

Mason, Mary Ann Fall 2004
ACCT 215 First Midterm

Accounting 215, Section B
Autumn 2004
First Midterm
October 21, 2004

Instructor: Mary Ann Mason
Total Points Available: 150

Points Scored: 115 *median*
111

Name _____ Quiz Section (circle one) A B **C**

You will need a hand-held calculator and pencil(s) only to complete the examination. All other materials should be out of sight. Scratch work should be done on the examination.

You have 80 minutes to complete the test. When it is over, you should **immediately stop your work**. Work after the exam has ended is not fair to other students who complete the test on time and, therefore, is subject to point reduction at the instructor's discretion.

If you need clarification during the test (e.g. definition of work^ds, an unclear problem), raise your hand. We will help you as best we can. We will not, however, re-teach any point.

Select the best answer from any choices provided. Do not make any unnecessary or unsupported assumptions.

All answers recorded must be the results of your own legitimate efforts.

Unless indicated otherwise, all situations are considered material and thus subject to the generally accepted accounting principles in the U.S.

BUDGET YOUR TIME WISELY. WE WISH YOU SUCCESS.

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Name

~~XXXXXXXXXX~~

Quiz Section (circle one) A B C

BUSINESS ENTITY

1. (4 pts) Aerotech Machines is an entity which the business earnings are taxed only once and the owners are not protect against seizure of personal assets in the event the business is found liable. Which of the following best describes the organization of this entity?

☐ a. Limited Liability Company
☒ b. Partnership
☐ c. Corporation
☐ d. Two of the above

2. (2 pts) All Board of Directors are independent from the management of the company.

☐ a. True
☒ b. False

3. (2 pts) Who selects the Board of Directors of publicly traded companies?

✓ The stockholders of the companies

BUSINESS DYNAMICS

4. (6 pts) You own a profitable clothing manufacturing company and you would like to buy a new fleet of sewing machines. What are the 3 distinct sources of funds that you can use to purchase the machines?

✓ 1 Loans from the bank, Contributed Capital or your cash account

5. (4 pts) You want to purchase some stock but you do not know which company to buy, so you hire an information specialist. You expect the information specialist to

✓ ☒ a. gather pertinent facts about the companies you are interested in.
☐ b. reach a conclusion about which stock to buy.
☐ c. assume how much risk you are willing to take.
☐ d. tell your broker what stock to buy.

6. (2 pts) What is the system through which information about an economic entity is prepared and communicated to users who use the information to make decisions which affect the economic wealth of the reporting entity?

✓ Financial accounting

(financial statements → prepared by managers
→ audited by external auditors → financial reports to Public)

ENVIRONMENT

7. (6 pts) For each of the events below, place an "X" in the appropriate box which describes the market the event took place in.

	Primary	Secondary
Bought 100 shares of Home Depot from the New York Stock Exchange	X	X
Bought a new computer from Dell Inc.	X	
Bought a Chevrolet Blazer from your neighbor		X

FINANCIAL REPORTING

8. (4 pts) Which of the following accounts are liabilities?

- a. taxes payable, note payable, ~~accumulated depreciation~~, and accounts payable
 b. interest payable, accounts payable, ~~retained earnings~~, and taxes payable
 c. accounts payable, dividends payable, mortgage, and ~~prepaid rent~~
 d. accounts payable, unearned revenue, note payable, and interest payable

9. The following events occurred during one week for Jasmin Enterprises.

Monday: Ordered \$500 of inventory and charged it on account.

Tuesday: Received the inventory ordered on Monday.

Wednesday: Sold \$100 of inventory to customer for \$200 cash.

Thursday: Paid \$200 on accounts payable (for inventory ordered on Monday).

Friday: Sold \$300 of inventory to customer who promised to pay \$600 next week.

- a. (2 pts) What was Jasmin Enterprise's net income using the cash method of accounting?

✓ 2 ✓ 200 $\$200$

- b. (2 pts) What was Jasmin Enterprise's net income using the accrual method of accounting?

✓ 2 ✓
$$\begin{array}{r} \text{outflow} \\ - (500) + (200) + \dots \\ \hline (700) \end{array}$$

$$\begin{array}{r} \text{Inflow} \\ 200 \\ 600 \\ \hline 800 \end{array} = \$100$$

10. (2 pts) What financial statement shows the entities resources and the claims to those resources?

