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

Here is our trial balance at 1/1/2008:

<table>
<thead>
<tr>
<th>DR/ (CR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
</tr>
<tr>
<td>Accounts receivable</td>
</tr>
<tr>
<td>Inventory</td>
</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 $200/month.
(2) Purchased $50,000 of inventory, on credit
(3) Sold goods for $70,000 on credit which cost $30,000
(4) Made a $500 payment on the debt ($300 for interest and $200 for principle)
(5) Purchased inventory for $10,000 cash (not on account).
(6) Collected $42,000 from customers.
(7) Paid $52,000 to vendors against outstanding payables.
(8) On the last day of the month, paid $24,000 for consulting services NOT YET PERFORMED.
(9) Paid $12,000 for payroll.
(10) Noticed that there was $1,000 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 already completed.

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 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) NO ENTRY</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Inventory</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>(3) Accounts receivable</td>
<td>70,000</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td>70,000</td>
</tr>
<tr>
<td>(3a) COGS</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>(4) Debt</td>
<td>200</td>
<td>500</td>
</tr>
<tr>
<td>Interest expense</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Inventory</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Cash</td>
<td>42,000</td>
<td>42,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>42,000</td>
<td></td>
</tr>
<tr>
<td>(7) Accounts payable</td>
<td>52,000</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>52,000</td>
<td></td>
</tr>
<tr>
<td>(8) Prepaid expenses</td>
<td>24,000</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>24,000</td>
<td></td>
</tr>
<tr>
<td>(9) Salaries expense</td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>(10) Salaries expense</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Accrued payroll</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(11) Advertising expenses</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Cash</td>
<td>2,000</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>70,000</td>
<td>25,000</td>
<td>18,000</td>
</tr>
<tr>
<td>42,000</td>
<td>70,000</td>
<td>50,000</td>
</tr>
<tr>
<td>10,000</td>
<td>10,000</td>
<td>18,000</td>
</tr>
<tr>
<td>2,000</td>
<td>10,000</td>
<td>30,000</td>
</tr>
<tr>
<td>11,500</td>
<td>53,000</td>
<td>48,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>22,000</td>
<td>-</td>
</tr>
<tr>
<td>50,000</td>
<td>1,000</td>
<td>200</td>
</tr>
<tr>
<td>52,000</td>
<td>20,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Sales</td>
<td>COGS</td>
<td>Interest exp.</td>
</tr>
<tr>
<td>70,000</td>
<td>30,000</td>
<td>300</td>
</tr>
<tr>
<td>70,000</td>
<td>30,000</td>
<td>300</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>Advertising Exp.</td>
<td>Consult. Exp.</td>
</tr>
<tr>
<td>-</td>
<td>2,000</td>
<td>-</td>
</tr>
</tbody>
</table>
### Econ 3a, Inc.
#### Balance Sheet
As of January 31, 2008

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>11,500</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>53,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>48,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>24,400</td>
</tr>
<tr>
<td><strong>Total Current assets</strong></td>
<td><strong>136,900</strong></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>146,900</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities &amp; Equity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
<td></td>
</tr>
<tr>
<td>Current portion of notes payable</td>
<td>2,400</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>20,000</td>
</tr>
<tr>
<td>Accrued payroll</td>
<td>1,000</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>23,400</strong></td>
</tr>
<tr>
<td>Notes payable, exc. Curr. Portion</td>
<td>52,400</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>3,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>68,100</td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Equity</strong></td>
<td><strong>146,900</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Sales</th>
<th>70,000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COGS</strong></td>
<td>30,000</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td><strong>40,000</strong></td>
</tr>
<tr>
<td>Interest expense</td>
<td>300</td>
</tr>
<tr>
<td>Salaries expense</td>
<td>13,000</td>
</tr>
<tr>
<td>Advertising expense</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td><strong>15,300</strong></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td><strong>24,700</strong></td>
</tr>
</tbody>
</table>
Complete questions 1-30 (multiple choice) on green scantron. There is one problem, #31, should be completed in the space provided. There is are two pages attached for your convenience, one with blank t-accounts and one blank for scratch paper; please use them wisely!

