

Name: KEI Ver A

ACCT 2101
Exam #1 Fall 2015
Prof. J. M. 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 3-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/silenced and placed on the top of your desk (face down) in plain view at all times during the exam. Any 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 3-point penalty.
5. Point allocation:

Terminology matching – 14 @ 2 points each	28
Multiple choice – 21 @ 3 points each	63
Problems	15
Total	<u>106</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) – Select the term that each phrase or definition best defines. Terms may be used only once.

A	Account
B	Accounting period
C	Accrual basis of accounting
D	Assets
E	Cash basis of accounting
F	Dual effects
G	Ending retained earnings = Beginning retained earnings + Net income - Dividends declared
H	Expenses
I	Gains
J	Generally accepted accounting principles
K	Historical cost principle

L	Liabilities
M	Matching principle
N	Operating cycle
O	Periodicity
P	Prepaid expenses
Q	Retained earnings
R	Revenue realization principle
S	Revenues
T	Revenues - Expenses = Net income
U	Separate-entity assumption
V	Stockholders' Equity
W	Transaction
X	Unearned revenue

- U 1 A business's activities are accounted for separately from the independent activities of its owners
- X 2 A liability account used to record cash received before revenues have been earned
- P 3 An asset account used to record cash paid before expenses have been incurred
- W 4 An exchange of assets or services for assets, services, or promises to pay between a business and one or more external parties to the business
- H 5 Decreases in assets or increases in liabilities from ongoing operations
- E 6 Every transaction has at least two effects on the accounting equation.
- L 7 Probable debts or obligations to be settled with assets or services.
- D 8 Probable future economic benefits owned or controlled by an entity as a result of past transactions or events
- R 9 Record revenues when earned and measurable (delivery of goods or services has occurred, there is persuasive evidence of an arrangement for customer payment, the price is fixed or determinable, and collection is reasonably assured).
- E 10 Record revenues when received and expenses when paid
- K 11 The concept that assets should be recorded at the amount paid on the exchange date.
- T 12 The income statement equation
- G 13 The retained earnings equation
- N 14 The time it takes to purchase goods or services from suppliers, sell goods or services to customers, and collect cash from customers

Multiple Choice (3 points each) – Enter your answer to the multiple choice questions on a Scantron form. Failure to complete a Scantron form results in a three-point grading penalty.

- D 1. Which of the following is not one of four financial statements required by U.S. generally accepted accounting principles (GAAP)?
- A. Balance Sheet
 - B. Income Statement
 - C ~~D~~. Statement of Retained Earnings
 - ~~D~~ ~~E~~. Statement of Earnings per Share
- D 2. If total liabilities increased by \$9,000, then (use the basic accounting equation):
- A. Assets must have decreased by \$9,000.
 - B. Stockholders' equity must have increased by \$9,000.
 - C. Assets and stockholders' equity each increased by \$4,500.
 - D. Assets must have increased by \$9,000, or stockholders' equity must have decreased by \$9,000.
- A 3. Which of the following is true about the Statement of Cash Flows?
- A. The statement reports details of the change in cash during the period.
 - B. The statement classifies cash flows into customer, operating, and financing activities.
 - C. The statement reports the changes in assets and liabilities in terms of cash flows.
 - D. The statement details revenues earned and expenses incurred during the period.
- C 4. Which of the following organizations has the primary responsibility to formulate the detailed rules which become GAAP?
- A. IASB – International Accounting Standards Board
 - B. SEC – Securities & Exchange Commission
 - C. FASB – Financial Accounting Standards Board
 - D. IFRS – International Financial Reporting Standards
- D 5. Who has primary responsibility for the information contained in a company's financial statement?
- A. PCAOB – Public Company Accounting Oversight Board
 - B. SEC – Securities & Exchange Commission
 - C. Independent Auditors
 - D. Managers

- D 6. Transactions include both internal and external events. Which of the following activities below would not be considered to be a transaction?
- A. Purchasing inventory that has not been sold to customers yet.
 - B. Sale of goods to a customer.
 - C. Using insurance paid in advance.
 - D. Signing an agreement to lease a building.