✓ Balance sheet

11. (4 pts) Which item below is not included in Wal-Mart's annual report?

- a. Management's discussion and analysis
 b. Auditor's report
 c. Footnotes to the financial statements
 d. Their budget

12. (8 pts) The following events occurred during the year for Yellow Alder Corp. Place an "X" under the subtotal or total from the income statement that would be affected first. For instance, if an event affects an account that appears between GROSS PROFIT MARGIN and INCOME FROM OPERATIONS, you would put an "X" under INCOME FROM OPERATIONS because the event first affects income from operations. If the event does not affect the income statement, place an "X" under NOT AFFECTED.

	GROSS PROFIT MARGIN	INCOME FROM OPERATIONS	INCOME FROM CONTINUING OPERATIONS	NET INCOME	NOT AFFECTED
Sold some equipment for a \$5,000 loss			✓ X	X	
Recognized \$3,280 in equipment depreciation		✓ X		X	
Purchased \$200 of inventory "on account"					X

13. (16 pts) For each transaction below, indicate whether it is an operating (O), investing (I), or financing (F) activity and whether it would directly affect the balance sheet (BS), income statement (IS) and statement of retained earnings (RE).

e.g. O BS, IS Twenty units of inventory are sold for \$50 each

I BS Pay cash for a new machine for the factory

I BS, IS Pay one year's rent in advance

F RE Pay cash dividend to owners

F RE Pay interest on note payable

14. (4 pts) On January 1, 2003, Fountain Company purchased a warehouse paying \$30,000 cash and signing a note for \$100,000. At the end of December 2003, Fountain Company recognized \$13,000 of depreciation for the warehouse. What was the book value of the warehouse in January 2004?

✓

Orig Cost	\$30,000
Depreciation	\$13,000
	<u>17,000</u>
Note	+ 100,000
	<u>\$117,000</u>

FINANCIAL ACCOUNTING

15. (22 pts) Enter the following transactions for the first year of activity for New Company, Inc. in the basic accounting equation below.

- The owners gave \$50,000 to the corporation in exchange for common stock.
- Bought inventory for \$10,000 cash.
- Borrowed \$120,000 from the bank.
- Purchased a truck for \$30,000 cash. Estimated useful life 5 years, salvage value \$5,000.
- Sold inventory with a cost of \$6,000. Customers paid \$7,000 cash and charged \$2,000 on account.
- Paid \$12,000 to the bank on note payable: \$10,000 to reduce the principal and \$2,000 for interest.
- After owning the truck (#d above) for 6 months, sold it for \$28,000 cash.

	ASSETS					Liabilities	OE	
	Cash	A/R	Equipment	Accum. Depr.	Inventory	Notes Payable	Contributed Capital	Retained Earnings
(a)	50,000						50,000	
(b)	(10,000)				10,000			
(c)	120,000					120,000		
(d)	(35,000)		35,000					
(e)	7,000	2,000			(6,000)			3,000
(f)	(12,000)					(10,000)		(2,000)
(g)				(2,000)				(2,000)
	125,000	2,000	35,000	(2,000)	4,000	110,000	50,000	1,000

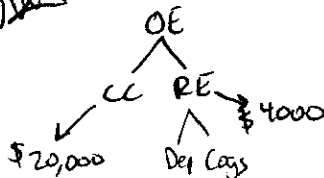
16. Given below are accounts from Ava Construction Partners' accounting records on December 31, 2003.