1. Which of the following groups uses accounting information to determine whether the company's net income will result in a stock price increase?
   A) Marketing managers  
   B) Creditors  
   C) Chief Financial Officer  
   D) Investors in common stock

2. 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

3. Every transaction in the history of a company is reflected in the ending balance of the accounts on which statement?
   A) Statement of independence from taxation without representation  
   B) Statement of cash flows  
   C) Income statement  
   D) Balance sheet

4. Which financial statement is used to determine cash generated from operations?
   A) retained earnings statement  
   B) statement of cash flows  
   C) income statement  
   D) statement of operations

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

6. A list of accounts and their balances at a given time is called a(n)
   A) trial balance.  
   B) journal.  
   C) income statement.  
   D) posting.
7. At December 31, 2007 Long Company had retained earnings of $1,092,000. During 2007 they issued stock for $49,000, and paid dividends of $17,000. Net income for 2007 was $201,000. The retained earnings balance at the beginning of 2007 was:
A) $908,000  B) $957,000  C) $1,227,000  D) $1,276,000

8. The sum of the debit account balances equals the sum of the credit account balances in the trial balance. This indicates that
A) it is time to prepare the financial statements.
B) the ledger accounts are error free.
C) all transactions of the accounting period have been posted.
D) the ledger accounts are in balance.

9. The going concern assumption is inappropriate when
A) the business is organized as a proprietorship.
B) market values are higher than costs.
C) the business is just starting up.
D) liquidation appears likely.

10. An item is considered material if
A) it is of a tangible good.
B) the cost of reporting the item is greater than its benefits.
C) it doesn't costs a lot of money.
D) it is likely to influence the decision of an investor or creditor.

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

12. The usual ordering of accounts in the general ledger is
A) assets, liabilities, stockholders' equity, expenses, and revenues.
B) liabilities, assets, stockholders' equity, revenues, and expenses.
C) stockholders' equity, assets, liabilities, expenses, and revenues.
D) assets, liabilities, stockholders' equity, revenues, and expenses.
13. 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 cash flows  C) Accrual basis of accounting
   B) Statement of Retained Earnings  D) Balance sheet

14. 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 shareholders, through shareholder voting.
   B) "C" Level management through Board of Director voting
   C) The SEC through sanctions
   D) The FASB through rules enforcement

15. How can a company improve its current ratio?
   A) Use cash to reduce current liabilities
   B) Use excess cash to buy new equipment
   C) Work with a creditor to reclassify some current debt into long-term debt
   D) Nothing can ethically be done to improve the current ratio

16. The usual sequence of steps in the transaction recording process is:
   A) analyze → journalize → post to the ledger.
   B) journalize → post to the ledger → analyze.
   C) post to the ledger → journalize → analyze.
   D) journalize → analyze → post to the ledger.

17. The ACE Company has five plants nationwide that cost $300 million. The current market value of the plants is $500 million. The plants will be reported as assets at
   A) $500 million.  B) $300 million.  C) $200 million.  D) $800 million.

18. At October 1, 2007, Deet Industries had an accounts payable balance of $30,000. During the month, the company made purchases on account of $25,000 and made payments on account of $40,000. At October 31, 2007, the accounts payable balance is
   A) $10,000 credit  B) $40,000 credit  C) $30,000 debit  D) $15,000 credit
19. It was established in class that auditors lend credibility to financial statements. After completion of an audit, who has primary responsibility for the financial statements, and how much assurance does an auditor provide?
   A) Management remains responsible and the auditors provide absolute assurance.
   B) The auditors are primarily responsible and provide positive assurance.
   C) The auditors are primarily responsible but only provide reasonable assurance.
   D) Management remains responsible and the auditors provide reasonable assurance in the form of an opinion.

20. What body is primarily responsible for the statements which comprise GAAP?
   A) SEC    B) PCAOB    C) FASB    D) AICPA

21. 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.

