

Name: KEY

ACCT 2101 – Prof. J. M. Turner
Exam #2 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. DO NOT TAKE EXAM APART FOR ANY REASON.
3. 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.
4. 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.
5. 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.**
6. There are 8 pages in this exam plus two attachments. Points available are as follows:

Terminology matching – 15 @ 2 points each	30
Problems (2)	20
Multiple choice – 15 @ 3 points each	<u>45</u>
Total available points	<u>95</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: _____

D 1. Which of the following correctly describes the effects of accruing income tax expense at year-end?

- A. Net income is not affected.
- B. A cash payment is made to pay the taxes due.
- C. Liabilities are not affected.
- D Retained earnings decreases.

A 2. On June 1, 2011, Allen Company signed a \$100,000, one-year, 9 percent note payable. The principal and interest will be paid on May 30, 2012. How much interest expense should be reported on the income statement for the year ended December 31, 2011?

- A \$5,250
- B. \$9,000
- C. \$4,500
- D. \$0 in 2011.

$$\begin{aligned} 100,000 \times 9\% &= \$9,000 \text{ annual interest} \\ &\times 7/12 \text{ Seven months } 6/1 - 12/31 \\ \hline &5250 \text{ interest accrued @ 12/31} \\ \hline \end{aligned}$$

C 3. On October 1, 2010, Adams Company paid \$4,000 for a two-year insurance policy with the insurance coverage beginning on that date. As of December 31, 2010, which of the following account balances are correct after adjusting entries have been made?

- A. Prepaid insurance, \$4,000 and Insurance expense, \$0.
- B. Prepaid insurance, \$2,000 and Insurance expense, \$2,000.
- C Prepaid insurance, \$3,500 and Insurance expense, \$500.
- D. Prepaid insurance, \$0 and Insurance expense, \$4,000.

$$\begin{aligned} \$4,000 \div 24 &= 166.67 / \text{mo} \\ &\times 3 \\ &\underline{\$500} \text{ Ins. XP} \\ 4000 - 500 &= \underline{\underline{\$3500}} \text{ Prepaid Insur.} \end{aligned}$$

D 4. Which of the following best describes the difference between an unadjusted trial balance and an adjusted trial balance?

- A. An unadjusted trial balance is prepared by companies that make adjusting entries, while an adjusted trial balance is prepared by companies that do not make adjusting entries.
- B. An unadjusted trial balance is prepared at the start of the accounting period and is not provided to external decision makers, while an adjusted trial balance is prepared at the end of the period and is provided to external decision makers.
- C. An unadjusted trial balance is prepared after the post-closing trial balance.
- D An unadjusted trial balance is prepared before the adjusting entries have been made, while an adjusted trial balance is prepared after the adjusting entries have been made.

D 5. Which of the following correctly describes the following journal entry?

DR Depreciation Expense
CR Accumulated depreciation

- A. Liabilities will increase.
- B. Stockholders' equity is not affected.
- C. Net income is not affected.
- D. Total assets decrease.

D 6. Which of the following transactions results in a decrease in both total assets and net income?

- A. Collecting cash from an account receivable. *No P/L effect*
- B. The accrual of salaries expense at year-end. *No asset effect*
- C. Recognizing revenue that was previously recorded as unearned revenue. *No asset effect*
- D. Adjustment of the prepaid rent account for rent which expired during the period.

D 7. On January 1, 2011, the general ledger of Global Corporation included supplies inventory of \$1,000. During 2011, supplies purchases amounted to \$5,000. A physical count of inventory on hand at December 31, 2011 determined that the supplies inventory was \$1,200. How much is the 2011 supplies expense?

- A. \$1,000
- B. \$6,000
- C. \$5,200
- D. \$4,800

Beg bal	1,000
+ Purchases	<u>5,000</u>
Total available	6,000
- End Inv.	<u>1,200</u>
= Supplies exp	<u><u>4,800</u></u>

B 8. What is the effect on the financial statements when a company fails to accrue interest expense at year-end?

