

Code of Conduct: By signing below you acknowledge that you are a member of a learning community at the Foster School of Business that is committed to the highest academic standards and that you adhered to these standards while completing this exam. Specific to this exam, by signing below you acknowledge that you did not receive or give help to others, nor did you witness others receiving or giving help to others, during the exam.

Date: 10/20/09

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+2
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48

A215
Autumn 2009
Exam I

- You have one hour and twenty minutes to complete this exam.
- For problems that require calculations show your work.
- Provide your answers in the space provided (not on a separate answer sheet).
- Please check to see that you have 12 pages (they are numbered).

CONCEPTUAL QUESTIONS

*These questions help me assess whether you understand the concepts we have covered. This question is from looking through the text, my slides, your quiz section instructor's materials, and the homework.

1. (1 pts) Accounting is often referred to as the "language of business."
2. (2 pts) Only publicly-traded corporations are required to file financial statements with the Securities and Exchange Commission. Filing financial statements is costly. What are two benefits to being a publicly-traded cooperation?
 - 1) limited liability
 - 2) lots of investors to raise money (selling shares)
3. (1 pts) A dividend represents a return of the company's profits to its owners.
4. (1 pts) What is the name (or acronym) of the organization that sets International Financial Reporting Standards?

International Accounting Standards Board (IASB)

5. (1 pts) The role of the CPA ^{Certified Public Accountant} is to attest that management has appropriately applied Generally Accepted Accounting Principles in preparing a company's financial statements.

6. (3 pts) What are the six steps in the recording process?

Step 1: Analyze the source documents

Step 2: Figure out the affect on the Accounting Equation ($A = L + SE$)

Step 3: Decide if the accounts are debited or credited

Step 4: Record the transactions in the journal

Step 5: post the journal entries in the ledger

Step 6: create a trial balance

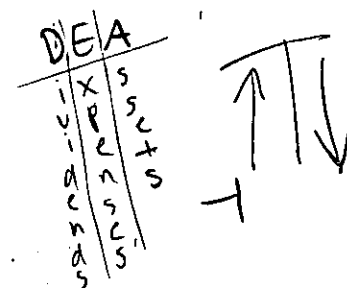
7. (2 pts) If an investor wants to know how much a firm has earned, but not paid back to shareholders, over its lifetime what financial statement should the investor analyze?

Income Statement X

-2

8. (3 pts) Does a debit increase or decrease the following accounts (circle one answer per account):

Accrued expenses	<u>Increase</u>	Decrease X
Accumulated depreciation	Increase	<u>Decrease</u>
Deferred revenue	Increase	<u>Decrease</u>
Prepaid rent	<u>Increase</u>	Decrease
Cost of goods sold	<u>Increase</u>	Decrease



9. (2 pts) Oakley Company purchases a piece of eyewear manufacturing equipment for \$4,000 on account. The piece of equipment has an expected life of 18 months.

Assume that Oakley has an operating cycle of 12 months. How will current assets be affected on the day that Oakley purchases the piece of equipment (circle one)?

- Current assets will increase
 Current assets will decrease
Current assets will stay the same

equipment 4000
A/P 4000

equipment is long-term.

10. (3 pts) Which of the following accounts are temporary accounts and which are permanent accounts (circle one answer per account)?

Dividends	Permanent	<u>Temporary</u>
Prepaid expenses	Permanent	<u>Temporary</u>
Unearned revenue	Permanent	<u>Temporary</u>
Accrued expenses	Permanent	<u>Temporary</u>
Retained earnings	<u>Permanent</u>	Temporary

-1

11. (1 pts) Trek Corporation provides services to a customer on June 17, but the customer does not pay for the services until June 28. According to the revenue recognition principle, on what date should Trek record the revenue?

June 28 X

-1

(5)

12. (1 pts) The matching principle states that a firm should recognize expenses in the same period as the revenue they helped generate.

13. (1 pts) *Timing* is the key difference between cash-basis accounting and accrual-basis accounting.

