

ACG 201
TEST IA
Spring 2009

NAME _____

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

1. _____

2. _____

3. _____

Multiple Choice 30

4. _____

Problem I 36

5. _____

Problem II 24

6. _____

Problem III 10

7. _____

100

8. _____

9. _____

10. _____

11. _____

12. _____

13. _____

14. _____

15. _____

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. Internal Revenue Service.
 - 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 (36 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

Net Income _____
Earnings per share \$ _____

Retained Earnings Statement

Retained earnings _____

Majors Industries
Classified Balance Sheet

ASSETS

LIABILITIES & EQUITY

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

General Journal

Entry	Description	Debit	Credit

Problem III – Short Answer (6 points)

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

	Lucky		Broke	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</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
5. Price earnings ratio	15	10	10	15

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