

Achievement Test 1: Chapters 1 and 2
Financial Accounting
Kimmel, Weygandt, & 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 is a separate legal entity?
- Proprietorship
 - Sole proprietorship
 - Corporation
 - Partnership
- _____ 2. Indicate which of the following items would not be reported in the operating section of the Statement of Cash Flows
- Cash received from customers
 - Cash paid for dividends.
 - Cash paid for salaries.
 - Cash received for dividends.
- _____ 3. A financial statement that reports accounting data at a specific date is the
- balance sheet.
 - retained earnings statement.
 - income statement.
 - statement of cash flows.
- _____ 4. Which of the following is **not** considered an external user of accounting information?
- Bankers
 - Taxing authority
 - Manager
 - Labor Unions
- _____ 5. GAAP refers to
- General Accounting and Auditing Principles.
 - Guidelines for American Accounting Procedures.
 - General Association of Accounting Practitioners.
 - Generally Accepted Accounting Principles.
- _____ 6. Which is an indicator of profitability?
- Current ratio.
 - Earnings per share.
 - Free cash flow.
 - Working capita.

- ____ 7. Which of the following is **false**?
- Intangible assets are noncurrent assets that do not have physical substance.
 - Obligations expected to be paid after one year are classified as long-term liabilities.
 - Current assets are listed in the order of magnitude (size).
 - Property, plant, and equipment are assets with relatively long useful lives that are used in operating the business.
- ____ 8. If total liabilities decreased by \$30,000 during a period of time and owners equity increased by \$35,000 during the same period, the amount and direction (increase or decrease) of the period's change in total assets is a:
- \$65,000 increase.
 - \$5,000 increase.
 - \$5,000 decrease.
 - \$65,000 decrease.
- ____ 9. Current assets are listed
- alphabetically.
 - by importance.
 - by longevity.
 - by liquidity.
- ____ 10. To be relevant, accounting information must
- be capable of making a difference in a decision.
 - be presented on the balance sheet.
 - be recorded at historical cost.
 - improve the company's internal control.
- ____ 11. In accounting, which of the following is not a description of reliability as it relates to accounting information?
- Verifiable
 - Be the least likely to overstate assets or income
 - A faithful representation
 - Neutral
- ____ 12. Financial statements combining the operations of Kohls and Target would violate the
- monetary unit assumption.
 - economic entity assumption.
 - cost principle.
 - full disclosure principle.
- ____ 13. Limited liability (no liability beyond investment) is **not** enjoyed by the owner(s) of a
- partnership and proprietorship.
 - partnership and corporation.
 - proprietorship and corporation.
 - corporation.

- ____ 14. The Retained Earnings account had a beginning balance of \$60,000 and an ending balance of \$70,000. If \$20,000 of dividends were declared and paid during the period, net income must have been
- a. \$20,000.
 - b. \$30,000.
 - c. \$10,000.
 - d. \$50,000.

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 | E. Profitability |
| B. Earnings per share | F. Dividends |
| C. Debt to total assets ratio | G. Working capital |
| D. Current ratio | H. Solvency |

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

PART III — SHORT PROBLEMS (10 points)

Instructions

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

A. Given the following information, compute 2007 net income for Lanon Company.

Stockholders' equity—January 1, 2007	\$150,000
Stockholders' equity—December 31, 2007	175,000
Stockholder investments during 2007	15,000
Dividends paid during 2007	30,000

B. Given the following information, determine the three missing amounts.

<u>Beginning of the Year</u>		<u>End of the Year</u>		<u>Stockholders' Equity Changes During the Year</u>	
Total Assets	\$60,000	Total Assets	\$85,000	Investments	\$10,000
Total Liabilities	???	Total Liabilities	40,000	Dividends	25,000
Total Stockholders' Equity	35,000	Total Stockholders' Equity	???	Revenues	70,000
				Expenses	<u>???</u>
				Total Change	<u>\$15,000</u>

PART IV — TYPES OF ACCOUNTS (10 points)**Instructions**

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

Account	Asset	Liability	Stockholders' Equity
1. Service Revenue			
2. Insurance Expense			
3. Supplies			
4. Common Stock			
5. Accounts Payable			
6. Salaries Payable			
7. Dividends			
8. Accounts Receivable			
9. Prepaid Insurance			
10. Mortgage Payable			

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.

Classifications

- | | |
|----------------------------------|--|
| 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 |

Account Titles

- | | |
|------------------------------|--|
| ___ 1. Common Stock | ___ 10. Prepaid Insurance |
| ___ 2. Unearned Rent Revenue | ___ 11. Bonds Payable |
| ___ 3. Supplies | ___ 12. Taxes Payable |
| ___ 4. Accounts Payable | ___ 13. Copyrights |
| ___ 5. Patents | ___ 14. Accounts Receivable |
| ___ 6. Salaries Payable | ___ 15. Mortgage Payable |
| ___ 7. Equipment | ___ 16. Dividends |
| ___ 8. Service Revenue | ___ 17. Accumulated Depreciation—Equipment |
| ___ 9. Rent Expense | ___ 18. Retained Earnings |

PART VI — RATIOS (12 points)

Selected information from the financial statements of Stiller Company for the year ended December 31, 2007, appears below:

	<u>2007</u>
Current assets	\$ 525,000
Total assets	1,375,000
Current liabilities	150,000
Long-term liabilities	400,000
Net sales	1,500,000
Gross profit	600,000
Net income	150,000

Instructions

Answer the following questions relating to the year ended December 31, 2007. The number of shares outstanding at the end of the year was 10,000. Show computations.

1. The current ratio for 2007 is _____.
2. The debt to total assets ratio for 2007 is _____.
3. The working capital for 2007 is _____.
4. The earnings per share for 2007 is _____.

Solutions — Achievement Test 1: Chapters 1 and 2

PART I — MULTIPLE CHOICE (42 points)

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

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

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

PART III — SHORT PROBLEMS (10 points)

A. Ending stockholders' equity, 12/31/07	\$175,000
Beginning stockholders' equity, 1/1/07	<u>150,000</u>
Increase in stockholders' equity.....	25,000
Dividends paid during 2007	<u>30,000</u>
	55,000
Investments during 2007	<u>15,000</u>
Net income in 2007	<u>\$ 40,000</u>
B. Total liabilities, \$25,000 (Beginning of year).	
Total stockholders' equity, \$45,000 (End of year).	
Expenses during the year, \$40,000.	

PART IV — TYPES OF ACCOUNTS (10 points)

	<u>Asset</u>	<u>Liability</u>	<u>Stockholders' Equity</u>
1.			√
2.			√
3.	√		
4.			√
5.		√	
6.		√	
7.			√
8.	√		
9.	√		
10.		√	

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

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

PART VI — RATIOS (12 points)

- The current ratio for 2007 is 3.5 times. $\frac{\$525,000}{\$150,000} = 3.5 \text{ times.}$
- The debt to total assets ratio for 2007 is 40%. $\frac{\$150,000 + \$400,000}{\$1,375,000} = 40\%$
- The working capital for 2007 is \$375,000. $\$525,000 - \$150,000 = \$375,000$
- The earnings per share for 2007 is \$15. $\frac{\$150,000}{\$10,000} = \$15$