

Name: KEY

ACCT 2101 – Dr. J. M. Turner, CPA
Exam #2 Spring 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 9 pages (front and back) in this exam. Points available are as follows:

Multiple choice – 21 @ 3 points each	63
Terminology matching – 15 @ 2 points each	30
Problem (1)	<u>10</u>
Total available points	<u>103</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) – Match the term with the definition or description that best describes it.
Terms may be used only once.

<u>A</u>	ACC
B	Annual report
C	C.E.O. and C.F.O.
D	Creditor
E	Financial Accounting Standards Board
F	Financial analyst
G	Form 10-K
H	Form 10-Q
I	Form 8-K

J	Independent auditor
K	Information Service
L	Institutional investor
M	Press release
N	Private investor
<u>O</u>	Public Company Accounting Oversight Board
P	Quarterly report
Q	SEC

K 1 A company that gathers, combines, and transmits (paper and electronic) financial and related information from various sources

F 2 Adviser who analyzes financial and other economic information to form forecast and stock recommendations

G G 3 Annual report filed by public companies with the SEC that contains detailed financial information for the year

P 4 Brief unaudited report ^{for} the quarter normally containing summary income statement and balance sheet

D 5 Financial institution or supplier that lends money to the company

Q 6 Governmental agency that regulates financial reporting and disclosure requirements

J 7 Independent certified public accountant who examines financial statements and attests to their fairness

N 8 Individual who purchases shares of stock in companies

L 9 Manager of pension, mutual, and endowment funds that invests on behalf of others

C 10 Person(s) or group that has primary responsibility for the information presented in the financial statements

H 11 Quarterly report filed by public companies with the SEC that contains additional unaudited financial information

B 12 Report containing the four basic financial statements for the year, related notes, and often statements by management and auditors

I 13 Report of special events filed by public companies with the SEC

E 14 The person(s) or group that has the primary responsibility for setting generally accepted accounting principles in the United States

M 15 Written public news announcement that is normally distributed to major news services

- D 1. On April 1, 2011, the premium on a one-year insurance policy was purchased for \$3,000 cash with the insurance coverage beginning on that date. Which of the following correctly describes the effect of the December 31, 2011 adjusting entry on the financial statements?

(Assume that no adjusting entries have been made during the year.)

- A. Insurance expense will increase \$750.
 B. Prepaid insurance will decrease \$750.
 C. Prepaid insurance will increase \$2,250.
 (D) Insurance expense will increase \$2,250.

$$3000 \div 12 = \$250 / \text{mo}$$

$$\begin{array}{r} \times 9 \\ \hline 2250 \end{array} \text{ Ins. exp}$$

Apr. 1 -
Dec 31

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

$$4000 \div 24 = \$166.67 / \text{mo}$$

$$\begin{array}{r} \times 3 \\ \hline 500 \end{array} \text{ Ins. Exp.}$$

prepaid 4000
Bal in prep. 3500 Prep. Ins.

- B 3. On July 1, 2011, Allen Company signed a \$100,000, 18 month (due in 18 months), 6 percent note payable. The principal and interest will be paid on December 31, 2012. How much interest expense should be reported on the income statement for the year ended December 31, 2011?

- A. \$6,000
 (B) \$3,000
 C. \$2,000
 D. \$0

$$100,000 \times 6\% = 6,000 \text{ Annual interest exp}$$

July 1 to Dec 31 is 6 mos.

$$\begin{array}{r} \times 6/12 \\ \hline 3,000 \end{array} \text{ Int XP for 6 mos}$$

end Dec. 31

- C 4. At year end December 31, 2012, Speedy Tax, Inc., needs to record delivery expense of \$7,900 based on the December bill received in the mail from UPS. The adjusting entry needed to record the delivery expense is:

- A. Accounts payable \$7,900
 Delivery expense \$7,900
- B. Delivery expense \$7,900
 Cash \$7,900
- (C) Delivery expense \$7,900
 Accounts payable \$7,900
- D. Unearned revenue \$7,900
 Accounts payable \$7,900

- B 5. The Kardasian Firm, P.C., is a calendar-year law firm that specializes in criminal defense. Legal services valued at \$22,500 were rendered during December to a client who had made payment in advance. The advance payment was booked as unearned revenue when received by the firm. What adjusting journal entry is needed, if any, to Kardasian's books at year end December 31?

