

Name: Ver B Key

MGT 3000

Exam #1 Spring 2014

Dr. J. Turner

INSTRUCTIONS – Please read before you take the exam.

1. This is a closed-book and closed-notes quiz. 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. There is a 4 point penalty if you fail to sign the honor pledge.
2. To treat all students equally, I do not answer questions during an exam. Answer each question based on the information given.
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 Code.
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. Failure to complete the Scantron will result in a 4 point penalty.
5. Circle the star at the bottom of page 8 for 2 bonus points that will be added to your score.
6. Point allocation:

Terminology matching – 14 @ 2 points each	28
Multiple choice – 12 @ 3 points each	36
Problems (4)	<u>34</u>
Total	<u>98</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)

**Matching** (2 points each) – Match the term with the phrase that best defines or describes it. Terms may be used only once. Enter the letter in the space provided.

<del>C</del>	A	Accounting cycle
<del>D</del>	B	Accounting period
<del>E</del>	C	Accounts payable
<del>F</del>	D	Accounts receivable
<del>G</del>	E	Accrual basis of accounting
<del>H</del>	F	Adjusting entry
<del>I</del>	G	Assets
<del>J</del>	H	Balance sheet
<del>K</del>	I	Cash basis of accounting
<del>L</del>	J	Closing entry
<del>M</del>	K	Contra-account
	L	Historical cost principle
	M	Income statement

<del>N</del>	N	Liabilities
<del>O</del>	O	Matching principle
<del>P</del>	P	Operating cycle
<del>Q</del>	Q	Permanent accounts
<del>R</del>	R	Prepaid expenses
<del>S</del>	S	Profitability
<del>T</del>	T	Retained earnings
<del>U</del>	U	Revenue principle
<del>V</del>	V	Statement of cash flows
<del>W</del>	W	Temporary accounts
<del>X</del>	X	Time period assumption
<del>Y</del>	Y	Unearned revenue

- D 1 Amounts due from customers for services performed or merchandise sold on credit
- C 2 Amounts owed to suppliers for goods or services purchased on credit
- R 3 Assets awaiting transfer to expense; items that have been paid for but from which all of the benefits have not yet been realized or consumed.
- N 4 Debts owed by a business
- X 5 Indicates that the long life of a business can be reported in shorter time periods
- E 6 Recognizes revenues when sales are made or services are performed, regardless of when cash is received.
- M 7 Reports the revenues less the expenses of the accounting period
- L 8 Requires assets to be recorded at cash paid plus the current dollar value of all noncash considerations given on the date of the exchange
- O 9 Requires that expenses be recorded when incurred in earning revenue
- Y 10 Result when payment is received from customers for goods or services before the revenue has been earned
- G 11 Economic resources owned or controlled by the business
- T 12 The cumulative earnings of a company that are not distributed to the owners and are reinvested in the business
- H 13 Reports the amount of assets, liabilities, and stockholders' equity of an accounting entity at a point in time
- J 14 Transfers balances in temporary accounts to retained earnings and establishes zero balances in temporary accounts

**Multiple Choice** (3 points each) – Multiple choice questions must be answered on the Scantron. There is a penalty for failure to complete the Scantron form.

- A 1. Osborn Company provided services to a customer on account. Which of the following represents the effect of this transaction on the financial statements? ("+" Indicates increase; "-" indicates decrease; "NA" indicates not applicable)

	Assets	Liabilities	Equity	Revenue	Expense	Net income	Cash Flow
A	+	NA	+	+	NA	+	NA
B	+	NA	+	+	NA	+	+ Op
C	+	+	NA	+	NA	+	+ Op
D	NA	+	-	+	NA	+	NA

- A. Choice A  
B. Choice B  
C. Choice C  
D. Choice D

*No cash has been collected*

- B 2. The Redding Company recorded salaries earned by employees but not yet paid. Which of the following represents the effect of this transaction on the financial statements?

	Assets	Liabilities	Equity	Revenue	Expense	Net income	Cash Flow
A	-	NA	-	NA	+	-	NA
B	NA	+	-	NA	+	-	NA
C	+	+	NA	+	NA	+	- Op
D	NA	+	-	NA	+	-	- Op

- A. Choice A  
B. Choice B  
C. Choice C  
D. Choice D

*No cash was paid*

- C 3. The Greenwood Company purchased equipment costing \$800. Greenwood paid \$200 in cash and agreed to pay the remaining amount in thirty days. As a result of this transaction:

- A. Total assets increased by \$200.  
B. Total assets increased by \$800.  
C. Liabilities increased by \$600.  
D. Equity increased by \$600.

