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

Here is our trial balance at 1/1/2007:

<table>
<thead>
<tr>
<th>Account Title</th>
<th>DR</th>
<th>(CR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(11,000)</td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td>(55,000)</td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>(11,000)</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>(500)</td>
<td></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 above matures at $1,000/month.
2. Purchased $50,000 of inventory, on credit
3. Sold goods for $70,000 on credit which cost $25,000
4. Made one $1,000 payment of principle on the debt.
5. Made one $600 payment for interest on the debt.
6. Collected $45,000 of accounts receivable from customers.
7. Paid $48,000 for payables to vendors.
8. On the last day of the month, paid $24,000 for consulting services ALREADY COMPLETED.
9. Paid $12,000 for payroll.
10. Paid $2,000 for advertising to be provided in 3 months.
11. Paid February rent of $1,000 in advance.

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.

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 TITLES
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)</td>
<td>NO ENTRY</td>
<td></td>
</tr>
<tr>
<td>(2)</td>
<td>Inventory</td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td>Accounts payable</td>
<td></td>
</tr>
<tr>
<td>(3)</td>
<td>Accounts receivable</td>
<td>70,000</td>
</tr>
<tr>
<td></td>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td>(3a)</td>
<td>COGS</td>
<td>25,000</td>
</tr>
<tr>
<td></td>
<td>Inventory</td>
<td></td>
</tr>
<tr>
<td>(4)</td>
<td>Debt</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>(5)</td>
<td>Interest expense</td>
<td>600</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>(6)</td>
<td>Cash</td>
<td>45,000</td>
</tr>
<tr>
<td></td>
<td>Accounts receivable</td>
<td></td>
</tr>
<tr>
<td>(7)</td>
<td>Accounts payable</td>
<td>48,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>(8)</td>
<td>Consultant expenses</td>
<td>24,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>(9)</td>
<td>Salaries expense</td>
<td>12,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>(10)</td>
<td>Prepaid expenses</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>(11)</td>
<td>Prepaid expenses</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>Cash</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>50,000</td>
<td>12,000</td>
<td>5,000</td>
</tr>
<tr>
<td>1,000</td>
<td>70,000</td>
<td>50,000</td>
</tr>
<tr>
<td>600</td>
<td>45,000</td>
<td>25,000</td>
</tr>
<tr>
<td>48,000</td>
<td>45,000</td>
<td></td>
</tr>
<tr>
<td>24,000</td>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td>12,000</td>
<td>11,000</td>
<td></td>
</tr>
<tr>
<td>2,000</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>1,000</td>
<td>1,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accounts payable</th>
<th>Debt</th>
<th>Common Stock</th>
<th>Retained Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>11,000</td>
<td>1,000</td>
<td>11,000</td>
<td>500</td>
</tr>
<tr>
<td>50,000</td>
<td>55,000</td>
<td>8,400</td>
<td>8,900</td>
</tr>
<tr>
<td>48,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenues</th>
<th>COGS</th>
<th>Interest exp.</th>
<th>Salaries expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>70,000</td>
<td>25,000</td>
<td>600</td>
<td>12,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>12,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rent Expense</th>
<th>Advertising Exp.</th>
<th>Consult. Exp.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-</td>
<td>24,000</td>
</tr>
</tbody>
</table>

NET INCOME 8,400
### Our Company

**Balance Sheet**
**As of January 31, 2007**

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>6,400</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>37,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>30,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>3,500</td>
</tr>
<tr>
<td><strong>Total Current assets</strong></td>
<td>76,900</td>
</tr>
<tr>
<td><strong>Fixed assets</strong></td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>86,900</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities &amp; Equity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Current portion of notes payable</td>
<td>12,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>13,000</td>
</tr>
<tr>
<td>Accrued payroll</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>25,000</td>
</tr>
<tr>
<td>Notes payable, exc. Curr. Portion</td>
<td>42,000</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>11,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>8,900</td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Equity</strong></td>
<td>86,900</td>
</tr>
</tbody>
</table>

### Income Statement
**For the month ended January 31, 2007**

| Sales                                      | 70,000|
| COGS                                       | 25,000|
| **Gross Profit**                           | 45,000|
| Interest expense                           | 600   |
| Salaries expense                           | 12,000|
| Rent expense                               | -     |
| Consulting expense                         | 24,000|
| **Operating expenses**                     | 36,600|
| **Net income**                             | 8,400 |

INCOME STATEMENT NOT REQUIRED
Summer session A, 2008
EXAM #1

Name: __________________________                              PERM #: _____________

Complete multiple choice questions #1-25 on your green scantron please. Answer the problem in the space provided please.

VERSION #1—WRITE THIS VERSION NUMBER ON YOUR SCANTRON PLEASE!!

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

2. Which of the following is an asset?
   A) Prepaid rent   B) Service revenue   C) Notes payable   D) Supplies expense

3. Which of the following errors, each considered individually, would cause the trial balance to be out of balance?
   A) A transaction was not posted.
   B) A payment of $59 for supplies was posted as a debit of $95 to supplies and a credit of $95 to cash.
   C) A payment of $148 to a creditor was posted as a debit to accounts payable and a debit of $148 to cash.
   D) Cash received from a customer on account was posted as a debit of $350 to cash and as a credit of $350 to accounts payable.

