

Name: _____ KEY

ACCT 2101 – Dr. J. M. Turner, CPA
Exam #1 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 8 pages (front and back) in this exam. Points available are as follows:

Multiple choice – 10 @ 3 points each	30.0
Terminology matching – 12 @ 2 points each	24.0
Problems (3)	<u>44.5</u>
Total available points	<u>98.5</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: _____

- B 1. Atlantic Corporation reported the following amounts at the end of the first year of operations: contributed capital \$200,000; sales revenue \$800,000; total assets \$600,000; dividends declared \$40,000; and total liabilities \$320,000. What are Atlantic's retained earnings at the end of the year and how much expenses were incurred during the year?

- A. Retained earnings are \$280,000 and expenses incurred totaled \$520,000.
 B. Retained earnings are \$80,000 and expenses incurred totaled \$680,000.
 C. Retained earnings are \$80,000 and expenses incurred totaled \$720,000.
 D. Retained earnings are \$280,000 and expenses incurred totaled \$480,000.

$$\text{Sales} - \text{Exp} = \text{NI}$$

$$800 - E = 120; E = 680$$

$$\text{End RE} + \text{div} = \text{Net Income}$$

$$80 + 40 = 120$$

$$A = L + OE$$

$$600 = 320 + 280$$

$$OE = 280$$

$$-CC = 200$$

$$R/E \quad \underline{80}$$

- C 2. Willie Company's retained earnings increased \$20,000 during 2010. What was Willie's 2010 net income or loss given that Willie declared \$25,000 of dividends during 2010?

- A. Net income was \$5,000.
 B. Net loss was \$5,000.
 C. Net income was \$45,000.
 D. Net loss was \$45,000.

$$\Delta RE = \text{Net Income} - \text{div} = 20,000$$

$$NI - 25 = 20$$

$$NI = 45$$

- A 3. Which of the following would not be reported in the operating activities section of a cash flow statement?

- A. Cash paid for dividends to stockholders. 7
 B. Cash paid for interest expense. 0
 C. Cash received from customers. 0
 D. Cash paid for employee wages. 0

- C 4. Which of the following best describes the balance sheet?

- A. It includes a listing of assets at their market values. 7
 B. It includes a listing of assets, liabilities, and stockholders' equity at their market values. 7
 C. It provides information pertaining to a company's assets and the providers of the assets. Best
 D. It provides information pertaining to a company's liabilities for a period of time. True

- C 5. Which of the following is the amount of revenue reported on the income statement of a retail company prepared in accordance with generally accepted accounting principles?

- A. Cash sales and stockholders' investments.
 B. The cash collected from customers during the current period.
 C. Both cash and credit sales for the period.
 D. Cash sales for the period.

- A 6. Which of the following would be reported in the financing section of a cash flow statement?
- A. Cash paid for dividends to stockholders. *Fin*
 - B. Cash received from sale of investments. *Inv*
 - C. Cash paid for interest expense. *Op*
 - D. Cash paid to acquire equipment. *Inv*

- C 7. Which of the following reflects the impact of a transaction where \$200,000 cash was invested by stockholders in exchange for stock?
- A. Assets and liabilities each increased \$200,000.
 - B. Assets and revenues each increased \$200,000.
 - C. Stockholders' equity and assets each increased \$200,000. *DR Cash 200
CR Contrib. Cap. 200*
 - D. Stockholders' equity and revenues each increased \$200,000.

- B 8. Which of the following best describes the matching principle?
- A. It requires expenses to be recorded when they are paid for. *Cash method*
 - B. It requires expenses to be recorded when incurred to generate revenues. ✓
 - C. It requires expenses to be recorded consistent with the cash basis of accounting.
 - D. It does not allow expenses to be recorded if they are incurred prior to being paid for. *Cash method*

- A 9. Chad Jones is the sole owner and manager of Jones Glass Repair Shop. Jones purchased a truck for \$30,000 to be used in the business. Which of the following fundamentals requires Jones to record the truck at the price paid to buy it?
- A. Historical cost principle *Assets slb recorded at purchase price*
 - B. Separate-entity assumption
 - C. Revenue principle
 - D. Unit-of-measure assumption

- B 10. Which of the following best describes the time period assumption?
- A. It assumes we value a business as of the end of every month.
 - B. It assumes we divide the long life of a business into a series of shorter time periods for accounting and reporting purposes.
 - C. It is the cutoff point for asset and liability recognition.
 - D. It implies that financial statements are prepared at the end of a business entity's operating cycle.

Matching (2 points each) – Match the term with the definition or phrase that best describes it. Terms may be used only once.

