**Instructions:** Designate the best answer for each of the following questions.

\_\_\_\_ 1. Which of the following is a separate legal entity?

a. Proprietorship

b. Sole proprietorship

c. Corporation

d. Partnership

\_\_\_\_ 2. Indicate which of the following items would not be reported in the operating section of the Statement of Cash Flows

a. Cash received from customers

b. Cash paid for dividends.

c. Cash paid for salaries.

d. Cash received for dividends.

\_\_\_\_ 3. A financial statement that reports accounting data at a specific date is the

a. balance sheet.

b. retained earnings statement.

c. income statement.

d. statement of cash flows.

\_\_\_\_ 4. Which of the following is **not** considered an external user of accounting information?

a. Bankers

b. Taxing authority

c. Manager

d. Labor Unions

\_\_\_\_ 5. GAAP refers to

a. General Accounting and Auditing Principles.

b. Guidelines for American Accounting Procedures.

c. General Association of Accounting Practitioners.

d. Generally Accepted Accounting Principles.

\_\_\_\_ 6. Which is an indicator of profitability?

a. Current ratio.

b. Earnings per share.

c. Free cash flow.

d. Working capita.

\_\_\_\_ 7. Which of the following is **false**?

a. Intangible assets are noncurrent assets that do not have physical substance.

b. Obligations expected to be paid after one year are classified as long-term liabilities.

c. Current assets are listed in the order of magnitude (size).

d. Property, plant, and equipment are assets with relatively long useful lives that are used in operating the business.

\_\_\_\_ 8. If total liabilities decreased by $30,000 during a period of time and owners equity increased by $35,000 during the same period, the amount and direction (increase or decrease) of the period’s change in total assets is a:

a. $65,000 increase.

b. $5,000 increase.

c. $5,000 decrease.

d. $65,000 decrease.

\_\_\_\_ 9. Current assets are listed

a. alphabetically.

b. by importance.

c. by longevity.

d. by liquidity.

\_\_\_\_ 10. To be relevant, accounting information must

a. be capable of making a difference in a decision.

b. be presented on the balance sheet.

c. be recorded at historical cost.

d. improve the company’s internal control.

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\_\_\_\_ 11. In accounting, which of the following is not a description of reliability as it relates to accounting information?

a. Verifiable

b. Be the least likely to overstate assets or income

c. A faithful representation

d. Neutral

\_\_\_\_ 12. Financial statements combining the operations of Kohls and Target would violate the

a. monetary unit assumption.

b. economic entity assumption.

c. cost principle.

d. full disclosure principle.

\_\_\_\_ 13. Limited liability (no liability beyond investment) is **not** enjoyed by the owner(s) of a

a. partnership and proprietorship.

b. partnership and corporation.

c. proprietorship and corporation.

d. corporation.

\_\_\_\_ 14. The Retained Earnings account had a beginning balance of $60,000 and an ending balance of $70,000. If $20,000 of dividends were declared and paid during the period, net income must have been

a. $20,000.

b. $30,000.

c. $10,000.

d. $50,000.

PART II—MATCHING: FINANCIAL STATEMENT ANALYSIS (8 points)

**Instructions**

Match the terms given below with the definitions or descriptions that follow by placing the appropriate letter in the space provided.

A. Liquidity E. Profitability

B. Earnings per share F. Dividends

C. Debt to total assets ratio G. Working capital

D. Current ratio H. Solvency

1. Current assets divided by current liabilities.

2. Measures of the income or operating success of an enterprise for a given period of time.

3. Distribution of cash or other assets from a corporation to its stockholders.

4. A measure of the net income earned on each share of common stock.

5. The ability of a borrower to pay obligations when they become due.

6. Measures the percentage of total assets that creditors provide.

7. Measures the ability of an enterprise to survive over a long period of time.

8. The excess of current assets over current liabilities.

PART III — SHORT PROBLEMS (10 points)

**Instructions**

Present the solutions, with appropriate supporting calculations, for each of the following independent problems.

A. Given the following information, compute 2007 net income for Lanon Company.

Stockholders’ equity—January 1, 2007 $150,000

Stockholders’ equity—December 31, 2007 175,000

Stockholder investments during 2007 15,000

Dividends paid during 2007 30,000

B. Given the following information, determine the three missing amounts.

Stockholders’ Equity

Beginning of the Year End of the Year Changes During the Year

Total Assets $60,000 Total Assets $85,000 Investments $10,000

Total Liabilities ??? Total Liabilities 40,000 Dividends 25,000

Total Stockholders’ Equity 35,000 Total Stockholders’ Equity ??? Revenues 70,000

Expenses ???

Total Change $1 5,000

PART IV — TYPES OF ACCOUNTS (10 points)

**Instructions**

Place a check in the appropriate column to designate whether each of the following accounts is anasset*,* aliability*,* or a stockholders’ equity account.

Account Asset Liability Stockholders’ Equity

1. Service Revenue

2. Insurance Expense

3. Supplies

4. Common Stock

5. Accounts Payable

6. Salaries Payable

7. Dividends

8. Accounts Receivable

9. Prepaid Insurance

10. Mortgage Payable

PART V — BALANCE SHEET CLASSIFICATIONS (18 points)

**Instructions**

Match the account titles given below with the appropriate Balance Sheet classification. An individual classification may be used more than once, or **not** at all. An account may also **not** appear in the balance sheet.

Classifications

A. Current Assets E. Current Liabilities

B. Long-term Investments F. Long-term Liabilities

C. Property, Plant and Equipment G. Stockholders’ Equity

D. Intangible Assets H. Not separately presented on the Balance Sheet

Account Titles

1. Common Stock 10. Prepaid Insurance

2. Unearned Rent Revenue 11. Bonds Payable

3. Supplies 12. Taxes Payable

4. Accounts Payable 13. Copyrights

5. Patents 14. Accounts Receivable

6. Salaries Payable 15. Mortgage Payable

7. Equipment 16. Dividends

8. Service Revenue 17. Accumulated Depreciation—Equipment

9. Rent Expense 18. Retained Earnings

PART VI — RATIOS (12 points)

Selected information from the financial statements of Stiller Company for the year ended December 31, 2007, appears below:

2007

Current assets $ 525,000

Total assets 1,375,000

Current liabilities 150,000

Long-term liabilities 400,000

Net sales 1,500,000

Gross profit 600,000

Net income 150,000

**Instructions**

Answer the following questions relating to the year ended December 31, 2007. The number of shares outstanding at the end of the year was 10,000. Show computations.

1. The current ratio for 2007 is \_\_\_\_\_\_\_\_\_\_.

2. The debt to total assets ratio for 2007 is \_\_\_\_\_\_\_\_\_\_.

3. The working capital for 2007 is \_\_\_\_\_\_\_\_\_\_.

4. The earnings per share for 2007 is \_\_\_\_\_\_\_\_\_\_.