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

23. In 2006 Bombay Corporation had cash receipts of $14,000 and cash disbursements of $8,000. Their ending cash balance at December 31, 2006 was $22,000. What was their beginning cash balance?
   A) $28,000    B) $16,000    C) $20,000    D) $30,000

24. Valuing assets at their market value rather than at their cost is inconsistent with the:
   A) time period assumption. C) cost principle.
   B) full disclosure principle. D) economic entity assumption.

25. The historical cost basis of accounting implies that:
   A) The cost of an asset will be matched to the period the benefit is derived.
   B) Assets measured at historical cost are intended to be used, not sold.
   C) Consistent and verifiable data is provided in a format that requires little to no judgment.
   D) All of these are true.
26. A wave breaks when:
   A) When it can be seen from the shore
   B) The depth of the water it passes over is less than 1/2 the wavelength of the wave
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   D) When it reaches the shore

27. The right side of an account
   A) is the credit side.
   B) is the correct side.
   C) reflects all transactions for the accounting period.
   D) shows all the balances of the accounts in the system.

28. Management could determine the amounts due from customers by examining which ledger account?
   A) Accounts Payable
   B) Accounts Receivable
   C) Supplies
   D) Service Revenue

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

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

1. D
2. B
3. D
4. B
5. B
6. A
7. A
8. D
9. D
10. D
11. C
12. D
13. A
14. A
15. C
16. A
17. B
18. D
19. D
20. C
21. C
22. B
23. B
24. C
25. D
26. B
27. A
28. B
29. C
30. B
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   A) stockholders' equity, assets, liabilities, expenses, and revenues.
   B) assets, liabilities, stockholders' equity, revenues, and expenses.
   C) assets, liabilities, stockholders' equity, expenses, and revenues.
   D) liabilities, assets, stockholders' equity, revenues, and expenses.

24. What body is primarily responsible for the statements which comprise GAAP?
   A) FASB   B) PCAOB   C) AICPA   D) SEC

25. In 2006 Bombay Corporation had cash receipts of $14,000 and cash disbursements of $8,000. Their ending cash balance at December 31, 2006 was $22,000. What was their beginning cash balance?
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   B) time period assumption.  D) cost principle.

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   A) When it reaches the shore
   B) When it loses all of its energy
   C) The depth of the water it passes over is less than 1/2 the wavelength of the wave
   D) When it can be seen from the shore
Answer Key

1. A
2. A
3. B
4. B
5. C
6. C
7. B
8. D
9. A
10. C
11. A
12. D
13. A
14. D
15. B
16. B
17. A
18. A
19. D
20. D
21. D
22. D
23. B
24. A
25. B
26. D
27. B
28. B
29. D
30. C
Complete questions 1-30 (multiple choice) on green scantron. There is one problem, #31, should be completed in the space provided. There is are two pages attached for your convenience, one with blank t-accounts and one blank for scratch paper; please use them wisely!

1. The usual sequence of steps in the transaction recording process is:
   A) journalize → post to the ledger → analyze.
   B) post to the ledger → journalize → analyze.
   C) analyze → journalize → post to the ledger.
   D) journalize → analyze → post to the ledger.

2. Every transaction in the history of a company is reflected in the ending balance of the accounts on which statement?
   A) Statement of independence from taxation without representation
   B) Income statement
   C) Balance sheet
   D) Statement of cash flows

3. At October 1, 2007, Deet Industries had an accounts payable balance of $30,000. During the month, the company made purchases on account of $25,000 and made payments on account of $40,000. At October 31, 2007, the accounts payable balance is
   A) $10,000 credit    B) $40,000 credit    C) $30,000 debit    D) $15,000 credit

4. At December 31, 2007 Long Company had retained earnings of $1,092,000. During 2007 they issued stock for $49,000, and paid dividends of $17,000. Net income for 2007 was $201,000. The retained earnings balance at the beginning of 2007 was:
   A) $1,227,000    B) $957,000    C) $1,276,000    D) $908,000

5. 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
6. The going concern assumption is inappropriate when
   A) liquidation appears likely.
   B) the business is organized as a proprietorship.
   C) the business is just starting up.
   D) market values are higher than costs.

