Financial Accounting
Professional MBA Program, Fall 1996
Test I

On my honor, I have neither given nor received assistance on this test.

__________________________
Signature

CODE:

______________________________
PRINTED NAME

All questions count 4 points unless otherwise noted. Total 100 points ie very roughly a point a minute.
1. Which of the following is not a correct statement concerning the effect of any single transaction?

a. It increases both an asset and a liability or shareholders' equity
b. It decreases an asset and increases a liability
c. It decreases both an asset and a liability or shareholders' equity
d. It increases one asset and decreases another asset

2. Expenses are recognized
a. when they match revenue
b. in the period in which the service is consumed
c. both a and b
d. neither a nor b

3. Revenue and expense accounts
a. are permanent accounts
b. are temporary accounts
c. reflect cumulative changes in each account since the organization of the firm
d. none of the above
4. On October 1, Year 1, Shoe World received a $10,000, 120-day note from a customer. The note earns 10% interest per year. What is the amount of Interest Receivable recorded at December 31, Year 1? (Assume no other entries to record interest have been made.)

a. $333  
b. $250  
c. $ 83  
d. $ 0 - interest is not due until January

5. Which grouping includes only noncurrent assets?

a. land, equipment, accounts receivable from customers  
b. buildings, inventories, and patents  
c. land, buildings, and shareholders’ equity  
d. none of the above

6. Magazine subscriptions collected in advance are reported as:

a. A contra account to magazine subscriptions receivable in the asset section of the balance sheet.  
b. Deferred revenue in the liability section of the balance sheet.  
c. Deferred revenue in the stockholders’ equity section of the balance sheet.  
d. Magazine subscription revenue in the income statement in the period collected.
7. Revenues measure

a. the inflows of assets from selling goods and providing services to customers
b. the reduction of liabilities from selling goods and providing services to customers
c. all sources of cash received by a firm
d. both a. and b.

8. The objectives of financial reporting do not include

a. providing information about financial performance
b. providing information on competitors' performance
c. providing information for investment and credit decisions
d. assessing the amount and timing of cash flows

9. Fill in the effect that each of these transactions have on items in the matrix on your answer sheet. Show a + for increases; a - for decreases; a 0 for no effect; a w for wash; and a ? for an ambiguous ratio.

a. Monthly manufacturing wages paid for work done in the month.
b. Manufacturing wages paid for work done last month.
c. Dividend declared and paid.
d. Credit sale made on an installment basis.
10. Where applicable create journal entries (in good form!) for each of the following events. Should a journal entry be inappropriate, very briefly explain why. I am interested only in the initial journal entry i.e., at the moment when the described event happens.

a. Sign a 3 year employment contract with the CFO for $450,000

b. Send a check to an insurance company for $800 for two years' insurance coverage which would normally cost $500 for a one year policy ie $1,000 if bought one year at a time.

c. A magazine publisher receives $1,500 in subscriptions. It will cost the publisher $500 to fulfill the subscription commitment.

d. A firm acquires inventory with a list price of $1,000 at a 2% discount for early payment. The firm treats cash discounts as a reduction of acquisition cost.

e. A firm agrees to purchase 100,000 units of inventory from a supplier over the next 3 years at an agreed to cost of $1 per unit.
11. Post the following transactions to the provided T-accounts. Note you will be graded not only on what numbers you post, but the way that you post them. You are asked to assume that these are all the entries for the month of March. (Hint: Do some adjusting entries!)

a. On March 1, shareholders contribute $20,000 for 10,000 shares of $1 par value stock.

b. On March 1, the company borrows $10,000 from the bank at a 12 percent interest rate.

c. Also on March 1, the company pays rent of $2,000 for the month.

d. The company acquires equipment for $1,000.

e. The company spends $800 on refurbishing the equipment.

f. The company closes the rent expense account to the income summary account.

12. (20) Below is a list of closing balances. Close out the temporary accounts to the income summary before creating an income statement and a balance sheet for the GoodBlue Company which has been in existence for 6 months as of June 30, 1996.

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$4,700</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>6,600</td>
</tr>
<tr>
<td>Capital</td>
<td>15,000</td>
</tr>
<tr>
<td>Cash</td>
<td>14,600</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>11,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>3,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>20,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>7,500</td>
</tr>
<tr>
<td>Loan — repayable 1998</td>
<td>25,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,000</td>
</tr>
<tr>
<td>Revenue</td>
<td>17,000</td>
</tr>
</tbody>
</table>