*Decrease in cash < 200 >*  
*Increase in Equip 800*  
*Δ in asset 600*  
*Increase in liab. 600*  
*no effect on equity*

- B 4. Stahl Company paid \$8,400 on June 1, 2012 for insurance coverage for a one-year period beginning that date. The adjusting entry required to recognize insurance expense on December 31, 2012 would have what effect on the financial statements at December 31? Increases are positive numbers and decreases are negative numbers.

	Assets	Liabilities	Equity	Revenue	Expense	Net income	Cash Flow
A	(4,900)	NA	(4,900)	NA	4,900	(4,900)	(4,900) Op
B	(4,900)	NA	(4,900)	NA	4,900	(4,900)	NA
C	(3,500)	NA	(3,500)	NA	3,500	(3,500)	NA
D	(3,500)	NA	(3,500)	NA	3,500	(3,500)	(3,500) Op

- A. Choice A  
☒ B. Choice B  
 C. Choice C  
 D. Choice D

$$\begin{array}{r}
 \text{Insurance cost} \quad \$8400 \\
 \div 12 \\
 \hline
 \text{Monthly cost} \quad 700 \\
 \times 7 \text{ mos - June - Dec} \\
 \hline
 4900 \\
 \hline
 \text{2012 XP} \quad \underline{\underline{4900}} \\
 \text{no cash effect at 12/31.}
 \end{array}$$

- B 5. The following selected account balances (in \$) were drawn from the 2012 balance sheet and income statement of Fultz Company (You should assume that revenue and expense account balances have been closed to retained earnings.):

Cash	2,800	Common Stock	?
Accounts receivable	1,250	Retained earnings	2,600
Accounts payable	500	Revenues	5,400
Land	600	Expenses	4,000

Based on the above information, what is the balance of Common Stock for Fultz Company?

- A. \$750  
☒ B. \$1,550  
 C. \$1,050  
 D. \$2,050

$$\begin{array}{l}
 A = L + RE \\
 A = L + \text{Common Stock} + \text{Ret Earn} \\
 CS = A - L - RE \\
 = (2800 + 1250 + 600) - 500 - 2600 \\
 = 1,550
 \end{array}$$

- B 6. Baxter Company's merchandise inventory at the start of 2012 was \$85,000. The company purchased inventory during 2012 in the amount of \$323,000, and its inventory at the end of the year was \$102,000. What was Baxter's Cost of Goods Available for Sale for the year 2012? What was Baxter's Cost of Goods Sold for 2012?

- A. \$391,000  
☒ B. \$306,000  
 C. \$408,000  
 D. \$289,000

$$\begin{array}{r}
 \text{Beg Inv} \quad \$85,000 \\
 + \text{Purchases} \quad 323,000 \\
 \hline
 \text{Avail for sales} \quad 408,000 \\
 - \text{End Inv.} \quad (102,000) \\
 \hline
 \text{CGS} \quad \underline{\underline{306,000}}
 \end{array}$$

- A 7. Gross margin is equal to
- ☒ A. Sales Revenue minus Cost of Goods Sold.
  - B. Sales Revenue minus Cost of Goods Available for Sale.
  - C. Sales Revenue divided by the balance in Merchandise Inventory at the end of the period.
  - D. The balance in Merchandise Inventory at the beginning of the period plus the amount of inventory purchased during the year.

- D 8. What costs should be included in the Merchandise Inventory account of a merchandising firm?
- A. An allocated portion of period costs
  - B. The purchase price of the merchandise + selling expenses
  - C. The purchase price of merchandise only
  - ☒ D. All costs necessary to acquire inventory and prepare it for sale

- B 9. Cost of Goods Sold is reported
- A. As an addition to Sales Revenue on the income statement.
  - ☒ B. As an expense on the income statement.
  - C. As an asset on the balance sheet.
  - D. As a direct reduction of equity on the statement of changes in stockholders' equity.

- B 10. During the month of March, Wang Company sold merchandise on account for \$9,100. The merchandise had cost Wang \$4,900. Which of the following represents the effects of this transaction on Wang's financial statements?

