

Achievement Test 1: Chapters 1 and 2
Accounting
Kimmel, Weygandt, and Kieso

Name _____
Instructor _____
Section # _____ Date _____

Part	I	II	III	IV	V	VI	Total
Points	42	8	10	10	18	12	100
Score							

PART I — MULTIPLE CHOICE (42 points)

Instructions: Designate the best answer for each of the following questions.

- _____ 1. Which of the following has the advantage of enabling a business to raise funds most easily?
- Entity
 - Sole proprietorship
 - Corporation
 - Partnership
- _____ 2. Which of the following items will be reported on the statement of retained earnings?
- Cash received from customers
 - Amounts received from issuing stock
 - Amounts owed to creditors
 - Amounts earned by a company but not distributed as dividends
- _____ 3. Which one of the following is **not** the correct date format for the respective financial statement?
- A balance sheet as of May 31, 2014
 - A statement of retained earnings as of May 31, 2014
 - An income statement for the month ended May 31, 2014
 - A statement of cash flows for the month ended May 31, 2014
- _____ 4. Which of the following is **not** considered an external user of accounting information?
- Finance directors
 - Regulatory agencies
 - Creditors
 - Stockholders
- _____ 5. Which one of the following statements is true concerning the interrelationships of financial statements?
- Net income on the income statement equals the cash balance at the end of the period on the balance sheet.
 - The ending balance of retained earnings on the statement of retained earnings is equal to net income on the income statement.
 - The amount of net income on the income statement is added to the beginning retained earnings balance on the statement of retained earnings.
 - The amount of cash used during the period on the statement of cash flows is equal to total expenses on the income statement.

- _____ 6. Which of the following is meaningful comparison to assess a company's profitability?
- a. An intracompany comparison of net income for a two-year period
 - b. Industry-average comparison of total assets
 - c. Year-to-year comparisons of liabilities with a competitor in the same industry
 - d. Intercompany comparisons of earnings per share for a two-year period
- _____ 7. Which one of the following is true?
- a. Intangible assets are current assets that do not have physical substance.
 - b. Obligations expected to be paid after one year are classified as expenses.
 - c. Current assets are assets that a company expect to convert to cash or use up within the longer of one year or its operating cycle.
 - d. Property, plant, and equipment are assets with relatively long useful lives that are held for resale purposes.
- _____ 8. Tatum Enterprises' total assets decreased by \$11,000 during the year. Its stockholders' equity increased by \$12,000 during the same period. Net income totaled \$8,000 during the year. What occurred to the company's total liabilities during the year?
- a. \$23,000 decrease
 - b. \$1,000 increase
 - c. \$15,000 decrease
 - d. \$31,000 decrease
- _____ 9. For what purpose is the current ratio used?
- a. To assess profitability
 - b. To determine the composition of a company's assets
 - c. To measure the short-term ability of a company to pay its obligations
 - d. To measure the profitability of operations
- _____ 10. To be relevant, what characteristic must accounting information exhibit?
- a. It must be capable of making a difference in a decision.
 - b. It must be compared with other companies.
 - c. It must be verifiable.
 - d. It must be based on the U.S. monetary unit.
- _____ 11. What is the role of the FASB?
- a. To regulate U.S. financial markets and accounting standard-setting bodies
 - b. To determine auditing standards in the U.S.
 - c. To establish accounting standards in the U.S.
 - d. To regulate foreign companies that do business in the U.S.
- _____ 12. Which statement describes the periodicity assumption?
- a. The life of a business can be divided into artificial times periods for which useful reports can be prepared.
 - b. The business will remain in operation for the foreseeable future.
 - c. Every economic unit can be separately identified and accounted for.
 - d. Financial reports are issued on a timely basis for decision-making.

- _____ 13. Which one of the following represents the correct order of the three business activities for a new company?
- a. Financing, investing, operating
 - b. Investing, financing, operating
 - c. Operating, investing, financing
 - d. Financing, operating, investing
- _____ 14. At the beginning of January, 2014, Wise Company had a balance in its Retained Earnings account totaling \$42,000. At the end of the year, the balance totaled \$47,000. If \$11,000 of dividends were declared and paid during the year, how much was net income during 2014?
- a. \$5,000
 - b. \$16,000
 - c. \$53,000
 - d. \$6,000

PART II—MATCHING: FINANCIAL STATEMENT ANALYSIS (8 points)

Instructions: Match the terms given below with the definitions or descriptions that follow by placing the appropriate letter in the space provided.

- | | |
|-------------------------|--------------------|
| A. Liquidity | F. Profitability |
| B. Earnings per share | G. Dividends |
| C. Debt to assets ratio | H. Working capital |
| D. Current ratio | I. Solvency |
| E. Free cash flow | J. Periodicity |

- _____ 1. Measures the ability of an enterprise to survive over a long period of time
- _____ 2. Distribution of cash or other assets from a corporation to its stockholders
- _____ 3. Measures the percentage of total assets that creditors provide
- _____ 4. The excess of current assets over current liabilities
- _____ 5. Current assets divided by current liabilities
- _____ 6. Measures of the income or operating success of an enterprise for a given period of time
- _____ 7. A measure of the net income earned on each share of common stock
- _____ 8. The ability of a borrower to pay obligations when they become due

PART III — SHORT PROBLEMS (10 points)

Instructions: Present the solutions, with appropriate supporting calculations, for each of the following independent problems.

