We are Econ3a, Inc. We purchase stuff and sell it for a profit.

Here is our trial balance at 1/1/2009:

<table>
<thead>
<tr>
<th>Account Title</th>
<th>DR/ (CR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>40,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>10,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>12,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>500</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>250,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(45,000)</td>
</tr>
<tr>
<td>Accrued payroll</td>
<td>-</td>
</tr>
<tr>
<td>Debt</td>
<td>(200,000)</td>
</tr>
<tr>
<td>Common stock</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>(57,500)</td>
</tr>
</tbody>
</table>

We had the following activity during January:

1. Made no new bank borrowings, but the debt already on the trial balance matures at $1,000/month.
2. Purchased $80,000 of inventory on credit.
3. Sold goods for $70,000 on credit which cost $30,000.
4. Made a $1,500 payment on the debt ($500 for interest and $1,000 for principle).
5. Purchased inventory for $10,000 on account.
6. Collected $65,000 from customers.
7. Paid $40,000 to vendors against outstanding payables.
8. On the last day of the month, paid $7,000 for February rent.
9. Paid $12,000 for payroll.
10. Paid consultants $5,500 for services of which half was completed by January 31.
11. Paid $2,000 for advertising which was completed by January 31st.

Based on all of the above:

i. For each number (1-11) above, record the journal entry or state no entry if there is none.

II. Track activity in whatever manner you prefer, and show the balance sheet as of the end of the month and the income statement for the month.

Note: All of the balance sheet account titles you may need are listed in the above trial balance.

For the income statement, choose from the following account title:

Revenues
Salaries expense
Advertising expense
Cost of Goods Sold (or COGS)
Interest expense
Consultant expenses
Rent expense
<table>
<thead>
<tr>
<th>ACCOUNT</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) No entry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Inventory 80,000</td>
<td></td>
<td>80,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Accounts receivable 70,000</td>
<td></td>
<td>70,000</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3a) COGS 30,000</td>
<td></td>
<td>30,000</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Debt 1,000</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Interest expense 500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>1,500</td>
</tr>
<tr>
<td>(5) Inventory 10,000</td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Cash 65,000</td>
<td></td>
<td>65,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7) Accounts payable 40,000</td>
<td></td>
<td>40,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(8) Prepaid expenses 7,000</td>
<td></td>
<td>7,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(9) Salaries expense 12,000</td>
<td></td>
<td>12,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(10) Consultant expenses 2,750</td>
<td></td>
<td>2,750</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>5,500</td>
</tr>
<tr>
<td>(11) Advertising expense 2,000</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>Accounts Receiv.</td>
<td>Inventory</td>
</tr>
<tr>
<td>------</td>
<td>----------------</td>
<td>-----------</td>
</tr>
<tr>
<td>40,000</td>
<td>10,000</td>
<td>50,000</td>
</tr>
<tr>
<td>65,000</td>
<td>70,000</td>
<td>80,000</td>
</tr>
<tr>
<td>1,500</td>
<td>65,000</td>
<td>3,000</td>
</tr>
<tr>
<td>40,000</td>
<td>7,000</td>
<td>10,000</td>
</tr>
<tr>
<td>12,000</td>
<td>5,500</td>
<td>2,000</td>
</tr>
<tr>
<td>5,500</td>
<td>2,000</td>
<td>2,750</td>
</tr>
<tr>
<td>37,000</td>
<td>15,000</td>
<td>70,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>Accrued Payroll</td>
<td>Debt</td>
</tr>
<tr>
<td>45,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>80,000</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>40,000</td>
<td>95,000</td>
<td></td>
</tr>
<tr>
<td>199,000</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>COGS</td>
<td>Interest exp.</td>
</tr>
<tr>
<td>70,000</td>
<td>30,000</td>
<td>500</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>Advertising Exp.</td>
<td>Consult. Exp.</td>
</tr>
<tr>
<td>-</td>
<td>2,000</td>
<td>2,750</td>
</tr>
<tr>
<td>-</td>
<td>2,000</td>
<td>2,750</td>
</tr>
<tr>
<td>NET INCOME</td>
<td>22,750</td>
<td></td>
</tr>
</tbody>
</table>
Econ 3a, Inc.
Balance Sheet
As of January 31, 2008

Assets
Current assets
  Cash 37,000
  Accounts receivable 15,000
  Inventory 72,000
  Prepaid expenses 10,250
  Total Current assets 134,250

Fixed assets 250,000

Total Assets 384,250

Liabilities & Equity
Current liabilities
  Current portion of notes payable 12,000
  Accounts payable 95,000
  Accrued payroll -
  Total current liabilities 107,000

Notes payable, exc. Curr. Portion 187,000

Equity
  Common stock 10,000
  Retained earnings 80,250

Total Liabilities & Equity 384,250

Econ 3a, Inc.
Income Statement
For the month ended January 31, 2008

Sales 70,000
COGS 30,000
  Gross Profit 40,000
  Interest expense 500
  Consultant expenses 2,750
  Salaries expense 12,000
  Advertising expense 2,000
  Operating expenses 17,250

Net income 22,750
1. GAAP statements (the rules) are written by:
   A) GAO
   B) SEC
   C) AICPA
   D) FASB

Use the following to answer questions 2-3:

Benny's Repair Shop started the year with total assets of $100,000 and total liabilities of $80,000. During the year the business recorded $210,000 in revenues, $110,000 in expenses, and dividends of $20,000.