- D 7. Blackthorne Company obtains a loan from their bank for \$18,000. How would this transaction affect the accounting equation?

	Assets	Liabilities	Stockholders' Equity
A.	+ \$18,000 ✓	- \$18,000	No effect
B.	+ \$18,000	No effect	+ \$18,000
C.	No effect	+ \$18,000 ✓	- \$18,000
D.	+ \$18,000 ✓	+ \$18,000 ✓	No effect ✓

- A 8. A company recorded borrowing \$77,000 with a credit to cash and a debit to Notes Payable. On the same day a \$38,000 purchase of stock in another company was recorded with a debit to Cash and credit to Marketable Securities. The effect of these two journal entries is:

- (A) Assets and Liabilities are both understated \$154,000.
- B. Assets and Liabilities are both overstated \$39,000.
- C. Assets and Liabilities are both understated \$115,000.
- D. Assets and Liabilities are both understated \$38,000.

$$\begin{array}{r} 77,000 \\ \times 2 \\ \hline 154,000 \end{array}$$

- B 9. A new company with a balance of zero in their cash account had the following transactions in its first month: obtained a bank loan for \$358,000, issued stock to shareholders for \$126,000, purchased inventory for \$61,000 paid in cash, sold merchandise (cash sale) to a customer for \$32,000, and paid a dividend of \$33,000 to shareholders. What is the balance in the cash account at the end of the month? Note, it may be useful to use a T-account for analysis.

- A. \$170,000
- (B) \$422,000
- C. \$390,000
- D. \$455,000

Cash		
358,000	61,000	516
126,000	33,000	- 94
32,000		<hr/>
516,000	94,000	422

- B 10. Which of the expenses below would be classified as an Other (non-operating) Item in the Income Statement?

- A. Depreciation expense on office buildings.
- B. Interest expense.
- C. Sales commissions.
- D. Cost of goods sold.

B

11. On June 12, a sandwich shop agrees to cater a wedding reception for a regular client at a price of \$10,100. On August 1, the sandwich shop purchases food to cater the wedding reception. On August 15, the catering services are provided for the wedding reception and the client is billed. On September 4, the client pays their bill for \$10,100. Under the revenue recognition principle, on what date should the sandwich shop recognize revenue for the wedding reception?

- A. September 4.
- B. August 15.
- C. August 1.
- D. June 12.

D

12. On June 12, a sandwich shop agrees to cater a wedding reception for a regular client at a price of \$10,100. On August 1, the sandwich shop purchases food to cater the wedding reception. On August 15, the catering services are provided for the wedding reception and the client is billed. On September 4, the client pays their bill for \$10,100. If the sandwich shop has a year end of August 31, what journal entry is made when the customer makes the payment on September 4?

		Debit	Credit
A.	Accounts Receivable	10,100	
	Cash		10,100
B.	Cash	10,100	
	Accounts Receivable		5,050
	Catering Revenue		5,050
C.	Catering Revenue	10,100	
	Cash		10,100
D.	Cash	10,100	
	Accounts Receivable		10,100

C

13. Chimera, Inc. purchased office supplies for \$5,200 on November 17, 2010 for use in January 2011. The company's year end is December 31. On January 31, 2011, it was determined that the supplies purchased in the previous year had been used. What journal entry should be made on January 31, 2011?

A	Office Supplies Expense	5,200	
	Cash		5,200
B	Office Supplies	5,200	
	Office Supplies Expense		5,200
C	Office Supplies Expense	5,200	
	Office Supplies		5,200
D	Cash	5,200	
	Office Supplies Expense		5,200

- B 14. Certain accounts are increased by debits and others by credits. Which choice below correctly matches debits or credits to the accounts they increase?