- A. Net income is overstated and liabilities are overstated.
- B. Expenses are understated and liabilities are understated.
- C. Expenses are understated and stockholders' equity is understated.
- D. Net income is overstated and assets are overstated.

*Correct entry DR Int Exp.
CR Accrued Int Payables*

B 9. Which of the following statements is false?

- A. The board of directors meets with the external auditors to discuss management's compliance with their financial reporting obligations.
- B. The external auditors are selected by the Securities & Exchange Commission (SEC).
- C. The Securities & Exchange Commission (SEC) requires publically traded companies to have their financial statements audited by an independent accountant.
- D. The external auditors assume some responsibility with respect to the fairness of the financial statements.

A 10. Which of the following would most likely increase the net profit margin ratio?

- A. An increase in the unit selling price.
- B. A decrease in the overall sales volume.
- C. An increase in operating expenses.
- D. An increase in cost of goods sold.

$$\frac{\text{Net Income}}{\text{Net Sales}} = \text{profit Margin}$$

A 11. On December 31, 2011, Krug Company reported total liabilities of \$110,000 prior to the following adjusting entries:

- Depreciation expense was \$31,000; *No effect*
- Accrued service revenues totaled \$29,000; *No effect*
- Accrued expenses totaled \$12,000; *increase liab*
- Expired insurance that was prepaid totaled \$9,000; *No effect*
- Rent revenue earned was \$7,000; the rent was prepaid by the tenant and credited to unearned rent revenue. *reduce liab.*

How much are Krug's total liabilities after adjusting entries?

- A. \$115,000
- B. \$141,000
- C. \$86,000
- D. \$110,000

$$\begin{array}{r} \$ 110,000 \\ + 12,000 \text{ Acc. Exp} \\ - 7,000 \text{ recog. rev.} \\ \hline \underline{115,000} \end{array}$$

B 12. In which of the following classifications would cash dividend payments to stockholders be reported?

- A. Operating activities
- B. Financing activities
- C. Investing activities
- D. Stockholder activities

B 13. Which of the following results in an increase in the return on assets ratio?

- A. A decrease in the asset turnover ratio. ↓
 B. An increase in the net profit margin ratio. ↑
 C. Purchasing a building by signing a long-term mortgage payable. ↓
 D. Using cash to purchase land. N/E
- $$\frac{\text{Net Income}}{\text{Avg Total Asset}}$$

A 14. The Callie Company has provided the following information:

- Operating expenses were \$231,000;
- Cost of goods sold was \$376,000;
- Net sales were \$940,000;
- Interest expense was \$32,000;
- Gain on sale of a building was \$76,000;
- Income tax expense was \$151,000.

Net Sales. \$940
 CGS 376
 Gross profit 564

What was Callie's gross profit?

- A. \$564,000
 B. \$188,000
 C. \$333,000
 D. \$232,000

B 15. Which of the following statements is false when a company sells inventory costing \$900 for \$1,500 cash?

- A. Current assets increase \$600. TRUE
 B. Gross profit increases \$1,500. FALSE
 C. Stockholders' equity increases \$600. TRUE
 D. Net sales increases \$1,500. TRUE
- Sales 1500
 CGS 900
 Gross Profit 600

Bonus Question (2 points) – Dr. Turner has insisted that you should join the HAO. What do the initials “HAO” stand for? What is the full name of the organization?

Honorary Accounting Organization

Matching (2 points each) – Match the term with the related definition or description by entering the appropriate letter in the space provided. Terms may be used only once.