14. (1 pts) On a classified balance sheet, current assets are listed in order of liquidity.

15. (2 pts) What are the three sections of the cash flow statements?

Operating
Financing
Investing

16. (1 pts) Ed says to Jared, "If a firm creates a trial balance and total debits equal total credits it means that the firm correctly recorded all of its transactions for the period." Jared says, "You lie!" Do you agree with Ed or Jared (circle one)?

☒ I agree with Ed
☐ I agree with Jared

(-1)

SHORT PROBLEMS

*These questions help me assess whether can use the concepts we have covered to solve problems. I created each question from looking through the text, my slides, your quiz section instructor's materials, and the homework.

17. (2 pts: Homework E1-4) Bontrager Corporation produces bicycle parts. At the end of the current period, the company reports the following amounts: Assets = \$80,000; Liabilities = \$44,000; Dividends = \$4,000; Revenues = \$28,000; Expenses = \$22,000.

Stockholders' equity at the end of the period is equal to: \$ 2000

$$SE = RE + \overset{\text{Div}}{DS}$$

$$RE = 28 - 22 = 6000 - 4000 = 2000$$

18. (2 pts) Time Company started business at the beginning of 2005. Over the first four years of its life, Time reported the following:

	Net income (loss)	Dividends
2005	(\$1,000)	\$0
2006	(\$3,000)	\$0
2007	\$5,000	\$1,000
2008	<u>\$10,000</u>	<u>\$2,000</u>
	11,000	3,000

At the end of 2008, what is the balance in Time's retained earnings account? = 8k

\$ 8,000

19. (3 pts) Mavic Company reported the following balances (prior to closing) at the end of 2009:

Cash	\$6,000	
Rent expense	\$1,000 ✓	9000
Sales revenue	\$9,000 ✓	<u>2000</u>
Common stock	\$4,000	11000
Accrued expenses	\$2,000 ✓	1000
Tax expense	\$1,000 ✓	<u>2000</u>
Unearned revenue	\$2,000 ✓	1000
Cost of goods sold	\$4,000	<u>7000</u>
Dividends	\$2,000	
Inventory	\$6,000	
Retained earnings	\$1,000	

What did Mavic report as net income at the end of 2009?

\$ 7000

(-5)

20. (3 pts) Saxo bank loans bicycle companies money. On January 1, 2009, Saxo loans Bianchi \$10,000 at an annual interest rate of 8%. Bianchi is contractually obligated to pay the \$10,000 principle and interest back at the end of 2009. Bianchi will not make any interest payments during the year. At the end of March 2009, Bianchi is required to create financial statements. Record the journal entry (if any) that Bianchi will enter on March 31 to reflect the interest it owes Saxo. If Bianchi is not required to record a journal entry on March 31 state "no entry required."

DATE	REF #	ACCOUNTS	DEBIT	CREDIT
Mar 31	1	Interest Expense	200	
		Interest Payable.		200

21. (3 pts) Rolf Company sells wheels. At the beginning of 2009, Rolf's inventory balance is \$4,000. At the end of 2009, its inventory balance is \$6,000. During 2009, Rolf reported cost of goods sold of \$325,000. How much inventory did Rolf purchase during 2009?

$\$ \underline{323,000}$

$$4000 + 325K - x = 6$$

22. (5 pts) Compute the missing values (A – E).

ANSWERS & CALCULATIONS

Revenues	\$290,000	> add up
Expenses	\$250,000	
Dividends paid	\$0	
Net income	A	<u>40,000</u>
Retained Earnings:		
Beginning balance	\$60,000	+40K = 100K
Ending balance	B	<u>100,000</u>
Total Assets:		
Beginning balance	\$250,000	
Ending balance	\$290,000	
Total liabilities:		
Beginning balance	C	<u>90,000</u>
Ending balance	D	<u>90,000</u>
Total equity:		
Beginning balance	\$160,000	+40 = 200K
Ending balance	\$200,000	
Common Stock:		
Beginning balance	\$100,000	+x = 100K
Ending balance	E	<u>100,000</u>