2. Stockholders' equity at the end of the year was
   A) $90,000.
   B) $120,000.
   C) $100,000.
   D) $80,000.

3. The net income reported by Benny's Repair Shop for the year was
   A) $60,000.
   B) $190,000.
   C) $100,000.
   D) $80,000.

4. A balance sheet shows
   A) assets, liabilities, and stockholders' equity.
   B) revenues, expenses, and dividends.
   C) revenues, liabilities, and stockholders' equity.
   D) expenses, dividends, and stockholders' equity.
5. In a study session, a classmate makes this statement “Dividends are listed as expenses on the income statement.” What is your best response to this statement?
A) Dividends are deducted from retained earnings on the balance sheet.
B) Dividends represent a portion of corporate profits that are paid to the shareholders. They belong on the retained earnings statement.
C) I’ve been struggling with that concept and I feel that dividends should be shown on the balance sheet as assets.
D) You are right. Revenues and expenses are shown on the income statement. Dividends are a cost of generating revenues and that makes them an expense. Why else would a corporation pay dividends?

6. Which of the following tends to indicate the employment of financial leverage:
A) Invest $10 into a deal, the deal makes a 20% return and you make a $5 profit.
B) Invest $10 into a deal, the deal makes a 20% return and you make a $1 profit.
C) Invest $10 and lose it all.
D) Invest $10 into a deal, the deal makes a 20% return and you make a $2 profit.

7. Dexter Company began the year by issuing $20,000 of common stock for cash. The company recorded revenues of $185,000, expenses of $160,000, and paid dividends of $10,000. What was Dexter's net income for the year?
A) $35,000
B) $45,000
C) $15,000
D) $25,000

8. The liability created by a business when it purchases coffee beans and coffee cups on credit from suppliers is termed a(n)
A) expense.
B) account payable.
C) account receivable.
D) revenue.

9. Leverage means:
A) You should not ever pay for something until you are satisfied with the result or are otherwise compelled to.
B) In the sometimes harsh world, it is better to maintain leverage than have a huge legal document which is costly to enforce.
C) You can accomplish more with the same amount of force
D) All of these
10. External "auditors":
   A) Look for fraud
   B) Assume responsibility for the financial statements
   C) Provide an opinion upon the fairness and material accuracy of the financial statements in accordance with GAAP.
   D) Provide an opinion on the existence of fraud at a company

11. Benson Company began the year with retained earnings of $175,000. During the year, the company recorded revenues of $250,000, expenses of $190,000, and paid dividends of $20,000. What was Benson's retained earnings at the end of the year?
   A) $215,000
   B) $405,000
   C) $235,000
   D) $255,000

12. GAAP rules are not always agreed upon by all, but they do provide
   A)
   B)
   C)
   D)

13. Which of the following clarifies information presented in the financial statements, as well as expanding upon it where additional detail is needed?
   A) President's state of the company report
   B) Auditor's report
   C) Management discussion and analysis section
   D) Notes to the financial statements

14. I tell where a company stands at a point in time, Im also known as a statement of financial position, and I reflect cumulative totals. I am a:
   A) Income statement
   B) Balance sheet
   C) Statement of retained earnings
   D) Set of financial statements

15. The right to receive money in the future is called a(n)
   A) liability.
   B) revenue.
   C) account receivable.
   D) account payable.
16. Investors and lenders are quite interested in the future cash flows of a business. Therefore they:
   A) Seek ways to accomplish insider trading.
   B) Look to historical statements, and combine this with other information available to make informed decisions.
   C) Look only to historical financial statements.
   D) Consult 976-psychic

17. The group of users of accounting information charged with achieving the goals of the business is its
   A) investors.
   B) creditors.
   C) auditors.
   D) managers.

18. Which of the following statements is not true:
   A) Only public companies must comply with GAAP.
   B) Non-public companies may have to comply with GAAP if they obligate themselves to do so.
   C) RAFL, Inc. does not comply with GAAP.
   D) All public companies must comply with GAAP.

19. Dividends paid
   A) decrease revenues.
   B) decrease retained earnings.
   C) increase expenses.
   D) increase assets.

