

University of Lethbridge



MANAGEMENT 2100Y - QUIZ #1 (10% of Course Mark) - SPRING 2013

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STUDENT: _____

Circle the letter of the best response.

1. Which of the following statements is false?
 - a. Accounting is the information system that measures business activities, processes that information into reports, and communicates the results to decision makers.
 - b. Financial statements report financial information about a business entity to decision makers.
 - c. Owners of a corporation are personally liable for the debts of the corporation.
 - d. The purpose of financial accounting is to provide information to people outside of the entity, such as investors and creditors.

2. Wilbur owns and operates a fishing tackle shop. Wilbur needs to borrow money to expand; therefore, he prepared financial statements to present to his banker. Wilbur obtained appraisals of all the assets of the business to ensure that the balance sheet would reflect the most current value of the assets. Wilbur has violated which of the following principles or concepts?
 - a. Reliability principle.
 - b. Cost principle.
 - c. Going-concern principle.
 - d. Stable-monetary-unit concept.

3. Which of the following is true:
 - a. Owner's Equity – Assets = Liabilities.
 - b. Assets – Owner's Equity = Liabilities.
 - c. Assets + Liabilities = Owner's Equity.
 - d. Liabilities = Owner's Equity + Assets.

4. G. Harrison Inc. experienced a decrease in total assets of \$2,000 during the current year. During the same year, total liabilities decreased \$6,000. If dividends for the year were \$10,000 and the owner made no additional investment, how much was net income?
 - a. \$14,000.
 - b. \$6,000.
 - c. \$18,000.
 - d. \$2,000.

5. Which of the following statements is true:
 - a. The income statement reports all changes in assets, liabilities, and shareholders' equity of the business during the period.
 - b. Revenues and expenses are reported only on the balance sheet.
 - c. The cash flow statement reports cash flows from three types of business activities: cash receipts, cash payments and investing.
 - d. On the statement of retained earnings, the net income for the period is added to the beginning balance of retained earnings.

The following information is taken from the accounting records after the first period of operation

Accounts payable \$ 9	Service revenue \$ 38
Cash 25	Equipment 10
Common shares 200	Retained earnings (ending balance)?
Dividends 15	Accounts receivable 4
Land 100	Office supplies 5
Utilities expense 2	Salary expense 8
Cash receipts:	Cash payments:
Collections from customers 34	Acquisition of land 60
Issuance of shares to owners 70	To suppliers 6
	Sale of equipment 5

6. Total assets are:
 - a. \$150.
 - b. \$181.
 - c. \$144.
 - d. \$158.

7. Net income is:
- \$28.
 - \$13.
 - \$120.
 - \$38.
8. Cash flow from financing activities is:
- \$(85).
 - \$(55).
 - \$55.
 - \$(15).
9. Which of the following statements is **not** true?
- Investing activities relate to the investment by owners into the business.
 - Paying dividends is an example of a financing activity.
 - Operating activities are the most important type of business activity.
 - Managers must make decisions about operating, investing and financing activities.
10. On which financial statement can the ending balance in retained earnings be found?
- Balance sheet.
 - Income statement.
 - Statement of retained earnings.
 - Both a and c.
11. Which of these is (are) an example of an asset account?
- Service Revenue.
 - Dividends.
 - Supplies.
 - All of the above are assets.
12. Dobson Corporation paid \$1,200 on account. The effect of this transaction on Dobson's accounting equation is to:
- Decrease liabilities and increase shareholders' equity.
 - Decrease assets and decrease liabilities.
 - Has no effect on total assets.
 - Decreases assets and decreases shareholders' equity.
13. Which of these statements is false?
- Decreases in liabilities and increases in revenues are recorded with a credit.
 - Decreases in assets and increases in shareholders' equity are recorded with a credit.
 - Increases in both assets and expenses are recorded with a debit.
 - Increases in assets and decreases in liabilities are recorded with a debit.

14. Note payable has a normal beginning balance of \$40,200. During the period, new borrowings total \$100,000 and payments on loans total \$20,600. Determine the correct ending balance in Note Payable.
- \$39,200, debit.
 - \$119,000, credit.
 - \$39,200, credit.
 - \$160,800, credit.
15. Which of these statements is correct?
- The account is a basic summary device used in accounting.
 - A business transaction is recorded first in the journal and then posted to the ledger.
 - In the journal entry, all accounts that are increased are listed first and then all accounts that are decreased are listed next.
 - Both a and b are correct.
16. Which of these accounts has a normal debit balance?
- Salary Expense.
 - Accounts Payable.
 - Service Revenue.
 - Both a and b.
17. The May 31 trial balance reports a credit balance of \$5,000 for Service Revenue. During the month, one entry for \$10 had been posted in error as a debit, instead of a credit, to Service Revenue. What is the correct balance of Service Revenue at May 31?
- \$4,980.
 - \$4,990.
 - \$5,020.
 - \$5, 012.
18. The beginning Cash account balance is \$38,700. During the period, cash disbursements totaled \$144,600. If ending Cash is \$51,200, then cash receipts must have been:
- \$105,900.
 - \$234,500.
 - \$132,100.
 - \$157,100.