- A. Legal service revenue.....\$22,500
Unearned revenue \$22,500
- B Unearned revenue\$22,500
Legal services revenue \$22,500
- C. Cash\$22,500
Legal services revenue \$22,500
- D. Legal services revenue\$22,500
Cash..... \$22,500

* > E. No adjusting entry is necessary at year-end.

- D 6. Which of the following correctly describes the effects of recording prepaid rent when cash is paid to the landlord? (Assume that the cost of the rent is material in amount.)

- A. Net income decreases. F
- B. Liabilities are decreased. F
- C. Stockholders' equity decreases. F
- D Total assets do not change. T

DR Prepaid rent - asset
CR Cash asset

- A 7. Which of the following correctly describes the following journal entry?

Depreciation expense.....\$1,000
Accumulated depreciation \$1,000

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

- C 8. What is the effect on the financial statements when a company fails to accrue revenue earned at year-end?

- A. Revenue is understated and stockholders' equity is overstated. F
- B. Revenue is understated and assets are not affected. F A/R ↑
- C Net income is understated and assets are understated. T
- D. Net income is understated and liabilities are overstated. F no effect on liab.

- C 9. On December 31, 2011, Krug Company reported pretax income of \$120,000 prior to recording the following adjustments:

- Depreciation expense was \$30,000
- Accrued service revenues totaled \$25,000
- Accrued expenses totaled \$17,000
- Expired insurance, which was prepaid, totaled \$4,000

How much is Krug's pretax income after adjusting entries?

- A. \$111,000
 B. \$98,000
C. \$94,000
 D. \$69,000

PTI	\$120,000
depr. xP	(30,000)
Revenue	25,000
Expense	(17,000)
Insurance xP	(4,000)
Adjusted Net Income	<u>\$94,000</u>

- B 10. In what order are current assets usually reported on the balance sheet?

- A. From the least liquid to the most liquid.
B. From the most liquid to the least liquid.
 C. From the largest balance to the smallest balance.
 D. In alphabetical order of accounts.

- A 11. Which of the following would not be classified as a current asset?

- A. Patents
 B. Accounts receivable
 C. Cash
 D. Merchandise inventory

- C 12. Which of the following is an objective of the external audit of a company's financial statements?

- A. To provide a forecast of the company's future earnings.
 B. To assure no fraud has been committed by the company's management.
C. To provide credibility and assurance that the financial statement information conforms with generally accepted accounting principles in all material respects.
 D. To detect all accounting errors made by the accounting system and employees.

- A 13. Which of the following are primarily responsible for the information provided in a company's financial statements?

- A. The chief executive officer (CEO) and the chief financial officer (CFO).
 B. The internal and external auditors.
 C. The Securities & Exchange Commission (SEC) and the external auditors.
 D. The external auditors and the board of directors.

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

- Operating expenses were \$231,000
- Cost of goods sold was \$380,000
- Net sales were \$870,000
- Interest expense was \$32,000
- Gain on sale of a building was \$76,000
- Income tax expense was \$151,000

What was Callie's gross profit?

- A. \$260,000
- B. \$188,000
- C. \$490,000
- D. \$153,000

$$\begin{array}{r}
 \text{Sales} \quad 870,000 \\
 \text{Cost of goods sold} \quad - 380,000 \\
 \hline
 \text{Gross profit} \quad 490,000
 \end{array}$$

B 15. Best Buy, Inc., a calendar year corporation, reported the following financial information>

	<u>2011</u>	<u>2010</u>
Net income	\$1,358	\$1,241
Preferred dividends	-0-	-0-
Shares outstanding at January 1	419	414
Shares issued July 1	10	5
Shares outstanding December 31	429	419

What is Best Buy's earnings per share (EPS) for the year ended December 31, 2011 (rounded to the nearest cent)?

