

Name: KEY

ACCT 2101 – Prof. J. M. Turner
Exam #1 Fall 2012

INSTRUCTIONS – Please read before you take the exam. Failure to follow instructions will result in the loss of points.

1. This is a closed book and closed notes exam. You must do your own work without assistance from anyone. Giving or receiving assistance from anyone during the exam will result in a grade of zero and reporting to the Office of Student Integrity. To attest to your compliance with this instruction and the Georgia Tech honor system, please sign the honor pledge below before turning in your exam.
2. To treat all students equally, I do not answer questions during an exam. Answer each question based on the information given. If you think there is a typing error, please let me know.
3. You may use only a calculator supplied by me. You may not use your cell phone or personal computer during the exam. All cell phones must be turned off and placed on the top of your desk in plain view at all times during the exam. Use of your cell phone during the exam is considered cheating and a violation of the Honor System.
4. Each multiple-choice question has only one best answer. If you choose more than one answer, it will be considered an incorrect answer. **Enter your answer to the multiple choice questions on the Scantron sheet provided.** What you enter on the Scantron sheet is your answer for grading purposes. Please totally erase changes on the Scantron or get a clean Scantron form and re-enter your answers. Insert your Scantron form inside of this exam when you turn it in.
5. There are 8 pages in this exam. Points available are as follows:

Terminology matching – 16 @ 2 points each	32
Problems (3)	32
Multiple choice – 10 @ 3 points each	<u>30</u>
Total available points	<u>92</u>

Grades will be expressed as a percentage of total available points.

Honor Pledge:

On my honor, I pledge that I have neither given nor received any unauthorized help on this exam.

(Signed)

If you do not want your graded exam returned to the grading bins for this class, please sign below. If you do not sign below, your exam will be placed in the bins for this class if you signed a FERPA waiver.

Do not return my graded exam to the bin: _____

Ver. A

Matching (2 points each) – Match the term with the description or phrase that best defines it. All terms may be used only once. Not all terms will be used.

A.	Accounting
B.	Accrual basis accounting
C.	Assets
D.	Balance sheet
E.	Cash basis accounting
F.	Current assets
G.	Expenses
H.	Financial Accounting Standards Board
I.	Historic cost principle
J.	Income statement
K.	Liabilities
L.	Matching principle

M.	Materiality principle
N.	Non-current assets
O.	Operating cycle
P.	Retained earnings
Q.	Revenue principle
R.	Revenues
S.	Securities and Exchange Commission
T.	Statement of cash flows
U.	Statement of retained earnings
V.	Stockholders' Equity
W.	Time period assumption

- K 1. Probable debts or obligations of the business enterprise that result from past transactions, which will be paid with assets or services.
- V 2. The financing provided by the owners of a business enterprise and from business operations.
- O 3. The time it takes for a company to pay suppliers, sell goods and services to customers, and collect cash from customers.
- R 4. Increases in assets or settlements of liabilities from ongoing operations.
- G 5. Decreases in assets or increases in liabilities incurred to generate revenues during an accounting period.
- E 6. An overall method of accounting that records revenue when cash is received and expenses when cash is paid.
- B 7. An overall method of accounting that records revenue when earned and expenses when incurred.
- Q 8. The principle that revenues are recognized when (1) goods or services are delivered, (2) there is persuasive evidence of an arrangement for customer payment, (3) the price is fixed or determinable, and (4) collection is reasonably assured.
- D 9. A statement that reports the amount of assets, liabilities, and stockholders' equity of a business enterprise at a specific point in time.
- J 10. A statement that reports the revenues less the expenses of a business enterprise during an accounting period.
- U 11. A statement that reports the way that net income and the distribution of dividends affected the financial position of a business enterprise during an accounting period.
- T 12. A statement that reports the inflows and outflows of cash during an accounting period.
- S 13. An agency of the U.S. government that determines the financial statements that public companies must provide to stockholders and the measurement rules that they must use.
- H 14. The private sector body given the primary responsibility to work out the detailed rules that become generally accepted accounting principles.
- I 15. A principle that requires assets to be recorded at historical cost - cash plus the current dollar value of all noncash consideration given on the date of the exchange.
- F 16. Assets that will be used or turned into cash within one year.

Multiple-Choice (3 points each) – enter your answer on the Scantron sheet provided. What you enter on the Scantron sheet is your answer for grading purposes.

- C 1. Which of the following describes the primary objective of the balance sheet?
- A. To measure the net income of a business up to a particular point in time.
 - B. To report the difference between cash inflows and cash outflows for the period.
 - C. To report the financial position of the reporting entity at a particular point in time.
 - D. To report the market value of assets, liabilities and stockholders' equity at a particular point in time.

- C 2. Which of the following equations is the balance sheet equation?
- A. $\text{Assets} + \text{Liabilities} = \text{Stockholders' Equity}$
 - B. $\text{Assets} + \text{Stockholder's Equity} = \text{Liabilities}$
 - C. $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$
 - D. $\text{Assets} = \text{Liabilities} + \text{Contributed Capital}$

- C 3. Which financial statement would you use to determine a company's earnings performance during an accounting period?
- A. Balance sheet
 - B. Statement of retained earnings
 - C. Income statement
 - D. Statement of cash flows

- D 4. Which of the following would be reported in the investing section of a cash flow statement?
- A. Cash received from customers.
 - B. Cash received from the issue of stock.
 - C. Cash paid to repay a bank loan.
 - D. Cash paid to acquire stock of another company

- D 5. Which of the following correctly describes retained earnings?
- A. It is the cumulative net income of a company.
 - B. It represents the investments by stockholders in a company.
 - C. It equals total assets minus total liabilities.
 - D. It is the cumulative net income of a company less dividend declarations.