	Assets	Liabilities	Contributed Capital	Revenues	Expenses
A.	Debit ✓	Credit ✓	Credit ✓	Credit ✓	Credit
B.	Debit ✓	Credit ✓	Credit ✓	Credit ✓	Debit ✓
C.	Credit	Debit	Debit	Credit	Debit
D.	Credit	Credit	Credit	Credit	Debit

- D 15. What is the purpose of making adjusting entries?
- A. To assure that the cash account is properly stated at the end of the period.
 - B. To record expenses in the period they are incurred.
 - C. To record revenues in the period they are earned.
 - D. Both B and C are the reason adjusting entries are made.

- A 16. When an expense has been incurred, but cash for that expense has not been paid, which of the following adjusting journal entries must be made?

A	Expense	\$\$	
	Payable		\$\$
B	Expense	\$\$	
	Cash		\$\$
C	Expense	\$\$	
	Receivable		\$\$
D	Expense	\$\$	
	Prepaid Expense		\$\$

- C 17. Cecil Company purchased equipment on November 1, 2010 financing the transaction with a 3-month, 9% note for \$110,000. The December 31, 2010 adjusting entry would
- A. Debit Interest Expense \$1,650, Debit Notes Payable \$18,333, and credit Cash, \$19,983.
 - B. Debit Interest Expense and credit Interest Payable, \$2,475.
 - C. Debit Interest Expense and credit Interest Payable, \$1,650
 - D. Debit Interest Expense and credit Interest Payable, \$4,950.

$$\begin{array}{rcl}
 110,000 & \text{Principal} \\
 \times 9\% & \text{rate} \\
 \times \frac{2}{12} & \text{time} \\
 \hline
 1650 & \text{Accrued Int XP}
 \end{array}$$

- B 18. Rodgers Company needs to record depreciation expense of \$12,000 on its property & equipment. The required adjusting entry would be:

A.	Depreciation expense	\$	\$
	Property & equipment		\$
B.	Depreciation expense	\$	\$
	Accumulated depreciation	XX	\$
C.	Accumulated depreciation	\$	
	Depreciation expense		\$
D.	Depreciation expense	\$	
	Retained earnings		\$

- D 19. Joss Company had ending Retained Earnings of \$559,200. During the period the company had Revenues of \$328,200, Expenses of \$294,400, and paid dividends in the amount of \$13,850. What was the company's beginning Retained Earnings balance?

- A. \$606,850
B. \$579,150
C. \$553,100
D. \$539,250

$$BE = EOP - NI + \text{dividends}$$

$$539,250 = 559,200 - 328,200 + 294,400 + 13,850$$

- D 20. Allison Company has the following partial (not all accounts are presented) and condensed adjusted trial balance at year end.

	Debit	Credit
Sales revenue		\$120,000
Interest revenue		1,200
Operating expense	\$80,000	
Interest expense	3,000	
Income tax expense	15,200	

Allison's net profit margin is:

- A. 18.98%
B. 33.3%
C. 31.8%
D. 19.17%

$$\frac{\text{Net profit}}{\text{Op Revenue}} = \frac{23}{120} = .19167$$

Op Rev.	120,000
Op Exp.	80,000
Op Income	40,000
Other	
Int Rev.	1,200
Exp.	(3,000)
Pre-tax income	38,200
Tax exp	15,200
NI	23,000

- C 21. Hanson Company has the following partial (not all accounts are presented) and condensed adjusted trial balance at year end.

	Debit	Credit
Common stock		\$75,000
Retained earnings		68,000
Sales revenue		95,000
Operating expense	\$80,000	
Income tax expense	6,000	

Which of the following is the correct closing entry to complete the accounting cycle?