20. Which item below best describes the accountant's responsibility:
   A) The users are responsible for their own decisions, the accountant should be unbiased and simply present the information in accordance with GAAP.
   B) The accountant should consider the fact that markets are finicky and therefore should adjust the accounting to prevent over-reactions.
   C) The integrity of an accountant is as important as anything else they do.
   D) A & C are both accurate.
21. Internal audit serves to:
   A) Provide oversight, helping to assure that internal policies and procedures of a company are adhered to.
   B) Just knowing they are there and will be checking has a "policing" effect which helps alleviate improper behaviour.
   C) Provide an opinion on the financial statements
   D) A&B are accurate

22. Net income will result during a time period when:
   A) revenues exceed expenses.
   B) assets exceed liabilities.
   C) assets exceed revenues.
   D) expenses exceed revenues.

23. A thing that really sucks about corporations is:
   A) Corporate veil
   B) Traffic
   C) Dual taxation
   D) Diverse influences

24. Borrowing money is an example of a(n)
   A) investing activity.
   B) operating activity.
   C) financing activity.
   D) delivering activity.

25. A business organized as a separate legal entity is a
   A) government unit.
   B) partnership.
   C) proprietor.
   D) corporation.

26. Retained earnings at the end of the period is equal to
   A) retained earnings at the beginning of the period plus net income minus dividends.
   B) net income.
   C) assets plus liabilities.
   D) retained earnings at the beginning of the period plus net income minus liabilities.
27. Current assets and current liabilities will be satisfied within:
   A) The operating cycle
   B) One year or the operating cycle, whichever is shorter
   C) One year
   D) One year or the operating cycle, whichever is longer

28. L2 Corporation has assets of $2.7 million, common stock of $702,000, and retained earnings of $428,000. What are the creditors' claims on their assets?
   A) $2,974,000
   B) $1,570,000
   C) $2,426,000
   D) $1,130,000

Use the following to answer questions 29-30:

Benton Office Supplies
Balance Sheet
December 31, 2007

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 65,000</td>
<td>Accounts Payable</td>
<td>$ 70,000</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>30,000</td>
<td>Salaries Payable</td>
<td>10,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>50,000</td>
<td>Mortgage Payable</td>
<td>90,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>70,000</td>
<td>Total Liabilities</td>
<td>$160,000</td>
</tr>
<tr>
<td>Land held for investment</td>
<td>75,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>90,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td>$100,000</td>
<td>Common Stock</td>
<td>$120,000</td>
</tr>
<tr>
<td>Less Accumulated</td>
<td></td>
<td>Retained Earnings</td>
<td>250,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(20,000)</td>
<td>Total stockholders' equity</td>
<td>$370,000</td>
</tr>
<tr>
<td>Trademark</td>
<td>70,000</td>
<td>Total Liabilities and Stockholders' Equity</td>
<td>$530,000</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$530,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

29. The total amount of working capital is
   A) $295,000.
   B) $60,000.
   C) $135,000.
   D) $75,000.
30. The current ratio is
   A) 2.69 : 1.
   B) 1.94 : 1.
   C) 1.57 : 1.
   D) 3.14 : 1.

31. An intangible asset
   A) cannot be classified on the balance sheet because it lacks physical substance.
   B) derives its value from the rights and privileges it provides the owner.
   C) is worthless because it has no physical substance.
   D) is converted into a tangible asset during the operating cycle.

32. Which of the following is **not** classified properly as a current asset?
   A) A receivable from the sale of an asset to be collected in two years
   B) Supplies
   C) Marketable securities
   D) A fund to be used to purchase a building within the next year

33. We sell goods to customers and record revenue even though the cash has not been received. This is an example of where revenue has been _____ when the cash payment has not yet been_____.
   A) given and taken, respectively
   B) recognized and realized, respectively
   C) adjusted and collected, respectively
   D) realized and recognized, respectively

34. If a company collects $100 from an open account receivable, the impact to net income should be:
   A) No impact
   B) Increase $100
   C) Decrease $100
   D) Increase for an amount less than $100

35. List the five basic components of a complete set of financial statements.
   1.
   2.
   3.
   4.
   5.
36. Please illustrate what equity is by using the "accounting equation"

________________________. Now please state what this means (very briefly)

_______________________________________________________________________
_______________________________________________________________________
__________________________________

37. GAAP rules may be harsh, or even not make sense to everyone all the time, but even if we can not all agree upon what rule is best, GAAP does provide ________________ among all companies and across all periods.

38. Accounting is the process of ______________, ________________, and ________________ economic information to various users.
Answer Key

1. D
2. C
3. C
4. A
5. B
6. A
7. D
8. B
9. D
10. C
11. A
12. *(No Answer Provided)*
13. D
14. B
15. C
16. B
17. D
18. A
19. B
20. D
21. D
22. A
23. C
24. C
25. D
26. A
27. D
28. B
29. C
30. A
31. B
32. A
33. B
34. A
35. Balance sheet, income statement, statement of ret. earn (or equity), statement of cash flows, notes/ disclosures
36. E=A-L

   Equity is a "residual interest", meaning that it is what is left of the assets after paying the liabilities. Also referred to as the owners claim upon the assets.

37. Consistency or comparability
38. identifying, measuring and communicating