$A = L + SE$
 \uparrow
 RE CS

$290 = ?$

$C = 100 \rightarrow 200,000$
 $RE = 100$

23. (2 pts) Campy Corporation sells and installs bicycle parts. During May, Campy has the following transactions:

- May 1 Customer pays cash in advance to have Campy install new parts on a bicycle.
 May 8 Campy purchases the parts on account from a supplier.
 May 15 Campy installs the parts and customer picks up the bike. *incurs expense*
 May 20 Campy pays the supplier for the parts purchased on May 8. *recorded*

Under Generally Accepted Accounting Principles, on what date should Campy record the supplies expense associated with installing the new parts?

May 15

*Service Rev
Acc*

*Cash
Expense*

24. (4 pts: Homework E3-8) Consider the following transactions for Pearl Izumi Corporation:

*Equip 36
Cash 36*

- a. Equipment costing \$36,000 is purchased at the beginning of the year for cash. Depreciation on the equipment is \$6,000 per year.
 b. On June 30, the company lends its chief financial officer \$40,000; principle and interest at 6% are due in one year.
 c. On October 1, \$12,000 is received from a customer for a one-year property insurance policy. Unearned revenue is credited.

1,000 per month - 3 = 3000

*Cash
Unearned rev*

For each transaction, record the necessary adjusting entry (if any) for Pearl Izumi at its year-end of December 31. No adjusting entries were made during the year. If Pearl Izumi is not required to record an adjusting entry for any of the transactions state "no entry required."

	DATE	REF #	ACCOUNTS	DEBIT	CREDIT
a)	12/31	1	Depreciation Expense Accumulated Depreciation	6000	6000
b)	12/31	2	Interest Receivable Interest Revenue	1200	1200
c)	12/31	3	Insurance Receivable X Insurance Revenue	3000	3000 - 1

(1)

COMPREHENSIVE PROBLEM

*This question helps me assess whether you can bring everything we have covered together to update a firm's balance sheet accounts.

25. (15 pts) Hammer Nutrition sells food and coaching services to elite endurance athletes. Hammer reported the following income statement and balance sheet for 2008.

Hammer Nutrition**Income Statement**

For the year ended December 31, 2008

REVENUES

Product revenue	\$70,000
Coaching revenue	50,000
Total revenues	<u>120,000</u>

EXPENSES

Cost of goods sold	60,000
Travel expense	40,000
Depreciation expense	10,000
Total expenses	<u>110,000</u>

Net income	<u>\$10,000</u>
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Hammer Nutrition**Balance Sheet**

As of December 31, 2008

ASSETS**Current assets**

Cash	\$100,000
Accounts receivable	8,000
Inventories	80,000
Total current assets	<u>188,000</u>

Long-term assets

Equipment	400,000
Investments	30,000

Total long-term assets	<u>430,000</u>
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Total assets	<u>\$618,000</u>
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LIABILITIES**Current liabilities**

Accounts payable	\$6,000
Accrued expenses	8,000
Deferred revenue	70,000
Total current liabilities	<u>84,000</u>

Long-term liabilities

Notes payable	5,000
Total liabilities	<u>89,000</u>

OWNERS' EQUITY

Common stock	437,000
Retained earnings	92,000
Total owners' equity	<u>529,000</u>

Total liabilities & owners' equity	<u>\$618,000</u>
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During the first three months of 2009 Hammer enters into the following transactions:

1. January 10: Hammer uses cash to pay \$5,000 of its accounts payable.
2. February 5: Hammer delivers \$60,000 worth of goods to a customer. The customer paid cash for the goods in November of 2008. The goods cost Hammer \$50,000.
3. February 20: Hammer is paid \$20,000 cash for coaching services. Hammer incurred travel costs of \$8,000 in providing the services. Hammer paid cash for the travel costs and classifies them as "travel expense."
4. March 7: Hammer is paid \$500 cash for interest on its investments.
5. March 16: Hammer issues \$5,000 of common stock for cash.
6. March 31: Hammer records depreciation expense of \$20,000. At the beginning of 2009, the gross amount in the equipment account is 500,000 and the total amount in the accumulated depreciation account is 100,000.