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|--|---|
| A. Accounting | N. Non-current assets |
| B. Accrual basis accounting | O. Operating cycle |
| C. Assets | P. Retained earnings |
| D. Balance sheet | Q. Revenue principle |
| E. Cash basis accounting | R. Revenues |
| F. Current assets | S. Securities and Exchange Commission |
| G. Expenses | T. Statement of cash flows |
| H. Financial Accounting Standards Board | U. Statement of retained earnings |
| I. Historic cost principle | V. Stockholders' Equity |
| J. Income statement | W. Time period assumption |
| K. Liabilities | Public Company Accounting Oversight Board |
| L. Matching principle | X. Board |
| M. Materiality principle | |

- D 1 A statement that reports the amount of assets, liabilities, and stockholders' equity of a business enterprise at a specific point in time
- T 2 A statement that reports the inflows and outflows of cash during an accounting period
- J 3 A statement that reports the revenues less the expenses of a business enterprise during an accounting period
- A 4 A system that collects and processes (analyzes, measures, and records) financial information about an organization and reports that information to decision makers
- E 5 An overall method of accounting that records revenue when cash is received and expenses when cash is paid
- N 6 Assets that will be used or turned in cash beyond the coming year
- G 7 Decreases in assets or increases in liabilities incurred to generate revenues during an accounting period
- R 8 Increases in assets or settlements of liabilities from ongoing operations
- W 9 Indicates that the long (indefinite) life of a company can be reported in shorter time periods
- K 10 Probable debts or obligations of the business enterprise that result from past transactions, which will be paid with assets or services
- Q 11 The principle 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.
- H 12 The private sector body given the primary responsibility to work out the detailed rules that become generally accepted accounting principles

Problem 1 – Preparing journal entries (16.5 points)

Jimmy's Garage, Inc. has been operating for one year. Prepare entries in journal form for the following January 2012 transactions

1. Rebuilt and delivered eight engines in January to customers who paid \$18,400 in cash (total for all engines).

	Debit	Credit
Cash	18,400	
Sales Revenue		18,400

2. Received a \$600 deposit from a customer who wanted her transmission repaired or replaced.

	Debit	Credit
Cash	600	
Unearned Revenue		600

3. Paid \$15,000 in wages to employees who worked in January.

	Debit	Credit
Wage Expense	15,000	
Cash		15,000

4. Purchased equipment that had a purchase price of \$8,000, paying \$1,000 in cash and signing a note for the rest.

	Debit	Credit
Property + Equipment	8,000	
Cash		1,000
Note Payable		7,000

5. Declared and paid a cash dividend of \$2,000 to the shareholders of Jimmy's Garage.

	Debit	Credit
Retained earnings	2,000	
Cash		2,000

Problem 2 – Preparing a classified balance sheet (14 points)

Panda Company, a merchandiser, has been operating for one year. At fiscal year-end March 31, 2012, the balances in the company's accounts were as follows (all amounts are U.S. dollars):

B/S-L	Note payable due in 24 months	300	General and administrative expense	11,550	
B/S-A	Short-term investments	2,000	Retained earnings at year end	2,000	B/S-DE
B/S-DE	Contributed capital	4,000	Interest expense	450	
	Sales revenue, net	38,000	Note payable due in 6 months	2,000	B/S-L
	Cost of goods sold	22,800	Property and equipment, net	2,500	B/S-A
B/S-A	Cash	4,000	Income tax expense	1,200	
B/S-L	Accounts payable	200			

Prepare in good form a classified balance sheet

Panda Company
Balance Sheet
March 31, 2012

Current assets:

Cash	\$ 4,000
Short-term investments	2,000
Total current assets	<u>6,000</u>

Property + Equipment, net	<u>2,500</u>
Total assets	<u>\$ 8,500</u>

Current liabilities:

Accounts payable	\$ 200
Short-term note payable	2,000
Total current liabilities	<u>2,200</u>

Long-term note payable	<u>300</u>
Total liabilities	<u>2,500</u>

Stockholders' Equity:

Contributed Capital	4,000
Retained earnings	2,000
Total stockholders' equity	<u>6,000</u>

Total liabilities & stockholders' equity	<u>\$ 8,500</u>
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Problem 3 – Preparing a classified income statement (14 points)

Dahl Sheep Company, a merchandiser, has been operating for one year. At fiscal year-end March 31, 2012, the balances in the company's accounts were as follows (all amounts are U.S. dollars):

Note payable due in 24 months	2,000
Short-term investments	2,000
Contributed capital	4,000
<i>I/S</i> Sales revenue, net	41,000
<i>I/S</i> Cost of goods sold	23,000
Cash	4,000
Accounts payable	1,700

General and administrative expense	11,550	<i>I/S</i>
Retained earnings at year end	2,500	
Interest expense	450	<i>I/S</i>
Depreciation expense	3,000	<i>I/S</i>
Property and equipment, net	4,200	
Income tax expense	500	<i>I/S</i>

Prepare in good form a classified income statement showing all appropriate subtotals. Ignore earnings per share.

Dahl Sheep Company
Income Statement
For the year ended March 31, 2012

Sales	\$41,000
Cost of goods sold	<u>23,000</u>
Gross profit	18,000
Operating expenses:	
General and administrative exp	11,550
Depreciation exp	<u>3,000</u>
Operating income	3,450
Interest expense	<u>450</u>
Pre-tax income	3,000
Income tax expense	<u>500</u>
Net income	<u><u>\$ 2,500</u></u>

Bonus Question (2 points): Who won the Super Bowl played last night, Sunday Feb 3?

Baltimore Ravens tbd