

Name: Answer KEY Version A

ACCT 2101 – Prof. J. M. Turner
Exam #1 Fall semester 2013

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 THE 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. Points available are as follows:

Terminology matching – 14 @ 2 points each	28
Multiple choice – 15 @ 3 points each	45
Problem (1)	<u>20</u>
Total available points	<u>93</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 sign below, your exam will not be placed in the bins for this class. Otherwise, graded exams will be returned to the bins for this class.

Do not return my graded exam to the bin: _____

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

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

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

- S 1 Ability to generate income
- D 2 Amounts due from customers for services performed or merchandise sold on credit
- K 3 An account that is an offset to or reduction of, the primary account
- R 4 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.
- G 5 Economic resources owned or controlled by the business.
- X 6 Indicates that the long life of a business can be reported in shorter time periods
- H 7 Reports the amount of assets, liabilities, and stockholder's equity of an accounting entity at a point in time
- M 8 Reports the revenues less the expenses of the accounting period
- L 9 Requires assets to be recorded at cash paid plus the current dollar value of all noncash considerations given on the date of the exchange
- Y 10 Result when payment is received from customers for goods or services before the revenue has been earned
- U 11 States 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
- P 12 The time it takes to start with cash, buy necessary items to produce revenues, sell services or goods, and receive cash by collecting the resulting receivables.
- W 13 They temporarily contain the revenue, expense, and dividend information that is transferred (or closed) to the retained earnings account at the end of the accounting period.
- J 14 Transfers balances in temporary accounts to retained earnings and establishes zero balances in temporary accounts

Multiple-Choice Questions (3 points each) – Enter your answers to the multiple choice questions on the SCANTRON form provided. Failure to enter your answers on the SCANTRON will result in the loss of 6 points.

B 1. If total liabilities increased by \$7,800, then (use the basic accounting equation): $A = L + SE$

- A. Assets must have decreased by \$7,800.
- ☒ B. Assets must have increased by \$7,800, or stockholders' equity must have decreased by \$7,800.
- C. Stockholders' equity must have increased by \$7,800.
- D. Assets and stockholders' equity each increased by \$3,900.

A 2. When will a Net Loss be incurred?

- A. When Expenses are greater than Revenues.
- B. When Revenues are greater than Expenses.
- C. When Revenues equal Expenses.
- D. When Liabilities are greater than Assets.

B 3. Which of the following is true about the Statement of Cash Flows?

- A. The statement reports the changes in assets and liabilities in terms of cash flows.
- B. The statement reports details of the change in cash during the period.
- C. The statement classifies cash flows into customer, operating, and financing activities.
- D. The statement details revenues earned and expenses incurred during the period.

B 4. Which of the following organizations has the primary responsibility to formulate the detailed rules which become GAAP in the United States?

- A. American Institute of Certified Public Accountants (AICPA)
- B. Financial Accounting Standards Board (FASB)
- C. International Accounting Standards Board (IASB)
- D. Public Company Accounting Oversight Board (PCAOB)

B 5. Which of the following statements is correct about transaction analysis?

- A. Liabilities = Assets + Stockholders' Equity
- B. Every transaction affects at least two accounts.
- C. The purchase of goods from a supplier is an example of an internal event.
- D. Transaction analysis is independent of the accounting equation

- B 6. Blackthorn Company obtains a loan from their bank for \$18,000. How would this transaction affect the accounting equation ("+" mean increase; "-" means decrease)?

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

↑ cash
~~asset~~
not payable

- C 7. Vermillion Enterprises engaged in the four transactions below. Assuming that the company started with a balance of zero in all accounts, what amount of Liabilities will Vermillion have after the transactions have been recorded?

1.	Issued stock to shareholders for \$47,000
2.	Borrowed \$42,000 from their bank
3.	Purchased equipment worth \$49,000 using \$22,000 as a down payment and financing the remainder with a Note Payable $49 - 22 = 27$
4.	Purchased for cash \$11,000 worth of stock in Lansing Co. as an investment

↑ SE
↑ N/P 42
↑ NP 27
69

- A. \$96,000
B. \$58,000
C. \$69,000
D. \$47,000

- A 8. 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 \$344,000, issued stock to shareholders for \$112,000, purchased inventory for \$54,000, sold merchandise to a customer for \$25,000, and paid a dividend of \$26,000 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. \$401,000
B. \$376,000
C. \$177,000
D. \$427,000

Cash		Cash	
344,000	54,000	344,000	
112,000	26,000	112,000	54,000
25,000		25,000	26,000
481,000	80,000		
401,000			

- D 9. 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.

B 10. 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 \$\$
 Prepaid Expense \$\$
- B. Expense \$\$
 Payable \$\$
- C. Expense \$\$
 Cash \$\$
- D. Expense \$\$
 Receivable \$\$

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A 11. Mason's Barbeque Pit purchases office supplies throughout the year and records these purchases in the Supplies account, which had a beginning balance of \$330. Supplies purchased throughout the year totaled \$1,560. At the end of the year, \$740 of supplies were on hand. The adjusting entry required would be:

- A. Debit Supplies Expense \$1,150; credit Supplies \$1,150.
 B. Debit Supplies \$1,560; credit Supplies Expense \$1,560.
 C. Debit Supplies Expense \$1,560; credit Supplies \$1,560.
 D. Debit Supplies Expense \$330; credit Supplies \$330.