1. Given the following information, compute 2014 net income for SaraDyne Company.

Stockholders' equity—January 1, 2014	\$ 84,000
Stockholders' equity—December 31, 2014	87,000
Stockholder investments during 2014	12,000
Dividends paid during 2014	36,000
Revenues during 2014	310,000

2. Given the following information, determine the three missing amounts labeled as A, B, and C.

<u>Beginning of the Year</u>		<u>End of the Year</u>		<u>Stockholders' Equity Changes During the Year</u>	
Total Assets	\$ A	Total Assets	\$110,000	Investments	\$ 16,000
Total Liabilities	36,000	Total Liabilities	B	Dividends	34,000
Total Stockholders' Equity	55,000	Total Stockholders' Equity	81,000	Revenues	C
				Expenses	168,000
				Total Change	<u>\$ 26,000</u>

PART IV — TYPES OF ACCOUNTS (10 points)

Instructions: Place an 'X' in the appropriate column to designate whether each of the following accounts is an asset, a liability, stockholders' equity, revenue or expense account.

Account	Asset	Liability	Stockholders ' Equity	Revenue	Expense
1.Common Stock					
2.Rent Expense					
3.Equipment					
4.Retained Earnings					
5.Dividends					
6.Accounts Receivable					
7.Mortgage Payable					
8.Accounts Payable					
9.Sales Revenue					
10.Cash					

PART V — BALANCE SHEET CLASSIFICATIONS (18 points)

Instructions: Match the account titles given below with the appropriate balance sheet classification. An individual classification may be used more than once, or **not** at all. An account may also **not** appear in the balance sheet.

- | | |
|-----------------------------------|--|
| A. Current Assets | E. Current Liabilities |
| B. Long-term Investments | F. Long-term Liabilities |
| C. Property, Plant, and Equipment | G. Stockholders' Equity |
| D. Intangible Assets | H. Not separately presented on the balance sheet |
-
- | | |
|-----------------------------|---|
| ____ 1. Cost of Goods Sold | ____ 10. Income Taxes Payable |
| ____ 2. Accounts Payable | ____ 11. Inventories |
| ____ 3. Patents | ____ 12. Accounts Receivable |
| ____ 4. Common Stock | ____ 13. Prepaid Rent |
| ____ 5. Supplies | ____ 14. Notes Payable (due in 2 years) |
| ____ 6. Service Revenue | ____ 15. Accumulated Depreciation—Buildings |
| ____ 7. Advertising Expense | ____ 16. Retained Earnings |
| ____ 8. Salaries Payable | ____ 17. Mortgage Payable |
| ____ 9. Equipment | ____ 18. Dividends |

PART VI — RATIOS (12 points)

Selected information from the financial statements of Joe's Coffee Brewers for the year ended December 31, 2014, appears below:

Current assets	\$ 180,000
Total assets	550,000
Current liabilities	75,000
Long-term liabilities	90,000
Sales revenue	870,000
Dividends	60,000
Net income	134,000

Instructions: Calculate the amounts indicated below relating to the year ended December 31, 2014. The number of shares outstanding at the end of the year was 40,000. Show computations.

1. The current ratio for 2014 is _____.
2. The debt to assets ratio for 2014 is _____.
3. The working capital for 2014 is _____.
4. The earnings per share for 2014 is _____.

Solutions — Achievement Test 1: Chapters 1 and 2

PART I — MULTIPLE CHOICE (42 points)

1. c 4. a 7. c 10. a 13. a
2. d 5. c 8. a 11. c 14. b
3. b 6. a 9. c 12. a

PART II — MATCHING: FINANCIAL STATEMENT ANALYSIS (8 points)

1. I
2. G
3. C
4. H
5. D
6. F
7. B
8. A

PART III — SHORT PROBLEMS (10 points)

1.

Ending stockholders' equity, 12/31/14	\$ 87,000
Beginning stockholders' equity, 1/1/14	<u>(84,000)</u>
Increase in stockholders' equity	3,000
Dividends paid during 2014	<u>36,000</u>
	39,000
Investments during 2014	<u>(12,000)</u>
Net income in 2014	<u><u>\$ 27,000</u></u>
2.

A. Total assets, beginning of year = \$55,000 + \$36,000 = \$91,000

B. Total liabilities, end of year = \$110,000 – \$81,000 = \$29,000

C. Net income = \$81,000 + \$34,000 - \$55,000 - \$16,000 = \$44,000
Revenue during the year = \$44,000 + \$168,000 = \$212,000

PART IV — TYPES OF ACCOUNTS (10 points)

Account	Asset	Liability	Stockholders ' Equity	Revenue	Expense
1.Common Stock			X		
2.Rent Expense					X
3.Equipment	X				
4.Retained Earnings			X		
5.Dividends			(X)		
6.Accounts Receivable	X				
7.Mortgage Payable		X			
8.Accounts Payable		X			
9.Sales Revenue				X	
10.Cash	X				

PART V — MATCHING: BALANCE SHEET CLASSIFICATIONS (18 points)

- | | | | |
|------|-------|-------|-------|
| 1. H | 6. H | 11. A | 16. G |
| 2. E | 7. H | 12. A | 17. F |
| 3. D | 8. E | 13. A | 18. H |
| 4. G | 9. C | 14. F | |
| 5. A | 10. E | 15. C | |

PART VI — RATIOS (12 points)

1. Current ratio for 2014 = $\$180,000 \div \$75,000 = \underline{2.4 \text{ times}}$
2. Debt to assets ratio for 2014 = $(\$75,000 + \$90,000) \div \$550,000 = \underline{30\%}$
3. Working capital for 2014 = $\$180,000 - \$75,000 = \underline{\$105,000}$
4. Earnings per share for 2014 = $\$134,000 \div 40,000 = \underline{\$3.35 \text{ per share}}$