A	Chief Executive Officer and Chief Financial Officer
B	Cost of goods sold
C	Creditor
D	Earnings per share
E	Financial analyst
F	Form 10-K
G	Form 10-Q
H	Gross margin on sales
I	Income before extraordinary items
J	Income tax expense on operations

K	Independent auditor
M	Institutional investor
N	Interest expense
O	Net income
P	Operating expenses
Q	Pretax income from operations
S	Public Company Accounting Oversight Board
T	S.E.C.
U	Service revenue

- E 1 Adviser who analyzes financial and other economic information to form forecasts and stock recommendations
- B 2 Amount ^{of} resources used to purchase or produce goods that were sold during the reporting period
- F 3 Annual report filed by publicly-owned companies that contains financial information and audited financial statements
- N 4 Cost of money (borrowing) over time
- C 5 Financial institution or supplier that lends money to the company
- T 6 Government agency that regulates financial disclosure requirements for publicly-owned companies
- S 7 Government agent that sets auditing standards for independent auditors
- K 8 Independent CPA who examines financial statements and attests to their fairness
- A 9 Management officials who have primary responsibility for the information presented in financial statements
- D 10 Net income available to common stock holders ÷ average number of shares outstanding
- G 11 Quarterly report filed by publicly-owned companies that contains unaudited financial information
- O 12 Revenue + Gain - Expenses - Loss including effects of discontinued operations and extraordinary items (if any)
- U 13 Sales of services for cash or on credit
- H 14 Sales revenue - Cost of goods sold
- P 15 Total expenses directly related to operations

Problem 1 (10 points)

Lolita Corporation is completing the accounting information processing cycle at the end of the fiscal year, June 30, 2010. Johnson has provided the following adjusted trial balance as of June 30, 2010:

Account	Debit	Credit
Cash	\$15,000	
Inventory	2,500	
Equipment	45,000	
Accumulated depreciation		18,000
Accounts payable		2,000
Common stock		15,000
Retained earnings		18,100
Sales revenue		45,000
Wage expense	28,000	
Depreciation expense	4,500	
Income tax expense	3,100	
Totals	\$98,100	\$98,100

Required:

1. Prepare the closing journal entry necessary to close the temporary account balances at year end.

Account	Debit	Credit
<i>Sales Revenue</i>	<i>45,000</i>	
<i>Wage expense</i>		<i>28,000</i>
<i>Depreciation expense</i>		<i>4,500</i>
<i>Income tax expense</i>		<i>3,100</i>
<i>Retained earnings</i>		<i>9,400</i>

2. What is the amount of net income for the year ended 6-30-2010? \$9,400

Problem (10 points)

Attached are financial statements for The Home Depot, Inc. and subsidiaries.

Required (Enter your answers in the table below. Round your computations to three decimal places.) You must show your work below. You will not receive full credit if you do not show your work even if you have correct answers.

1. Compute return on assets (ROA) for the most recent fiscal year reported in the financial statements.
2. Compute net profit margin for the most recent fiscal year.
3. Compute total asset turnover for the most recent fiscal year.

Ratio	Amount
Return on assets	.082 or 8.2%
Net profit margin	.049 or 4.9%
Total asset turnover	1.68

$$\begin{aligned}
 NI &= 3,338 \\
 ATA &= \frac{(40,125 + 40,877)}{2} \\
 ROA &= \frac{3,338}{40,501} = .082
 \end{aligned}$$