SUPPLIES	
330	330
1560	+1560
1890	1890
740	1150

C 12. Lion Company purchased equipment on November 1, 2010 financing the transaction with a 3-month, 9% note for \$115,000. The December 31, 2010 adjusting entry would

- A. Debit Interest Expense and credit Interest Payable, \$2,588.
 B. Debit Interest Expense and credit Interest Payable, \$5,175.
 C. Debit Interest Expense and credit Interest Payable, \$1,725
 D. Debit Interest Expense \$1,725, Debit Notes Payable \$19,167, and credit Cash, \$20,892.

$$115,000 \times 9\% = 10,350 \times \frac{2}{12} = \$1,725 \text{ Int-exp for 2 mos}$$

A 13. Turner Company had a retained earnings account balance of \$560,200 at January 1, 2012. During 2012, the company had Revenues of \$380,000, Operating Expenses of 296,400, Non-operating Expenses of \$28,000, and declared a dividend of \$25,000 payable on February 1, 2013. Near the end of 2012, the company purchased a new building paying cash down of \$40,000 and entering into a note payable for the balance of \$360,000. What was the company's ending retained earnings account balance on December 31, 2012?

- A. \$590,800
 B. \$615,800
 C. \$618,800
 D. \$550,800
 E. None of the above is correct.

RIE	
296,400	560,200
28,000	380,000
25,000	
349,400	940,200
	590,800

RE	
560,200	560,200
380,000	380,000
296,400	296,400
28,000	28,000
25,000	25,000
40,000	40,000

- C 14. Telluride Mining Co. purchased new equipment costing \$69,500 for their operations. The effect the transaction had was:

Assets	Liabilities	Stockholders' Equity
+69,500		
-13,800	+55,700	No effect

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Which of the following journal entries would correctly represent the transaction?

- A. Equipment 55,700
Notes Payable 55,700
- B. Notes Payable 55,700
Equipment 55,700
- C. Equipment 69,500
Cash 13,800
Notes Payable 55,700
- D. Cash 13,800
Notes Payable 55,700
Equipment 69,500

equip
cash
not pay

- D 15. It is the custom of a consulting firm, The Man, Inc., to bill clients when consulting work is completed or, in the case of prolonged engagements, at monthly intervals. At December 31, consulting services valued at \$11,000 had been rendered to clients with prolonged engagements but not yet billed. No advance payments had been received from these clients. At December 31, The Man should make what adjusting journal entry to its accounts?

- A. No entry is required since a transaction has not occurred.
- B. Cash \$11,000
Unearned revenue \$11,000
- C. Accounts receivable \$11,000
Unearned revenue \$11,000
- D. Accounts receivable \$11,000
Consulting Fees Revenue \$11,000
- E. Cash \$11,000
Consulting Fees Revenue \$11,000

← not this
because
he has
earned it

Bonus Question (2 points added to score):

What is your major or concentration at Georgia Tech?

Problem 1 (20 points)

Kat Co, Inc.'s accountant prepared the following adjusted trial balance for the company's fiscal year ended December 31, 2012. The accounts are not listed in any particular order.

	DR	CR
Property and equipment	\$ 15,000	NCA
Wages expense	6,361	
Cash	3,123	
Insurance Other expenses	3,000	
Depreciation expense	2,410	
Accounts receivable	1,200	
Income tax expense	500	
Interest expense	400	
Land	216	
Sales revenues		\$ 13,585
Accumulated Depreciation		8,320
Long-term debt		4,400
Accounts payable		2,705
Contributed capital		1,814
Retained earnings, 1/01/12		1,066
Interest revenue		120
Income tax payable		200
	<u>\$ 32,210</u>	<u>\$ 32,210</u>
Average number of shares of stock outstanding all year	<u>450</u>	

Kat Income for year ended 12/31/12	
revenue	13,585
operating xp	6,361
wages	3,000
other	2,410
dep	
operating income	8,140
interest rev	120
net xp	(400)
pretax income	1,534
income tax xp	500
net income	1,034
EPS =	1,034 / 450

retained earnings
1,066
1,034
\$2,100

Required:

1. Prepare an income statement in good form.
2. Prepare a classified balance sheet in good form.

KAT Co Income Statement for the year ended 12/31/2012	
Revenues	\$ 13,585
Operating expense:	
Wages	6,361
Other expense	3,000
Depreciation expense	2,410
Operating income	1,514
Interest revenue	120
Interest expense	(400)
Pretax income	1,534
Income tax expense	500
Net income	<u>\$ 1,034</u>
EPS (\$1,034 / 450)	<u>\$ 2.30</u>

Balance sheet	
ASSETS	
Cash	3,123
Accounts receivable	1,200
Property and equipment	15,000
total CA	19,323
Land	216
	<u>19,539</u>
LIABILITIES	
Accounts payable	2,705
Depreciation	8,320
Tax	200
	<u>11,224</u>
Long-term debt	4,400
	<u>15,624</u>
SHE	
CC	1,814
RE	2,100