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Accounting 215 – QUIZ #1

1) Lynchburg Services began operations in 1994. At the end of 1996 the company had a balance in its Retained Earnings account of $606. Compute the missing amounts in the following table. *(6 points)*

	1996	1995	1994
Beginning retained earnings	$ 366	$ 150	$ 0
Revenues for the period	**C**	1,200	900
Expenses for the period	900	840	**A**
Dividends declared	160	**B**	100
	606	366	150

A= 650

B= 144

C= 1,300

2) According to the revenue recognition principle, revenue must be earned and realizable before it can be recognized. Describe the 4 criteria for recognizing revenue. *(8 points)*

Earned:
1) Revenue must be earned by the company from sales

2) Revenue must be countable

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Realizable:
3) must be acceptable form of currency

4) must exclude tax on goods

2) The following information was extracted from the 1997 financial report of the Coffee Grounds Company:

	1997	1996
Current assets:		
Cash	$ 15	$ 30
Short-term marketable securities	225	10
Accounts receivable	90	95
Inventory	50	225
Pre-paid insurance	20	25
Total current assets:	$ 400	$ 385
Current liabilities:		
Accounts payable	$ 75	$ 60
Wages payable	10	10
Current portion of long-term debt	375	100
Total current liabilities:	$ 460	$ 170

a) Based upon the above data, compute the current ratio for both 1996 and 1997. *(2 points)*

current ratio = total current assets / total current Liabilities

1996

$$\frac{385}{170} = \boxed{2.2647}$$

1997

$$\frac{400}{460} = \boxed{.86957}$$

b) Does it appear that the solvency position of the company improved or worsened from 1996 to 1997? Explain. *(2 points)*

The solvency position of the company worsened from 1996 to 1997. In 1996, the current ratio was 2.2647 to every 1 in the debt column, and in 1997, it is .86957 to every 1 in the debt column.