

ACCT 607
Mid-term Practice Exam

Name: _____

Multiple Choice Answer Sheet

- | | |
|-----------|-----------|
| 1. _____ | 14. _____ |
| 2. _____ | 15. _____ |
| 3. _____ | 16. _____ |
| 4. _____ | 17. _____ |
| 5. _____ | 18. _____ |
| 6. _____ | 19. _____ |
| 7. _____ | 20. _____ |
| 8. _____ | 21. _____ |
| 9. _____ | 22. _____ |
| 10. _____ | 23. _____ |
| 11. _____ | 24. _____ |
| 12. _____ | 25. _____ |
| 13. _____ | |

Mid-term I Practice Exam
I. Multiple Choices (50%)

1. A company preparing its annual financial statements should use the phrase “At December 31, 20XX” in the heading of
 - A) all of the required financial statements it prepares.
 - B) none of the required financial statements its prepares.
 - C) the income statement and balance sheet, but not the statement of cash flows.
 - D) the balance sheet only.
2. On a balance sheet, assets are listed in the order of
 - A) dollar amount (largest first).
 - B) date of acquisition (earliest first).
 - C) ease of conversion to cash.
 - D) importance to the operation of the business.
3. Most companies usually recognize revenue as earned and record the revenue when
 - A) the contract is signed with the customer
 - B) cash is received
 - C) the order is delivered
 - D) none of the above occurs
4. Which of the following is primarily responsible for the information provided in the financial statements?
 - A. Chief Executive Officer.
 - B. External Auditors.
 - C. Board of Directors.
 - D. Internal Accounting Staff.
5. Which of the following transactions affects both the income statement and the statement of cash flows?
 - A. Selling stock in exchange for cash.
 - B. Declaring and paying a cash dividend
 - C. Selling a product to a customer which creates an account receivable
 - D. Paying employee wages as they are earned.
6. The duality (or duality of effects) concept states
 - A) there is more than one way of looking at any situation.
 - B) every transaction has good and bad ramifications.
 - C) there are two entities involved in every transaction.
 - D) every transaction has at least two effects on the accounting equation.
7. Which group of accounts contains only those that normally have a debit balance?
 - A) Accounts receivable; Accumulated depreciation; Fees earned.

- B) Bond investment; Cash; Contributed capital.
 C) Cash; Inventory; Prepaid insurance expense.
 D) Notes receivable; Wages payable; Operating expenses.
8. Which of the following statements is true about the price earnings (P/E) ratio?
 A) It is a ratio of importance to creditors.
 B) A high P/E ratio indicates investors have little confidence in the future earnings potential of the company.
 C) The P/E ratio could be used to evaluate the money investors would be willing to pay for the company's stock.
 D) None of the above is true.
9. Which is the correct order of the steps in the accounting cycle at the end of the accounting period.
 A) Journalize and post adjustments, prepare financial statements, and journalize and post the closing entries
 B) Journalize and post adjustments, journalize and post the closing entries, and prepare financial statements
 C) Journalize and post adjustments, journalize and post the closing entries, and prepare trial balance
 D) Prepare financial statements, journalize and post adjustments, and journalize and post the closing entries
10. The primary purpose of closing entries is to
 A) prove the equality of the debit and credit entries in the general journal.
 B) update the balance of retained earnings and prepare revenue, expense, and dividend accounts for next period's transactions.
 C) insure that all revenues and expenses are recognized in the appropriate period.
 D) assure that adjusting entries balance.
11. Assume Minor Company recorded the following adjusting entry at year-end:
- | | | |
|-------------------|---------|---------|
| Insurance expense | \$1,000 | |
| Prepaid insurance | | \$1,000 |
- If the beginning balance in prepaid insurance was \$700 and \$1,500 insurance was bought during the year, the ending balance in the prepaid insurance account (after the above adjusting entry) would be
 A) \$1,200 debit.
 B) \$ 700 debit.
 C) \$2,200 debit.
 D) \$1,000 debit.
12. Failure to make an adjusting entry to recognize accrued wage payable causes which of the following?
 A) an overstatement of assets and stockholders' equity.