19. Use the following selected information for the Perriman Corporation to calculate the correct credit column total for a trial balance.

Accounts receivable	\$27,200
Accounts payable	15,900
Building	359,600
Cash	55,600
Common shares	155,000
Dividends	4,800
Insurance expense	1,800
Retained earnings	133,800
Salary expense	52,500
Salary payable	3,600
Service revenue	193,200

- a. \$365,600.
- b. \$304,700.
- c. \$501,500.
- d. \$506,300.

20. The journal entry to record the performance of services on account for \$1,200 is:

- a. Accounts Payable 1,200
 Service Revenue 1,200
- b. Accounts Receivable 1,200
 Service Revenue 1,200
- c. Cash 1,200
 Service Revenue 1,200
- d. Service Revenue 1,200
 Accounts Payable 1,200

21. The Smallwood Corporation began operations on January 1, 2004. During 2004, Smallwood collected \$92,000 for management services. \$12,000 of the amount collected was from a contract to provide management services for one year beginning November 1, 2004. An additional \$20,000 of management services had been earned but not collected by year end. The amount of revenue that should be recorded for 2004 under the cash-basis and accrual-basis is:

- | Cash basis | Accrual basis |
|-------------------|----------------------|
| a. \$92,000. | \$80,000. |
| b. \$80,000. | \$100,000. |
| c. \$100,000. | \$112,000. |
| d. \$92,000. | \$102,000. |

22. Which of the following statements is false?
- The time-period concept requires companies to prepare financial statements at least quarterly.
 - According to the revenue principle, revenue should be recorded when a product or service has been delivered to the customer.
 - When possible, expense that can be linked to a specific revenue should be deducted from revenue in the same period that the revenue is recorded.
 - The time-period concept, the revenue principle, and the matching principle all support the practice of preparing adjusting entries.
23. The Armstead Company usually purchases office supplies twice a year to take advantage of quantity discounts. Office Supplies would be considered
- An unearned revenue.
 - A prepaid expense.
 - An accrued revenue.
 - An accrued expense.
24. On November 1, 2004 the Jernigan Company paid \$4,800 for a one-year insurance policy. On December 31, 2004, the adjusting entry would include
- A debit to Insurance Expense, \$4,800.
 - A credit to Insurance Payable, \$800.
 - A credit to Prepaid Insurance, \$800.
 - A debit to Insurance Expense, \$4,000.
25. Which of these could not be a closing entry?
- | | | |
|-------------------|----|----|
| Salary Expense | XX | |
| Retained Earnings | | XX |
 - | | | |
|-------------------|----|----|
| Retained Earnings | XX | |
| Dividends | | XX |
 - | | | |
|-------------------|----|----|
| Service Revenue | XX | |
| Retained Earnings | | XX |
 - All of the above could be a closing entry.
26. What type of account is Unearned Revenue (asset, liability, shareholders' equity, revenue or expense) and what is its normal balance, respectively?
- Asset, debit.
 - Expense, debit.
 - Liability, credit.
 - Revenue, credit.

27. Which of the following transactions is considered an accrued expense?
- Salaries that employees have earned but not received.
 - Management fees received in advance.
 - Newspaper advertising that has been purchased but has not yet appeared in the newspaper.

28. Which of the following types of accounts appear on the post-closing trial balance?

Assets	Liabilities	Shareholders' Equity	Revenue	Expense
a. yes	yes	yes	yes	yes
b. yes	yes	yes	yes	no
c. no	no	no	yes	yes
d. yes	yes	yes	no	no

29. Which of the following account is not considered a current asset?
- Accounts Receivable.
 - Equipment.
 - Inventory.
 - Prepaid Rent.

30. The balance sheet for Arnold's Cleaners Inc. Appears below:

Arnold's Cleaners Inc.
Balance Sheet
December 31, 2004

Assets		Liabilities	
Cash	\$400	Accounts Payable	\$300
Accounts Receivable	460	Salary Payable	20
Supplies	10	Unearned Revenue	120
Prepaid Insurance	60	Note payable (due in 5 years)	<u>400</u>
Equipment	\$400		<u>840</u>
Less: Acc. Amortization	<u>40</u> 360	Shareholders' Equity	
Land	<u>400</u>	Common shares	370
		Retained earnings	<u>480</u>
			<u>850</u>
		Total liabilities and shareholders' Equity	
Total assets	<u>\$1,690</u>		<u>\$1,690</u>

Arnold's current ratio for 2004 is

- 2.11.
- 2.09.
- 2.00.
- 1.52.

Answers:

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