- A. \$3.24
- B. \$3.20
- C. \$3.17
- D. \$2.96

$$\frac{\text{Net income}}{\text{Avg shs outstanding}} = \frac{1358}{\frac{(419 + 429)}{2}} = \frac{1358}{424} = \$3.20$$

A 16. What type of information is not normally found in the notes to financial statements?

- A. Projections of future financial statement amounts.
- B. Detail supporting reported numbers.
- C. Relevant financial information not disclosed in the financial statements.
- D. Key accounting policies.

B 17. The classified income statement provides detailed information about a firm's profitability. What does Gross Profit measure?

- A. Income from peripheral activities.
- B. The excess of net sales revenue over the cost of goods sold.
- C. Income before tax expense.
- D. Income generated by operating activities.

C 18

18. The concept that small amounts do not need to be separately reported or accounted for precisely if they would not affect user's decisions is referred to as:

- A. Relevance.
- B. Consistency.
- ☒ C. Materiality.
- D. Conservatism.

B 19

19. The information below came from the financial statements of Battery Junction. What was the ROA for 2009 and 2010, respectively? (rounded to two decimal places)

	2010	2009	2008
Stockholders' Equity	\$3,505,000	\$3,304,000	\$2,632,000
Total liabilities	2,003,000	1,902,500	1,821,500
Net income	1,651,500	1,561,200	1,401,000

- A. 29.14% and 34.19%
- ☒ B. 32.32% and 30.83%
- C. 35.06% and 31.72%
- D. 29.99% and 29.98%

$$2009 \text{ ROA} = \frac{1,561,200}{\left(\frac{4,453,500 + 5,206,500}{2} \right)} = \frac{1,561,200}{4,830,000} = .3232$$

$$2010 = \frac{1,651,500}{\left(\frac{5,508,000 + 5,206,500}{2} \right)} = \frac{1,651,500}{5,357,250} = .3083$$

C 20

20. ROA can be decomposed into two components: net profit margin and total asset turnover. Which of the following changes, holding other factors constant, would increase ROA?

- A. Increase selling expense.
- B. Increase investment in inventory.
- ☒ C. Increase sales price.
- D. Decrease sales volume.

Problem 1 (10 points)

Lolita Corporation is completing the accounting information processing cycle at the end of the fiscal year, June 30, 2012. Johnson has provided the following unadjusted trial balance as of June 30, 2012:

Correct debits + credits

Account	Unadjusted		Adjustments		As Adjusted	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	\$15,000				15,000	
Accounts receivable			4,000		4,000	
Inventory	2,500				2,500	
Equipment	45,000				45,000	
Accumulated depreciation		10,400 13,500		3,800		14,200
Accounts payable		2,000				2,000
Income tax payable				3,500		3,500
Common stock		15,000				15,000
Retained earnings		18,100				18,100
Sales revenue		45,000		4,000		49,000
Operating expense	28,000				28,000	
Depreciation expense			3,800		3,800	
Income tax expense			3,500		3,500	
Totals	98,100 90,500	98,100 90,500	11,300	11,300	101,800	101,800

The company has the following transactions or events that may require adjustment to the trial balance:

1. Depreciation expense for the equipment totaling \$3,800 has not been recorded.
2. The company billed ^{its} clients \$4,000 for services rendered in June. These billings have not been posted, and no payments were received prior to year-end.
3. The company estimates that income tax expense for the year ended June 30 will be \$3,500.

Required:

1. Determine and post adjustments necessary based on the above three items.
2. Complete the adjusted trial balance (all accounts).

3. What is net income as adjusted for the fiscal year ended June 30, 2012? $49,000 - (28,000 + 3,800 + 3,500) = 13,700$ 0.12

4. What is the amount of total assets as adjusted at June 30, 2012? 52,300 0.12

$$15,000 + 4,000 + 2,500 + 45,000 - 14,200 = 52,300$$

Bonus Question (2 points): According to the article, "*Accountants are Sexy*" that we reviewed in class, which college major had the highest percentage of graduating seniors with job offers in 2012?

Accounting