	Cash	Accts Receivable	Inventory	Accts Payable	Common Stock	Retained Earnings	Revenue	Expense	Net Income	Cash Flow
A	NA	4,900	(4,900)	NA	NA	4,200	9,100	4,900	4,200	NA
B	NA	9,100	(4,900)	NA	NA	4,200	9,100	4,900	4,200	NA
C	NA	9,100	(9,100)	NA	NA	4,200	9,100	4,900	4,200	4,200 Op
D	NA	9,100	(4,900)	NA	NA	NA	NA	NA	NA	4,200 Op

- A. Choice A
- ☒ B. Choice B
- C. Choice C
- D. Choice D

Credit Sales 9,100  
 COGS 4,900  
 Gross margin 4,200  
 No cash effect.

- A 11. Longoria Company purchased merchandise inventory on account with a list price of \$5,000 and credit terms of 2/10, n/30. What was the net or cash cost to Longoria for the merchandise assuming payment was made timely to take advantage of any cash discount?

- ☒ A. \$4,900
- B. \$4,970
- C. \$4,500
- D. \$4,950

$$5000 - (2\% \times 5,000) = 4900$$

D 12. Assume the perpetual inventory method is used.

- 1) Marathon Company purchased merchandise inventory that cost \$8,000 under terms of 2/10, n/30 and FOB shipping point.
- 2) Freight cost (freight-in) of \$500 was incurred on shipping on the merchandise to Marathon.
- 3) Marathon made payment to the supplier within the discount period.
- 4) All of the goods were sold to customers on account for \$12,500.

The gross margin from these transactions of Marathon Company is

A. \$3,060.

B. \$4,000.

C. \$3,660.

D. \$4,160.

Invoice cost	8,000
- cash discount	(160) $[2\% \times 8,000]$
+ Frt in pd by Marathon	<u>500</u>
Total Cost of Inventory	8340
Selling price	<u>12,500</u>
Gross margin	<u><u>\$4160</u></u>

**Problem 1** (6 points)

Rodriguez Company was founded in 2010. It acquired \$30,000 cash by issuing stock to investors and an additional \$10,000 cash by borrowing from creditors. During 2010, it received \$9,000 cash revenues and paid \$17,000 in cash expenses. The company then went out of business.

Required:

- A. What amount of cash did Rodriguez Company have on hand immediately before going out of business?

Amount of cash on hand: \$ 32,000  $(30,000 + 10,000 + 9,000 - 17,000)$

- B. What amount of cash will Rodriguez's creditors receive?

Cash due to creditors: \$ 10,000 *Creditors have preference over stock holders*

- C. What amount of cash will Rodriguez's stockholders receive?

Cash due to stockholders: \$ 22,000 *SH receive what's left after debts are paid*

**Problem 2** (6 points)

Each of the following requirements is independent of the others.

- A. Bruno Corporation has liabilities of \$90,000 and equity of \$110,000. What is the amount of Bruno's assets?

Amount of assets: \$ 200,000  $A = L + OE$   
 $90,000 + 110,000$

- B. Wilder Company has assets of \$220,000 and liabilities of \$130,000. What is the amount of equity?

Total stockholder s' equity amount: \$ 90,000  $E = A - L$   
 $E = 220,000 - 130,000$

- C. Limon Company has assets of \$80,000 and liabilities of \$40,000. What is the total amount of claims against Limon's assets?

Total claims against assets: \$ 80,000  $L + OE = \text{total claims on assets}$   
 $L + OE = \text{Assets}$

**Problem 3** (6 points)

Indicate how each of the following events would be classified on the statement of cash flows: as operating activities, investing activities, financing activities, or not applicable (NA). Enter an "X" in the appropriate column of the table below.

Event	Operating	Investing	Financing	NA
Provided services to customers for cash	X			
Received cash from issuance of common stock			X	
Paid cash dividend to stockholders			X	
Purchased building for cash		X		
Borrowed cash from bank			X	
Paid rent expense	X			





**Problem 4** (16 points)

Turner Corporation reported the following financial data for its fiscal year ended December 31, 2012. All amounts are US \$. You may assume that the retained earnings balance is at the end of the year after all necessary closing entries.

Other liabilities	28,750	Accounts payable	25,300
Provision for income tax	4,500	Retained earnings	31,000
Inventory	48,300	Dividends paid	2,000
Sales	254,150	Salaries & wage expense	71,300
Cash	39,050	Common stock	74,750
Selling expense	26,500	Accounts receivable	14,950
Cost of sales	126,500	Other operating expense	11,500
Other assets	57,500	Net operating cash inflow	2,400

*Required:*

1. Prepare a multi-step income statement in good form.
2. Prepare a balance sheet in good form.