4. Office equipment is classified on the balance sheet as
   A) an intangible asset.                  C) a long-term investment.
   B) a current asset.                     D) property, plant, and equipment.

5. The unearned revenue account is classified as a(n)
   A) liability.   B) asset.   C) revenue.   D) expense.

6. Current assets and current liabilities will be satisfied within:
   A) One year or the operating cycle, whichever is shorter
   B) One year or the operating cycle, whichever is longer
   C) One year
   D) The operating cycle
7. Every transaction in the history of a company is reflected in the ending balance of the accounts on which statement?
A) Balance sheet
B) Statement of cash flows
C) Statement of independence from taxation without representation
D) Income statement

8. We use a historical cost basis of accounting under GAAP. Which of the following is not a reason supporting this?
A) Conservatism  B) Usefulness  C) Comparability  D) Consistency

9. Which statement is true with respect to compliance with GAAP.
A) A company need only comply with GAAP if they are a public company governed by the SEC
B) All companies incorporated in the United States of America must comply with GAAP
C) No company must comply with GAAP
D) A company must comply with GAAP only if they are required to by a user of their financial statements, such as public companies

10. If management is responsible to the Board of Directors, to whom is the Board of Directors accountable to, and what mechanism enables this accountability?
A) The SEC through sanctions
B) The FASB through rules enforcement
C) The shareholders, through shareholder voting.
D) "C" Level management through Board of Director voting

11. Some critics of GAAP financial statements prepared on the accrual basis of accounting assert that net income is "paper income". What GAAP concept negates the merit of this claim?
A) Statement of Retained Earnings  C) Statement of cash flows
B) Accrual basis of accounting  D) Balance sheet

12. When a company has performed a service but has not yet received payment, it
A) debits revenue from services and credits accounts receivable.
B) makes no entry until the cash is received.
C) debits accounts receivable and credits revenue from services.
D) debits revenue from services and credits accounts payable.

13. During 2007, its first year of operations, Fran's Bakery had revenues of $40,000 and expenses of $22,000. The business paid cash dividends of $12,000. What is the balance in Retained Earnings at December 31, 2007?
A) $18,000 credit.  B) $6,000 credit.  C) $0.  D) $12,000 debit.

14. What body is primarily responsible for the statements which comprise GAAP?
A) SEC  B) PCAOB  C) FASB  D) AICPA
15. Which of the following is not considered an asset?
   A) Accounts receivable  B) Inventory  C) Dividends  D) Equipment

16. Which of the following statements is not true
   A) Accounting reports activity which has already taken place.
   B) Accounting is process which provides information useful for various decision makers.
   C) Accounting reports activity which will take place.
   D) Accounting provides users with a mechanism for developing expectations about a company.

17. With respect to revenue recognition, which factor below is most relevant to determining when a revenue should be reported:
   A) Earning  B) Billing  C) Write-off  D) Collection

18. A current asset is
   A) usually found as a separate classification in the income statement.
   B) the last asset purchased by a business.
   C) expected to be converted to cash or used in the business within a relatively short period of time.
   D) an asset which is currently being used to produce a product or service.

19. Which of the following would not be classified as a long-term liability?
   A) Lease liabilities  C) Current maturities of long-term debt
   B) Mortgage payable  D) Bonds payable

20. During January 2007, Handy Services Inc. paid a cash dividends of $2,000. This transaction
   A) increases stockholders' equity by $2,000.  C) reduces stockholders' equity by $2,000.
   B) increases expenses by $2,000.  D) reduces net income by $2,000.

21. Liabilities are generally classified on a balance sheet as
   A) present liabilities and future liabilities.
   B) current liabilities and long-term liabilities.
   C) small liabilities and large liabilities.
   D) tangible liabilities and intangible liabilities.

22. If the sum of the debit column equals the sum of the credit column in a trial balance, it indicates
   A) the mathematical equality of the accounting equation.
   B) no errors have been made.
   C) no errors can be discovered.
   D) that all accounts reflect correct balances.

23. M3 Corporation has assets of $1.35 million, common stock of $351,000, and retained earnings of $214,000. What are the creditors' claims on their assets?
   A) $ 785,000  B) $1,487,000  C) $ 565,000  D) $1,213,000
24. A trial balance
   A) will not balance if a correct journal entry is posted twice.
   B) proves the factual accuracy of journalized transactions.
   C) is a list of accounts with their balances at a given point in time.
   D) will tell you if a transaction is not posted at all.

25. A list of accounts and their balances at a given time is called a(n)
Answer Key

1. B
2. A
3. C
4. D
5. A
6. B
7. A
8. B
9. D
10. C
11. C
12. C
13. B
14. C
15. C
16. C
17. A
18. C
19. C
20. C
21. B
22. A
23. A
24. C
25. D
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   A) $12,000 debit.  B) $18,000 credit.  C) $0.  D) $6,000 credit.

2. Which of the following would not be classified as a long-term liability?
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   B) Lease liabilities  
   C) Current maturities of long-term debt  
   D) Mortgage payable

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   C) liability.  
   D) asset.

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   B) reduces stockholders' equity by $2,000. D) reduces net income by $2,000.
Answer Key

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