- B) an overstatement of assets and liabilities.
 - C) an understatement of expenses, liabilities, and stockholders' equity.
 - D) an understatement of expenses and liabilities and an overstatement of stockholders' equity.
13. Cash payments to suppliers are reported in what section of the Statement of Cash Flows?
- A) Financing
 - B) Investing
 - C) Operating
 - D) None of the above
14. Which of the following statements regarding the statement of cash flows are true?
- (1) The statement of cash flows explains what caused net income during the accounting period.
 - (2) The statement of cash flows separate cash inflows and outflows into three major categories: operations, investing, and financing.
 - (3) The ending cash balance shown on the statement of cash flows must agree with the amount shown on the balance sheet for the same fiscal period.
 - (4) The total increase or decrease in cash shown on the statement of cash flows must agree with the net income (or net loss) reported on the income statement.
- A) (1) and (2)
 - B) (1) and (3)
 - C) (2) and (3)
 - D) (2) and (4)

Which of the following statements is **inaccurate** with respect to the total asset turnover ratio?

It is calculated as sales revenues divided by total assets at year-end.

It is decreased when additional plant and equipment is purchased.

A high ratio implies efficient management of assets.

It is decreased when additional inventory is purchased.

16. An example of an asset account that would be created at the end of the accounting period because revenue has been earned but not paid yet would be?
- A) Accounts payable
 - B) Accounts receivable
 - C) Prepaid rent
 - D) All of the above
17. Before the closing entries were made at the end of 2009, the following data were taken from the accounts of Bloomington Corporation:

Contributed Capital

\$100,000

Retained earnings, beginning balance January 1, 2009	120,000
Total revenue earned during 2009	400,000
Total expenses incurred during 2009	320,000
Dividends declared and paid during 2009	15,000

The amount of total stockholders' equity that should appear on Bloomington Corporation's balance sheet dated December 31, 2009, is

- A) \$185,000.
 - B) \$285,000.
 - C) \$300,000.
 - D) \$315,000.
18. The difference between the equipment account balance and the accumulated depreciation is called
- A) market value.
 - B) acquisition cost.
 - C) book value.
 - D) net realizable value.
19. Which of the following is a correct statement about the unadjusted trial balance?
- A) It provides a listing of the balance sheet accounts only.
 - B) It is one of the financial statements included in firm's annual report.
 - C) It provides a check of the equality of the debits and credits of the ledger accounts after the external transactions have been journalized and posted.
 - D) Both B and C are correct.

Which of the following account balances would **not** be included in the calculation of the current ratio?

- A) Accounts receivable.
 - B) Short-term notes payable.
 - C) Equipment.
 - D) Supplies.
21. What is the effect on the financial statements when a company fails to accrue salaries expense at year-end?
- A) Net income is overstated and liabilities are understated.
 - B) Expenses are understated and stockholders' equity is understated.
 - C) Expenses and liabilities are both overstated.
 - D) Net income is overstated and liabilities are not affected.
22. Which of the following transactions results in an increase in both net income and stockholders' equity?
- A) Paying cash to acquire a six-month insurance policy.
 - B) Collecting cash from a customer for services to be provided in the future.
 - C) The accrual of interest expense year-end.
 - D) Adjustment of the unearned revenue account for revenue earned during the

period.

23. Which of the following account balances would be closed at year-end?
- A) Interest expense
 - B) Accumulated depreciation
 - C) Retained earnings
 - D) Unearned revenues
24. 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.

From which of the following documents, can you commonly find management forecast of future earnings?

- Proxy statement.
- Annual report.
- Current report.
- Press release.

II. Problems (50%)

1. A college student, Peter Black and several of his friends set up a new company called CollegeTshirt, Inc on Jan 1, 2003. The company operates a store in the university city of Maryland and specializes in selling T-shirts with logos of "University of Maryland" printed on them. CollegeTshirt does not pay tax for its first year's net income. You are hired to record the journal entries for the transactions in the first month of operations ended Jan 31, 2003.
 - (a) Jan 1: Issued 5,000 shares to investors for \$10 per share.
 - (b) Jan 1: Borrowed \$30,000 from the local bank on a three-year, 12 percent note payable.
 - (c) Jan 2: Purchased furniture for the store for \$12,000 on account.
 - (d) Jan 3: Purchased 200 T-shirts for \$15 each and paid the manufacturer a total of \$3,000 cash.
 - (e) Jan 31: Sold T-shirts totaling \$4,800 during the month, with half of the amount on account and the rest received in cash.
 - (f) Jan 31: The cost of the T-shirts sold was \$2,400.
 - (g) Jan 31: Depreciation for the furniture for Dec, 2003 was \$120.
 - (h) Jan 31: Wages were earned by two shop assistants totaled \$800. The shop assistants will be paid on the next payroll date, January 15, 2004.
 - (i) Jan 31: Interest accrued on note payable due to transaction (b).
 - (j) Jan 31: Paid \$6,000 for the money owed due to transaction (c).

