| 6. <u> A </u> | 16. <u> B </u> |
| 7. <u> D </u> | 17. <u> C </u> |
| 8. <u> D </u> | 18. <u> D </u> |
| 9. <u> D </u> | 19. <u> C </u> |
| 10. <u> C </u> | 20. <u> A </u> |

Multiple Choice 40

Problem I 40

Problem II 10

Problem III 10

 100

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

1. Which of the following is **not** an advantage of the corporate form of business organization?
 - A. No personal liability
 - B. Easy to transfer ownership
 - C. Favorable tax treatment**
 - D. Easy to raise funds

2. A small neighborhood barber shop that is operated by its owner would likely be organized as a
 - A. joint venture.
 - B. partnership.
 - C. corporation.
 - D. proprietorship.**

3. The liability created by a business when it purchases coffee beans and coffee cups on credit from suppliers is termed a(n)
 - A. account payable.**
 - B. account receivable.
 - C. revenue.
 - D. expense.

4. Borrowing money is an example of a(n)
 - A. delivering activity.
 - B. financing activity.**
 - C. investing activity.
 - D. operating activity.

5. 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.**

6. 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.

7. Retained earnings is
 - A. the stockholders' only investment in total assets.
 - B. equal to cash.
 - C. equal to revenues.
 - D. the amount of net income kept in the corporation for future use.**

8. An annual report includes all of the following except
- A. management discussion and analysis section.
 - B. notes to the financial statements.
 - C. an auditor's report.
 - D. salary information for the key executives.**
9. The concept that a business has a reasonable expectation of remaining in business for the foreseeable future is called the
- A. economic entity assumption.
 - B. monetary unit assumption.
 - C. time period assumption.
 - D. going concern assumption.**
10. An item is considered material if?
- A. It costs a lot of money
 - B. It is of a tangible nature
 - C. It is likely to influence the decision of an investor or creditor**
 - D. The cost of reporting the item is greater than the benefits
11. The most important information needed to determine if companies can pay their current obligations is the
- A. Net income for the year.
 - B. Projected net income for the year.
 - C. Relationship between current assets and current liabilities.**
 - D. Relationship between short-term and long-term liabilities.
12. The debt to total assets ratio measures
- A. the company's profitability.
 - B. whether interest can be paid on debt in the current year.
 - C. the proportion of interest paid relative to dividends paid.
 - D. the percentage of the total assets provided by creditors.**
13. Which of the following statements about the price/earnings ratio is false?
- A. The price/earnings ratio is a constant relationship for most companies.**
 - B. A high price/earnings ratio indicates investors have high confidence in the future potential of the company.
 - C. It is useful to compare a company's price/earnings ratio to a competitor's ratio or the industry average ratio.
 - D. The price/earnings ratio is computed by dividing the market price of stock by the earnings per share.
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. Abe Cox is the sole owner and manager of Cox Auto Repair Shop. In 20A, Cox purchased a new automobile for personal use and continued to use an old truck in the business. Which of the following fundamentals prevents Cox from recording the cost of the new automobile as an asset to the business?
- A. **Separate-entity assumption.**
 - B. Revenue principle.
 - C. Full disclosure.
 - D. Cost principle.
16. A business's balance sheet cannot be used to accurately predict what the business might be sold for because
- A. it identifies all the revenues and expenses of the business.
 - B. **assets are generally listed on the balance sheet at their historical cost, not their current value.**
 - C. it gives the results of operations for the current period.
 - D. some of the assets and liabilities on the balance sheet may actually be those of another entity.
17. 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
18. 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.**
19. 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

20. An intangible asset

- a. **Is recorded at cost and derives its value from the rights and privileges it provides the owner**
- b. Is worthless because it has no physical existence
- c. Is converted into a tangible asset during the operating cycle
- d. Cannot be classified on the balance sheet because it lacks physical existence

Problem I – Financial Statements(40 points)

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

Accounts payable	\$ 834
Accounts receivable	810
Accumulated depreciation	463
Building	2000
Cash	570
Common stock	900
Cost of goods sold	1020
Current portion of long-term debt	450
Depreciation expense	335
Dividends paid during the year	325
Equipment	810
Income tax expense	105
Income taxes payable	135
Interest expense	400
Inventories	967
Land	1,400
Mortgage payable- (\$190 due May 2004, rest due 2006+)	3,190
Patent	410
Prepaid expenses	12
Pension payable	310
Retained earnings, beginning	1,600
Revenues	3,400
Selling expenses	440
Short-term investments	1,200
Wages expense	700
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

Problem II(Short answer) 10 points

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

Required: Select one ratio that best indicates Price's ability to meet it's short term obligations(liquidity) and indicate why it appears more or less favorable than its competitor and the industry average.

Problem III (10 points) Short Answer

You are the accountant for a small company (sales of \$10,000,000 and assets of \$400,000). Three years ago, the company bought 1000 shares of Corning common stock as an investment at \$60 a share (total \$60,000). The stock declined in market value to less than \$1 a share at one point. It is currently selling for \$8 a share.

Required: Indicate which price the company should use to account for its investment in Corning stock in 2003 and briefly explain **why** using ONE of the following accounting principles:

- Cost
- Conservatism
- Going concern
- Materiality