Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question. ANSWER ON YOUR GREEN SCANTRON.

1. Which of the following is **not** an external user of financial information?
   a. Company management
   b. The Internal Revenue Service
   c. Stockholders
   d. Creditors

2. An organization that provides a loan to a business entity and expects repayment of the funds is referred to as a(n):
   a. partner.
   b. stockholder.
   c. owner.
   d. creditor.

3. Which of the following is not one of the three activities included in the definition of accounting?
   a. Communicating
   b. Operating
   c. Identifying
   d. Measuring

4. Which of the following financial statements reports an entity's financial position as of a specific date?
   a. Balance sheet
   b. Income statement
   c. Statement of Retained Earnings
   d. All of the financial statements

5. Which of the following is a correct expression of one of the three basic financial statement models?
   a. Assets - Liabilities = Net income
   b. Assets - Liabilities = Owners' equity
   c. Revenues + Expenses = Net income
   d. Beginning retained earnings + Net income + Dividends = Ending retained earnings

6. Which of the following statements is **true**?
   a. Profits distributed to the owners are called dividends.
   b. The income statement shows the assets, liabilities, and profits of a company.
   c. Dividends are an expense and are reported on the income statement as a deduction from net income.
   d. The income statement reports the cash deposits and cash withdrawals.
7. If a company has assets of $350,000, liabilities of $130,000, and retained earnings of $180,000, investments by the owners must be
   a. $220,000.
   b. $295,000.
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   d. $40,000.

8. Which of the following is the reason the dollar is used in the preparation of financial statements?
   a. Monetary unit
   b. Going concern
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9. Which of the following statements is true concerning assets?
   a. Assets are recorded at cost and adjusted for inflation.
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10. Carson Associates purchased land for $1,200,000 in 1982. In 2004, the land was appraised at $1,795,000. The land would appear on the company's books in 2004 at
    a. $595,000.
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11. The qualitative characteristics of accounting information do not include
    a. relevance.
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12. The quality of accounting information which allows comparisons to be made between two different companies is
    a. consistency.
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    a. would possibly affect the judgment of someone relying on the financial statements.
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   b. April 3 to May 4.
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16. Working capital is defined as
   a. total assets minus total liabilities.
   b. total assets minus current liabilities.
   c. current assets minus total liabilities.
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17. Botkin Electric has increased its dollar amount of working capital over the past several years. To further evaluate the company's short-term liquidity, which one of the following measures should be used?
   a. Current ratio
   b. Analysis of the company's long-term debt
   c. Analysis of the return on stockholders' equity
   d. Analysis of the retained earnings

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   a. assets.
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19. Which of the following categories on a statement of cash flows is used to report the cash flow effects of buying and selling long-term assets?
   a. Operating activities
   b. Investing activities
   c. Financing activities
   d. Both financing and investing activities

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26. During May, Lewis, Inc. purchased office supplies for cash. The supplies will be used in June. What effect does this
    transaction have on the accounting equation?
  a. Assets increase and owners' equity decreases
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27. One effect on the accounting equation of borrowing money is
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28. A form of entity ownership which suffers from dual-taxation is:
   a. Partnership
   b. Corporation
   c. Joint-Venture
   d. I have no idea (not recommended)

29. The activities of a business enterprise are separated into three categories. These three categories are listed as the
    three components of the statement of cash flows. They include all but:
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   c. Accruing
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8. Press release
9. Statement of stockholders equity (or retained earnings)

Using the numbers above, which answer below lists the items required to be included in financial statements prepared in accordance with GAAP?

a. All items listed  
   c. 1,3,4 & 9
b. 2,3,5,7 & 9  
   d. All items listed, except 8
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</th>
<th>DR/ (CR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>65,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>4,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>200</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>10,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Accrued payroll</td>
<td>-</td>
</tr>
<tr>
<td>Debt</td>
<td>(55,000)</td>
</tr>
<tr>
<td>Common stock</td>
<td>(3,000)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>(20,200)</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 $75,000 of inventory, on credit
3. Sold goods for $50,000 on credit which cost $30,000
4. Made one $1,000 payment on the debt.
5. Made one $300 payment for interest on the debt.
6. Collected $45,000 from customers
7. Paid $60,000 to vendors.
8. On the last day of the month, paid $24,000 for consulting services to be provided next month.
9. Paid $10,000 for payroll.
10. Noticed that there was $2,000 of payroll for the last couple days of the month which has not been paid yet, but for which we have received the benefit from our employees.
11. Paid $2,000 for advertising provided this month.
12. Paid Rent of $5,000 at the end of the month after the benefit has been received.