$$NPM = \frac{NI}{Net\ Sales} = \frac{3,338}{67,997} = .049$$

$$TAT = \frac{Net\ Sales}{ATA} = \frac{67,997}{40,501} = 1.68$$

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THE HOME DEPOT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Fiscal Year Ended ⁽¹⁾		
	January 30, 2011	January 31, 2010	February 1, 2009
<i>amounts in millions, except per share data</i>			
NET SALES	\$ 67,997	\$ 66,176	\$ 71,288
Cost of Sales	<u>44,693</u>	<u>43,764</u>	<u>47,298</u>
GROSS PROFIT	23,304	22,412	23,990
Operating Expenses:			
Selling, General and Administrative	15,849	15,902	17,846
Depreciation and Amortization	<u>1,616</u>	<u>1,707</u>	<u>1,785</u>
Total Operating Expenses	<u>17,465</u>	<u>17,609</u>	<u>19,631</u>
OPERATING INCOME	5,839	4,803	4,359
Interest and Other (Income) Expense:			
Interest and Investment Income	(15)	(18)	(18)
Interest Expense	530	676	624
Other	<u>51</u>	<u>163</u>	<u>163</u>
Interest and Other, net	<u>566</u>	<u>821</u>	<u>769</u>
EARNINGS FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	5,273	3,982	3,590
Provision for Income Taxes	<u>1,935</u>	<u>1,362</u>	<u>1,278</u>
EARNINGS FROM CONTINUING OPERATIONS	3,338	2,620	2,312
EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	-	41	(52)
NET EARNINGS	\$ 3,338	\$ 2,661	\$ 2,260
Weighted Average Common Shares	<u>1,648</u>	<u>1,683</u>	<u>1,682</u>
BASIC EARNINGS PER SHARE FROM CONTINUING OPERATIONS	\$ 2.03	\$ 1.56	\$ 1.37
BASIC EARNINGS (LOSS) PER SHARE FROM DISCONTINUED OPERATIONS	\$ -	\$ 0.02	\$ (0.03)
BASIC EARNINGS PER SHARE	\$ 2.03	\$ 1.58	\$ 1.34
Diluted Weighted Average Common Shares	<u>1,658</u>	<u>1,692</u>	<u>1,686</u>
DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS	\$ 2.01	\$ 1.55	\$ 1.37
DILUTED EARNINGS (LOSS) PER SHARE FROM DISCONTINUED OPERATIONS	\$ -	\$ 0.02	\$ (0.03)
DILUTED EARNINGS PER SHARE	\$ 2.01	\$ 1.57	\$ 1.34

(1) Fiscal years ended January 30, 2011, January 31, 2010 and February 1, 2009 include 52 weeks.

See accompanying Notes to Consolidated Financial Statements.

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THE HOME DEPOT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

amounts in millions, except share and per share data

	January 30, 2011	January 31, 2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 545	\$ 1,421
Receivables, net	1,085	964
Merchandise Inventories	10,625	10,188
Other Current Assets	1,224	1,327
Total Current Assets	<u>13,479</u>	<u>13,900</u>
Property and Equipment, at cost:		
Land	8,497	8,451
Buildings	17,606	17,391
Furniture, Fixtures and Equipment	9,687	9,091
Leasehold Improvements	1,373	1,383
Construction in Progress	654	525
Capital Leases	568	504
	<u>38,385</u>	<u>37,345</u>
Less Accumulated Depreciation and Amortization	<u>13,325</u>	<u>11,795</u>
Net Property and Equipment	<u>25,060</u>	<u>25,550</u>
Notes Receivable	139	33
Goodwill	1,187	1,171
Other Assets	260	223
Total Assets	<u>\$ 40,125</u>	<u>\$ 40,877</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 4,717	\$ 4,863
Accrued Salaries and Related Expenses	1,290	1,263
Sales Taxes Payable	368	362
Deferred Revenue	1,177	1,158
Income Taxes Payable	13	108
Current Installments of Long-Term Debt	1,042	1,020
Other Accrued Expenses	1,515	1,589
Total Current Liabilities	<u>10,122</u>	<u>10,363</u>
Long-Term Debt, excluding current installments	8,707	8,662
Other Long-Term Liabilities	2,135	2,140
Deferred Income Taxes	272	319
Total Liabilities	<u>21,236</u>	<u>21,484</u>
STOCKHOLDERS' EQUITY		
Common Stock, par value \$0.05; authorized: 10 billion shares; issued: 1.722 billion shares at January 30, 2011 and 1.716 billion shares at January 31, 2010; outstanding: 1.623 billion shares at January 30, 2011 and 1.698 billion shares at January 31, 2010	86	86
Paid-In Capital	6,556	6,304
Retained Earnings	14,995	13,226
Accumulated Other Comprehensive Income	445	362
Treasury Stock, at cost, 99 million shares at January 30, 2011 and 18 million shares at January 31, 2010	<u>(3,193)</u>	<u>(585)</u>
Total Stockholders' Equity	<u>18,889</u>	<u>19,393</u>
Total Liabilities and Stockholders' Equity	<u>\$ 40,125</u>	<u>\$ 40,877</u>

See accompanying Notes to Consolidated Financial Statements.