7. The historical cost basis of accounting implies that:
   A) The cost of an asset will be matched to the period the benefit is derived.
   B) Assets measured at historical cost are intended to be used, not sold.
   C) Consistent and verifiable data is provided in a format that requires little to no
      judgment.
   D) All of these are true.

8. It was established in class that auditors lend credibility to financial statements. After
   completion of an audit, who has primary responsibility for the financial statements, and
   how much assurance does an auditor provide?
   A) Management remains responsible and the auditors provide absolute assurance.
   B) The auditors are primarily responsible but only provide reasonable assurance.
   C) Management remains responsible and the auditors provide reasonable assurance in
      the form of an opinion.
   D) The auditors are primarily responsible and provide positive assurance.

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

10. What body is primarily responsible for the statements which comprise GAAP?
   A) SEC  B) PCAOB  C) FASB  D) AICPA

11. 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) A company must comply with GAAP only if they are required to by a user of their
       financial statements, such as public companies
   C) All companies incorporated in the United States of America must comply with
       GAAP
   D) No company must comply with GAAP
12. An item is considered material if
   A) the cost of reporting the item is greater than its benefits.
   B) it doesn't costs a lot of money.
   C) it is of a tangible good.
   D) it is likely to influence the decision of an investor or creditor.

13. A wave breaks when:
   A) When it reaches the shore
   B) When it loses all of its energy
   C) The depth of the water it passes over is less than 1/2 the wavelength of the wave
   D) When it can be seen from the shore

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

15. Valuing assets at their market value rather than at their cost is inconsistent with the:
   A) cost principle.   C) full disclosure principle.
   B) time period assumption.   D) economic entity assumption.

16. How can a company improve its current ratio?
   A) Nothing can ethically be done to improve the current ratio
   B) Work with a creditor to reclassify some current debt into long-term debt
   C) Use excess cash to buy new equipment
   D) Use cash to reduce current liabilities

17. In 2006 Bombay Corporation had cash receipts of $14,000 and cash disbursements of $8,000. Their ending cash balance at December 31, 2006 was $22,000. What was their beginning cash balance?
   A) $28,000   B) $16,000   C) $20,000   D) $30,000

18. The ACE Company has five plants nationwide that cost $300 million. The current market value of the plants is $500 million. The plants will be reported as assets at
   A) $300 million.   B) $500 million.   C) $800 million.   D) $200 million.

19. Management could determine the amounts due from customers by examining which ledger account?
   A) Supplies       C) Service Revenue
   B) Accounts Receivable       D) Accounts Payable
20. The sum of the debit account balances equals the sum of the credit account balances in
the trial balance. This indicates that
A) it is time to prepare the financial statements.
B) all transactions of the accounting period have been posted.
C) the ledger accounts are in balance.
D) the ledger accounts are error free.

21. 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 cash flows
B) Balance sheet
C) Statement of Retained Earnings
D) Accrual basis of accounting

22. Which financial statement is used to determine cash generated from operations?
A) statement of operations
B) retained earnings statement
C) income statement
D) statement of cash flows

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

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

25. Which of the following groups uses accounting information to determine whether the
company's net income will result in a stock price increase?
A) Chief Financial Officer
B) Investors in common stock
C) Marketing managers
D) Creditors

26. With respect to revenue recognition, which factor below is most relevant to determining
when a revenue should be reported:
A) Write-off  B) Earning  C) Billing  D) Collection
27. 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.

28. The right side of an account
   A) shows all the balances of the accounts in the system.
   B) is the correct side.
   C) is the credit side.
   D) reflects all transactions for the accounting period.

29. 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 FASB through rules enforcement
   B) "C" Level management through Board of Director voting
   C) The shareholders, through shareholder voting.
   D) The SEC through sanctions

30. The usual ordering of accounts in the general ledger is
   A) stockholders' equity, assets, liabilities, expenses, and revenues.
   B) liabilities, assets, stockholders' equity, revenues, and expenses.
   C) assets, liabilities, stockholders' equity, revenues, and expenses.
   D) assets, liabilities, stockholders' equity, expenses, and revenues.
Answer Key

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