Based on all of the above:

i. For each number (1-12) 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 titles:

- Revenues
- Salaries expense
- Advertising expense
- Cost of Goods Sold (or COGS)
- Interest expense
- Consultant expenses
- Rent expense
s07_3a_1
Answer Section

MULTIPLE CHOICE

1. A
2. D
3. B
4. A
5. B
6. A
7. D
8. A
9. D
10. D
11. D
12. C
13. C
14. A
15. A
16. D
17. A
18. B
19. B
20. C
21. C
22. A
23. D
24. B
25. A
26. B
27. D
28. B
29. C
30. B
<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</td>
<td>75,000</td>
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</tr>
<tr>
<td></td>
<td>Accounts payable</td>
<td>75,000</td>
</tr>
<tr>
<td>(3) Accounts receivable</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sales</td>
<td>50,000</td>
</tr>
<tr>
<td>(3a) COGS</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Inventory</td>
<td>30,000</td>
</tr>
<tr>
<td>(4) Debt</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>1,000</td>
</tr>
<tr>
<td>(5) Interest expense</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>300</td>
</tr>
<tr>
<td>(6) Cash</td>
<td>45,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accounts receivable</td>
<td>45,000</td>
</tr>
<tr>
<td>(7) Accounts payable</td>
<td>60,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>60,000</td>
</tr>
<tr>
<td>(8) Prepaid expenses</td>
<td>24,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>24,000</td>
</tr>
<tr>
<td>(9) Salaries expense</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>10,000</td>
</tr>
<tr>
<td>(10) Salaries expense</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accrued payroll</td>
<td>2,000</td>
</tr>
<tr>
<td>(11) Advertising expense</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>2,000</td>
</tr>
<tr>
<td>(12) Rent expense</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>Accounts Receiv.</td>
</tr>
<tr>
<td>------------------</td>
<td>-------</td>
<td>------------------</td>
</tr>
<tr>
<td>65,000</td>
<td>1,000</td>
<td>50,000</td>
</tr>
<tr>
<td>45,000</td>
<td>300</td>
<td>45,000</td>
</tr>
<tr>
<td>60,000</td>
<td>24,000</td>
<td>10,000</td>
</tr>
<tr>
<td>2,000</td>
<td>5,000</td>
<td>2,000</td>
</tr>
<tr>
<td>7,700</td>
<td>6,000</td>
<td>49,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>2,000</td>
<td>-</td>
</tr>
<tr>
<td>60,000</td>
<td>75,000</td>
<td>2,000</td>
</tr>
</tbody>
</table>

**Sales**
- 50,000
- 30,000
- 300
- 10,000
- 2,000

**Rent Expense**
- 5,000
- 2,000
- 2,000
<table>
<thead>
<tr>
<th><strong>Assets</strong></th>
<th><strong>Current assets</strong></th>
<th><strong>Fixed assets</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>7,700</td>
<td>10,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>49,000</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>24,200</td>
<td></td>
</tr>
<tr>
<td><strong>Total Current assets</strong></td>
<td><strong>86,900</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>96,900</strong></td>
<td><strong>42,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Liabilities &amp; Equity</strong></th>
<th><strong>Current liabilities</strong></th>
<th><strong>Notes payable, exc. Curr. Portion</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>17,000</td>
<td>42,000</td>
</tr>
<tr>
<td>Accrued payroll</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Current portion of notes payable</td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>31,000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>20,900</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Equity</strong></td>
<td><strong>96,900</strong></td>
<td></td>
</tr>
</tbody>
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**Income Statement**

For the month ended January 31, 2007

<table>
<thead>
<tr>
<th><strong>Sales</strong></th>
<th><strong>50,000</strong></th>
<th><strong>COGS</strong></th>
<th><strong>30,000</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Profit</strong></td>
<td><strong>20,000</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td></td>
<td><strong>300</strong></td>
<td></td>
</tr>
<tr>
<td>Salaries expense</td>
<td></td>
<td><strong>12,000</strong></td>
<td></td>
</tr>
<tr>
<td>Rent expense</td>
<td></td>
<td><strong>5,000</strong></td>
<td></td>
</tr>
<tr>
<td>Advertising expense</td>
<td></td>
<td><strong>2,000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td><strong>19,300</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td></td>
<td></td>
<td><strong>700</strong></td>
</tr>
</tbody>
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</tr>
<tr>
<td>Prepaid expenses</td>
</tr>
<tr>
<td>Fixed assets</td>
</tr>
<tr>
<td>Accounts payable</td>
</tr>
<tr>
<td>Accrued payroll</td>
</tr>
<tr>
<td>Debt</td>
</tr>
<tr>
<td>Common stock</td>
</tr>
<tr>
<td>Retained earnings</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 $75,000 of inventory, on credit
(3) Sold goods for $50,000 on credit which cost $30,000
(4) Made one $1,000 payment on the debt.
(5) Made one $300 payment for interest on the debt.
(6) Collected $45,000 from customers
(7) Paid $60,000 to vendors.
(8) On the last day of the month, paid $24,000 for consulting services to be provided next month.
(9) Paid $10,000 for payroll.
(10) Noticed that there was $2,000 of payroll for the last couple days of the month which has not been paid yet, but for which we have received the benefit from our employees.
(11) Paid $2,000 for advertising provided this month.
(12) Paid Rent of $5,000 at the end of the month after the benefit has been received.