	Account	Debit	Credit
A.	Retained earnings	9,000	
	Sales revenue		95,000
	Operating expense	80,000	
	Income tax expense	6,000	
B.	Retained earnings	68,000	
	Sales revenue	95,000	
	Operating expense		80,000
	Income Tax expense		6,000
C.	Retained earnings		9,000
	Sales revenue	95,000	
	Operating expense		80,000
	Income Tax expense		6,000
D.	Common stock	75,000	
	Retained earnings		84,000
	Sales revenue	95,000	
	Operating expense		80,000
	Income Tax expense		6,000

Bonus Question (2 points) – I have invited and encouraged you to attend HAO meetings to meet prospective employers. What does the acronym HAO stand for?

Honorary Accounting Organization

PROBLEMS

Turner Company
Adjusted Trial Balance
December 31, 2014

	Debit	Credit
Cash	\$ 12,000	
Accounts receivable	7,500	
Prepaid expenses	3,500	
Property & equipment	25,000	
Accumulated depreciation		\$ 10,000
Accounts payable		3,500
Unearned revenue		2,000
Note payable (due 7/01/2016)		15,000
Contributed capital (stock) - 2,000 shares		10,000
Retained earnings, 1/01/2014		6,300
Sales revenue		22,000
Wage expense	13,000	
Supplies expense	6,000	
Interest expense	1,200	
Income tax expense	600	
Totals	<u>\$ 68,800</u>	<u>\$ 68,800</u>

Additional information: 2,000 shares of stock have been outstanding the entire year 2014.

Required:

1. Prepare in good form in accordance with U.S. GAAP a classified income statement.
2. Prepare in good form in accordance with U.S. GAAP a classified balance sheet.

Templates for your use are on the next two pages.

Income statement template

Turner Company	
Income Statement	
For the Year End December 31, 2014	
Sales	62,000
Operating expense	
Wages	13,000
Supplies	6,000
Operating Income	3,000
Other items:	
Interest expense	1,200
Income before Income Tax	1,800
Income tax expense	600
Net income	<u>\$1,200</u>
Earnings per share $[1200 \div 2000]$	<u>\$0.60</u>

Balance Sheet Template

Turner Company	
Balance Sheet	
December 31, 2014	
Current assets:	
Cash	\$12,000
Accounts receivable	7,500
Prepaid expenses	3,500
Total current assets	23,000
Property + Equipment	25,000
Accumulated depreciation	(10,000)
Total assets	<u>\$ 38,000</u>
Current liabilities	
Accounts payable	3,500
Unearned revenue	2,000
Total current liabilities	5,500
Note payable	15,000
Total liabilities	<u>20,500</u>
Stockholders' Equity	
Common stock	10,000
Retained earnings $[6300 + 1200]$	7,500
Total stockholders' Equity	17,500
Total Liabilities + stockholders equity	<u>\$ 38,000</u>

ACCT 2101 Grading instructions

Income Statement Point allocation

3 part heading dated correctly	1
Operating income heading (amount not considered).....	1
Pre-tax (income before tax) income heading	1
Net income heading	1
Earnings per share shown on income statement.....	1
Correct amount of net income	1
Correct computation of EPS	<u>1</u>
Total available points on income statement.....	<u>7</u>

Balance sheet point allocation

3 part heading dated correctly	1
Total current assets heading	1
Total assets heading.....	1
Total current liabilities heading	1
Total shareholders' equity heading	1
Total liabilities and shareholders' equity heading	1
Correct amount of current assets.....	1
Correct amount of current liabilities	1
Correct amount of retained earnings	<u>1</u>
.....	<u>9</u>

Total available points on problem..... 16

Note the exam instructions show 15 points available. This should be increased to 16, and total available points on the exam, all three parts, should be 107, not 106.

Add total points earned and divide by 107 to obtain score before bonus points. If bonus points are earned add them to the percentage score. Thus, anyone who aces the test and correctly answers the bonus question can earn a grade of 102%.

Enter all grades on the second page of the exam – not the front page since we may file them in the bins.