Assuming that these six transactions are the only activities for the quarter, and that Hammer is required to create financial statements at the end of the quarter.

REQUIRED

1. Record all required journal entries for transactions 1 – 6 in the attached journal.
2. Record all required closing entries in the attached journal.
3. In the attached ledger:
 - a. Fill in the beginning balances for all accounts.
 - b. Post all transactions and closing entries.
 - c. Fill in the ending balances for all accounts.

⇒ You DO NOT need to create any other documents (e.g., trial balance, income statement, balance sheet).

HAMMER NUTRITION JOURNAL

DATE	REF #	ACCOUNTS	DEBIT	CREDIT
1/16/09	1	Accounts Payable Cash	5600	5000
2/5/09	2	Accounts Receivable Product Revenue - 1	60,000	60,000
2/5/09	3	Cost of Goods Sold Inventories	50,000	50,000
2/20/09	4	Cash Coaching Revenue	20,000	20,000
2/20/09	5	Travel Expense Cash	8000	8000
3/7/09	6	Cash Interest Revenue	500	500
3/16/09	7	Cash Common Stock	5000	5000
3/31/09	8	Depreciation Expense Accumulated Depreciation	7000	7600
3/31/09	9	Accumulated Expense Retained Earnings	8000	8000
3/31/09	10	Deferred Revenue - 1 Retained Earnings	70,000	70,000
3/31/09	11	Product Revenue Retained Earnings	60,000	60,000
3/31/09	12	Coaching Revenue Retained Earnings	20,000	20,000
3/31/09	13	Interest Revenue Retained Earnings	500	500
3/31/09	14	Retained Earnings Cost of Goods Sold	50,000	50,000
3/31/09	15	Retained Earnings Travel Expense	8000	8000
3/31/09	16	Retained Earnings Depreciation Expense	7000	7000

Closing
entries

2

HAMMER NUTRION LEDGER

Cash	
100,000	5000 ①
④ 20,000	8000 ⑤
⑥ 500	
⑦ 500	
<u>112,500</u>	

Accounts receivable	
8000	
② 60,000	
<u>68,000</u>	

Inventories	
86,000	50,000 ③
<u>30,000</u>	

Equipment	
400,000	- /
<u>400,000</u>	

Accumulated depreciation	
	100,000
	7,000 ⑥
	<u>107,000</u>

Investments	
30,000	
<u>30,000</u>	

Accounts payable	
① 5000	6000
	<u>1000</u>

Accrued expenses	
8000	800
	<u>-</u>

Deferred revenue	
70,000	70,000
	<u>-</u>

Notes payable	
	5000
	<u>5000</u>

Common stock	
	437,000
	5,000
	<u>442,000</u>

Retained earnings	
50,000	92,000
	7,000
	70,000
	60,000
	20,000
8000	500
7000	
	<u>185,500</u>

Product revenue	
60,600	60,600 (2)

Coaching revenue	
20,000	20,000 (4)

Interest revenue	
500	500 (6)

Cost of goods sold	
(2) 50,000	50,000

Travel expense	
(5) 8000	8000

Depreciation expense	
(8) 7,000	7000

Feedback (no points, but I appreciate your feedback & will share the results with you in our next class)

Was the exam fair (i.e., did it cover topics addressed in the text, my slides, your quiz section instructor's materials, and/or the homework problems)?

<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1	2	3	4	5	6	7	8	9	10	11
No, the exam was not fair										Yes, the exam was fair

Was the exam difficult?

<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
1	2	3	4	5	6	7	8	9	10	11
No, it was quite easy										Yes, it was very difficult

Approximately how many hours did you spend studying for the exam? 15-20 hours