BASED ON ALL OF THE ABOVE

i. FOR EACH NUMBER (1-12) ABOVE, RECORD THE JOURNAL ENTY 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 TITLES

Revenues
Salaries expense
Advertising expense
Cost of Goods Sold (or COGS)
Interest expense
Consultant expenses
Rent expense
MULTIPLE CHOICE

1. D
2. B
3. D
4. A
5. C
6. A
7. B
8. B
9. A
10. A
11. C
12. B
13. B
14. C
15. D
16. D
17. D
18. A
19. C
20. C
21. D
22. A
23. D
24. A
25. C
26. C
27. A
28. A
29. B
30. A
<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</td>
<td>75,000</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
<td>75,000</td>
</tr>
<tr>
<td>(3) Accounts receivable</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>(3a) COGS</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td>30,000</td>
</tr>
<tr>
<td>(4) Debt</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>(5) Interest expense</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>300</td>
</tr>
<tr>
<td>(6) Cash</td>
<td>45,000</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
<td>45,000</td>
</tr>
<tr>
<td>(7) Accounts payable</td>
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<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>60,000</td>
</tr>
<tr>
<td>(8) Prepaid expenses</td>
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</tr>
<tr>
<td>Cash</td>
<td></td>
<td>24,000</td>
</tr>
<tr>
<td>(9) Salaries expense</td>
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</tr>
<tr>
<td>Cash</td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>(10) Salaries expense</td>
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<td></td>
</tr>
<tr>
<td>Accrued payroll</td>
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</tr>
<tr>
<td>(11) Advertising expense</td>
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<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>(12) Rent expense</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>5,000</td>
</tr>
<tr>
<td>Cash</td>
<td>Accounts Receiv.</td>
<td>Inventory</td>
</tr>
<tr>
<td>------</td>
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<td>-----------</td>
</tr>
<tr>
<td>65,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>45,000</td>
<td>50,000</td>
<td>75,000</td>
</tr>
<tr>
<td>60,000</td>
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<td>10,000</td>
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<tr>
<td>300</td>
<td>45,000</td>
<td>30,000</td>
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<tr>
<td>5,000</td>
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<td>5,000</td>
</tr>
<tr>
<td>2,000</td>
<td>1,000</td>
<td>54,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>Accrued Payroll</td>
<td>Debt</td>
</tr>
<tr>
<td>7,700</td>
<td>6,000</td>
<td>49,000</td>
</tr>
<tr>
<td>2,000</td>
<td>5,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Sales</td>
<td>COGS</td>
<td>Interest exp.</td>
</tr>
<tr>
<td>50,000</td>
<td>30,000</td>
<td>300</td>
</tr>
<tr>
<td>50,000</td>
<td>30,000</td>
<td>300</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>Advertising Exp.</td>
<td></td>
</tr>
<tr>
<td>5,000</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>5,000</td>
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<td></td>
</tr>
<tr>
<td>Our Company</td>
<td>Our Company</td>
<td></td>
</tr>
<tr>
<td>-------------</td>
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<td></td>
</tr>
<tr>
<td>Balance Sheet</td>
<td>Income Statement</td>
<td></td>
</tr>
<tr>
<td>As of January 31, 2007</td>
<td>For the month ended January 31, 2007</td>
<td></td>
</tr>
</tbody>
</table>

### Assets
- **Current assets**
  - Cash: 7,700
  - Accounts receivable: 6,000
  - Inventory: 49,000
  - Prepaid expenses: 24,200
  - **Total Current assets**: 86,900

- **Fixed assets**: 10,000

- **Total Assets**: 96,900

### Liabilities & Equity
- **Current liabilities**
  - Accounts payable: 17,000
  - Accrued payroll: 2,000
  - Current portion of notes payable: 12,000
  - **Total current liabilities**: 31,000

- **Notes payable, exc. Curr. Portion**: 42,000

- **Equity**
  - Common stock: 3,000
  - Retained earnings: 20,900

- **Total Liabilities & Equity**: 96,900

### Income Statement
- **Sales**: 50,000
- **COGS**: 30,000
- **Gross Profit**: 20,000
- **Interest expense**: 300
- **Salaries expense**: 12,000
- **Rent expense**: 5,000
- **Advertising expense**: 2,000
- **Operating expenses**: 19,300
- **Net income**: 700