- D 6. The duality (or duality of effects) concept states that
- A. both the income statement and balance sheet are impacted by every transaction.
 - B. every transaction has an impact on assets and stockholders' equity.
 - C. there are two entities involved in every transaction.
 - D. every transaction has at least two effects on the accounting equation.

- D 7. Which of the following statements does not properly describe the current ratio?
- A. It measures the ability of a firm to pay its debts in the short-run.
 - B. It is current assets divided by current liabilities.
 - C. It is a measure of a firm's short-run liquidity.
 - D. It measures a firm's ability to pay its long-term debts as they mature.

- C 8. Which of the following is not reported as an operating expense on the income statement?
- A. Salaries expense
 - B. Rent expense
 - C. Interest expense
 - D. Advertising expense

- A 9. The following information has been provided by Hable Company:

Advertising expense.....	\$9,900	9900
Interest expense	\$3,700; NO	
Rent expense.....	\$12,000;	12,000
Loss on sale of plant and equipment.....	\$5,700; NO	21,300
Cost of goods sold.....	\$21,300;	7,100
Depreciation expense	\$7,100.	
		<u>50,300</u>

How much were Hable's operating expenses?

- ☒ A. \$50,300
- B. \$54,000
- C. \$59,700
- D. \$43,200

B

10. Which of the following journal entries is correct when a company has incurred interest expense but has not yet paid the interest?

- A. Interest expense \$XX
 Operating income \$XX
- ☒ B. Interest expense \$XX
 Interest payable \$XX
- C. Interest payable \$XX
 Interest expense \$XX
- D. Retained earnings \$XX
 Interest expense \$XX

Bonus Question – 2 points

If the U.S. presidential election were held today, whom would you vote for?

Problem 2 (10 points) – Classify the following balance sheet accounts as current assets (CA), noncurrent assets (NCA), current liabilities (CL), noncurrent liabilities (NCL), or stockholders' equity (SE). Enter the usual and customary classification in the space provided. The first account is provided as an example

Account Description	Classification
<i>Ex. Cash</i>	CA
1. Building	NCA
2. Retained earnings	SE
3. Notes payable due in 3 months	CL
4. Land	NCA
5. Prepaid expenses	CA
6. Supplies inventory	CA
7. Contributed capital	SE
8. Notes payable due in 5 years	NCL
9. Accounts payable	CL
10. Accounts receivable	CA

Problem 1 (11 points) – World Services Inc. has provided the following information pertaining to the month ended October 31, 2011:

Sales revenue	100,000	Prepaid supplies expense ..	1,500
Interest expense	6,900	Rent expense.....	4,000
Cost of goods sold	60,000	Salaries expense.....	9,500
Dividends declared.....	7,100	Utilities expense.....	1,100
Advertising expense.....	4,500	Investment income	3,200
Unearned revenues.....	6,100	Income tax expense	3,800

Prepare a classified income statement in good form for the month ended October 31, 2011. Ignore earnings per share since no share data is available.

[illegible]

Problem 3 (11 points) – The Lake Company has provided the following account balances at their year ended December 31, 2011:

Contributed Capital	\$50
Accrued expenses payable	\$12
Cash	\$76
Service revenue	\$86
Note payable (due in three years)	\$118
Short-term investments	\$8
Equipment, net	\$192

Accounts payable	\$46
Selling and administrative expense	\$60
Retained earnings	\$74
Intangible assets	\$12
Income tax expense	\$20
Accounts receivable	\$12

Requirement: Prepare a classified balance sheet in good form.

[illegible]

	Version A & C	Version B
Sales revenue	\$ 100,000	\$ 200,000
Operating expenses:		
Cost of goods sold	\$ 60,000	\$ 75,000
Advertising expense	\$ 4,500	\$ 4,500
Rent expense	\$ 4,000	\$ 4,000
Salaries expense	\$ 9,500	\$ 9,500
Utilities expense	\$ 1,100	\$ 1,100
Total operating expense	\$ 79,100	\$ 94,100
Operating income	\$ 20,900	\$ 105,900
Interest expense	\$ 6,900	\$ 6,900
Investment income	\$ 3,200	\$ 3,200
Pre-tax income	\$ 17,200	\$ 102,200
Income tax expense	\$ 3,800	\$ 20,000
Net income	\$ 13,400	\$ 82,200

3 part heading	1
Operating income	5
Pre-tax income	3
Net income	<u>2</u>
	<u>11</u>

	Versions A & C	Version B
Cash	\$ 76	\$ 91
ST investments	\$ 8	\$ 2
Accounts receivable	\$ 12	\$ 16
Total current assets	\$ 96	\$ 109
Equipment, net	\$ 192	\$ 230
Intangible assets	\$ 12	\$ 14
Total assets	\$ 300	\$ 353

Accounts payable	\$ 46	\$ 64
Accrued expenses payable	\$ 12	\$ 17
Total current liabilities	\$ 58	\$ 81
Notes payable (due in three years)	\$ 118	\$ 180
total liabilities	\$ 176	\$ 261
Contributed capital	\$ 50	\$ 50
Retained earnings	\$ 74	\$ 42
	\$ 124	\$ 92
Total Liabilities & SHE	\$ 300	\$ 353

3 part heading	1
Total current assets	2
Total Assets	2
total current liabilities	2
Total liabilities	2
Total shareholder equity	2
	11