Cash	\$ 70,000	Dividends	\$ 4,000
Investments	40,000	Sales revenue	75,000
Equipment	10,000	Salaries expense	15,000
Accumulated depreciation	3,000	Rent expense	10,000
Accounts payable	12,000	Gain on sale of investment	5,000
Contributed Capital	20,000	End of year retained earnings	60,000

a. (4 pts) How much is net income for the year?

$$\begin{array}{r}
 75,000 \text{ (Rev)} \\
 - 15,000 \text{ (Exp)} \\
 \hline
 \$60,000
 \end{array}$$

b. (4 pts) Assuming there was no change in contributed capital during 2003, what was owner's equity at January 1, 2003? (Please show your work.)



$$\begin{array}{r}
 \text{Beg} \quad 4,000 \\
 \text{NI} \quad 60,000 \\
 \text{Div} \quad (4,000) \\
 \hline
 \text{END} \quad 60,000
 \end{array}$$

$$\begin{array}{r}
 60,000 \\
 - 4,000 \\
 \hline
 56,000
 \end{array}$$

Handwritten calculation for OE at Jan 1, 2003:

$$\begin{array}{r}
 60,000 \\
 - 56,000 \\
 \hline
 4,000
 \end{array}$$

Handwritten note: "OE for Jan 1 2003 was \$24,000 correct w/ 60,000 Net income"

INVESTOR - FINANCIAL ANALYSIS

17. Use the information given below for Bill Corporation to make the following calculations.

Dividends paid per share during the year	\$2.00
Market price of stock a beginning of year	\$35.00
Market price of stock at end of year	\$45.00
Net income for the year	\$500,000
Average number of shares outstanding	1,000,000

$$\Delta MP = 10$$

a. (4 pts) What is the return on investment for the year?

$$ROI = \frac{\Delta MP + Div}{MP} = \frac{\$10 + 2}{\$35} = \frac{12}{35} = .342 = 34.2\% ROI$$

b. (6 pts) What was the price-earnings ratio at the end of the year?

$$EPS = \frac{NI - Div}{A. \# \text{ common shares}}$$

- 3

$$\frac{MPS}{EPS} = \frac{35}{\left(\frac{500,000 - 2}{1,000,000}\right)} = \$70$$

closing

18. (4 pts) Which of the following ratios will report the amount of net income that has accrued for each share of common stock?

- a. Annual return on investment
- b. Price-Earnings ratio
- c. Dividend yield ratio
- ☒ d. Earnings per share

CREDIBILITY - MANAGEMENT

19. Bird Cages Inc. purchased two waste baskets for \$5.00 each. Instead of capitalizing them as assets and depreciating them over their estimated useful lives of 10 years, Bird Cages Inc. expensed them in the period they were purchased.

a. (4 pts) What accounting principle is this in violation of?

Cost-benefit principle

b. (4 pts) Which exception to the accounting principles is this an example of?

materiality

CREDIBILITY - CONTROL

20. (4 pts) Who is the primary source of GAAP (Generally Accepted Accounting Principals)?

FASB

21. (4 pts) What agency of the federal government was commissioned to implement and enforce the Securities Act of 1933 and the Securities Exchange Act of 1934?

✓ Securities + Exchange Commission (10-K + 10-Q forms)

CREDIBILITY - THE AUDIT

22. (4 pts) The American Institute of Certified Public Accountants (AICPA) used to write the generally accepted auditing standards (GAAS). What happened in 2002?

-4 ✓ The FASB resumed that responsibility

INTERNATIONAL

23. (2 pts) All countries have agreed to use of International Accounting Standards when preparing financial statements.

- ✓
a. True
☒ b. False

INVESTOR - UNDERSTANDING CONCEPTS

24. (8 pts) Match each of the financial accounting assumptions on the right with the appropriate example on the left.

- | | | |
|-----|---|-------------------------------|
| ✓ C | The economic effects of inflation on the accounting financial statements is ignored. | a. Economic entity assumption |
| ✓ A | Acme recognizes the operations of its wholly owned subsidiary, Acre, separately and distinctly. | b. Going concern assumption |
| ✓ D | A company prepares financial statements once every year. | c. Stable dollar assumption |
| ✓ B | Klondike Company lists long-term assets on its balance sheet. | d. Fiscal period assumption |

25. (4 pts) Which one of the following is violated when a firm reports property, plant, and equipment at its estimated selling price?

- ✓
☒ a. Objectivity
b. Economic entity assumption
c. Materiality
d. Conservatism

26. (4 pts) Jacobson Barges includes an allowance for uncollectable accounts receivable on its balance sheet. What value is Jacobson Barges using for its accounts receivable?

- ✓
a. Present value
☒ b. Net realizable value
c. Original cost
d. Current value