Required:

- [illegible]

2. FocusMore, Inc. sells cameras. It had the following alphabetical list of accounts taken from its adjusted trial balance at December 31, 2007:

Accounts Payable	\$15,000
Accounts Receivable	18,000
Advertising Expense	12,800
Accumulated Depreciation-Building	26,200
Building	100,000
Cash	15,000
Contributed Capital	60,000
Cost of Goods Sold	56,500
Depreciation Expense	2,000
Dividends Declared	10,000
Income Tax Expense	6,000
Interest Payable	1,900
Interest Expense	2,500
Inventory	25,000
Long-term notes payable	10,000
Prepaid Expense	4,600
Retained Earnings (Jan. 1, 2007)	36,500
Salaries Expense	48,000
Salaries Payable	4,600
Sales Revenue	150,000
Supplies Expense	3,800

Required:

- (1) Prepare income statement for 2007. (5%)

4. Use Balance Sheet for Apple, Inc. on the next page to answer the following questions (10%).

(1) On what day of the year does the company's fiscal year end for the most recent year on this Balance Sheet?

(2) Write the accounting equation using the related numbers (in dollars) for Apple for the most recent year end on this Balance Sheet.

(3) How much accounts receivable (in dollars) does the company have at the most recent year end?

(4) Does Apple's Stockholders' equity increase or decrease from the end of prior year to the end of the most recent year? Please answer "increase" or "decrease".

(5) What is the company's current ratio for the most recent year end (show calculation procedures)?

(6) Is the following statement true or false? If the company were liquidated at the end of the most recent year on this Balance Sheet, the shareholders will receive \$111,547 million. Please answer "true" or "false".

(7) Is the following statement true or false? At the end of the most recent year on this Balance Sheet, Apple owes its customers for \$8,491 million goods or services. Please answer "true" or "false".

(8) Is the following statement true or false? At the end of the most recent year on this Balance Sheet, Apple owes creditors \$27,857 million that must be paid within one year. Please answer "true" or "false".

Apple Inc. CONSOLIDATED BALANCE SHEETS (USD \$) In Millions			Sep. 27, 2014	Sep. 28, 2013
Current assets:				
Cash and cash equivalents			\$13,844	\$14,259
Short-term marketable securities			11,233	26,287
Accounts receivable			17,460	13,102
Inventories			2,111	1,764
Other current assets			23,878	18,774
Total current assets			68,531	73,286
Long-term marketable securities			130,162	106,215
Property, plant and equipment, net			20,624	16,597
Intangible assets			8,758	5,756
Other assets			3,764	5,146
Total assets			231,839	207,000
Current liabilities:				
Accounts payable			30,196	22,367
Accrued expenses payable			18,453	13,856
Unearned revenue			8,491	7,435
notes payable			6,308	0
Total current liabilities			63,448	43,658
Long-term debt			28,987	16,960
Other non-current liabilities			27,857	22,833
Total liabilities			120,292	83,451
Shareholders' equity:				
Common stock and additional paid-in capital			23,313	19,764
Retained earnings			88,234	103,785
Total shareholders' equity			111,547	123,549
Total liabilities and shareholders' equity			\$231,839	\$207,000

Ratio Formulas for Midterm Exam

$\text{ROE} = \text{net income} / \text{average stockholders' equity}$

$\text{Net profit ratio} = \text{net income} / \text{sales revenue}$

$\text{Asset turnover} = \text{sales revenue} / \text{average total assets}$

$\text{Financial leverage} = \text{average total assets} / \text{average stockholders' equity}$

$\text{Gross profit ratio} = \text{gross profit} / \text{sales revenue}$

$\text{Current ratio} = \text{current assets} / \text{current liabilities}$

$\text{Earnings per share} = \text{net income} / \text{number of common shares outstanding}$

$\text{Price/earnings ratio} = \text{stock price} / \text{earnings per share}$

Multiple Choice Answers

1.D	2.C	3. C	4.A	5.D
6. D	7.C	8.C	9.A	10.B
11.A	12.D	13.C	14.C	15.A
16.B	17.B	18.C	19.C	20.C
21.A	22.D	23.A	24.D	25.D

1.

(1)

(a)	Cash (+A)	50,000	
	Contributed Capital (+SE)		50,000
(b)	Cash (+A)	30,000	
	Long-term Note Payable (+L)		30,000
(c)	Furniture (+A)	12,000	
	Account Payable (+L)		12,000
(d)	Merchandise Inventories (+A)	3,000	
	Cash (-A)		3,000
(e)	Cash (+A)	2,400	
	Accounts Receivable (+A)	2,400	
	Sales Revenue (+R)		4,800
(f)	Cost of Goods Sold (+E)	2,400	
	Merchandise Inventories (-A)		2,400
(g)	Depreciation Expense (+E)	120	
	Accumulated Depreciation (-XA)		120
(h)	Wage Expense (+E)	800	
	Wage Payable (+L)		800
(i)	Interest Expense (+E)	300	
	Interest Payable (+L)		300
(j)	Account Payable (-L)	6000	
	Cash (-A)		6,000

(2)

<i>Cash</i>				<i>Accounts Payable</i>				<i>Merchandise Inventories</i>			
Beg.	0				0	Beg.		Beg.	0		
(a)	50,000	3,000	(d)	(i)	6,000	12,000	(c)	(d)	3,000	2,400	(e)
(b)	30,000	6,000	(i)								
(e)	2,400										
<u>73,400</u>				<u>6,000</u>				<u>600</u>			

2.
(1)

FocusMore, Inc. Income Statement For the Year Ended December 31, 2007		
Sales Revenue		\$150,000
Expenses		
Cost of Goods Sold	\$56,500	
Advertising Expenses	12,800	
Depreciation Expenses	2,000	
Supplies Expenses	3,800	
Salaries Expenses	48,000	
Interest Expense	<u>2,500</u>	
Total expenses		<u>125,600</u>
Income before tax		24,400
Income tax expense		<u>6,000</u>
Net income		<u>\$ 18,400</u>

(2)

	Retained Earnings
Beginning balance Jan 1, 2007	\$36,500
Net income	18,400
Dividends Declared	<u>(10,000)</u>
Ending balance Dec 31, 2007	<u>\$ 44,900</u>

(3)

FocusMore, Inc. Balance Sheet December 31, 2007		
Assets		
Current Assets		
Cash		\$ 15,000
Accounts Receivable		18,000
Inventory		25,000
Prepaid Expense		<u>4,600</u>
Total Current Assets		62,600
Building	\$100,000	
Less: Accumulated Depreciation-		
Building	<u>26,200</u>	<u>73,800</u>
Total Assets		<u>\$ 136,400</u>
Liabilities and Stockholders' Equity		
Current Liabilities		

Accounts Payable	15,000
Interest Payable	1,900
Salaries Payable	<u>4,600</u>
Total Current Liabilities	21,500
Long-term notes payable	<u>10,000</u>
Total Liabilities	<u>31,500</u>
 Stockholders' Equity	
Contributed Capital	60,000
Retained Earnings	<u>44,900</u>
Total Stockholders' Equity	<u>104,900</u>
Total Liabilities and Stockholders' Equity	<u>\$ 136,400</u>

3.

- (1) The financial statements do not reflect non-financial factors that affect a business' value.
- (2) The financial statements understate intangible assets.
- (3) The financial statements are prepared largely based on historical values.
- (4) Management tends to prepare the reports in a biased manner.

4.

- (1) Sep 27
- (2) $\$231,839,000,000 = \$120,292,000,000 + \$111,547,000,000$
- (3) $\$17,460,000,000$
- (4) Decrease
- (5) $\$68,531,000,000 / \$63,448,000,000 = 1.08$
- (6) False
- (7) True
- (8) False