|  |
| --- |
| This exercise is designed to refresh your understanding of basic accounting concepts and test your knowledge of income statements and balance sheets and the impact of various transactions and them. Show the effect of the following transactions listed below on the total assets, current ratio and net income of the firm. Use (+) to represent an increase, (--) to depict a decrease, and (0) if there is no change. Assume the current ratio prior to the transaction is greater than 1.0. |

|  |  |
| --- | --- |
|  | **Total Current Impact**  **Current Ratio on Net**  **Assets Income** |
| 1. Cash is acquired through issuance of   additional common stock   1. Merchandise is sold for cash 2. Federal income tax due for the previous   year is paid   1. A fixed asset is sold for less than book value 2. A fixed asset is sold for more than book value 3. Merchandise is sold on credit 4. Payment is made to trade creditors for   previous purchases   1. A cash dividend is declared and paid 2. Cash is obtained through short-term bank   loans   1. Short-term notes receivable are sold at a   discount   1. Marketable securities are sold below cost 2. Advances are made to employees 3. Current operating expenses are paid 4. Short term promissory notes are issued to   trade creditors in exchange for past due  accounts payable   1. Ten-year notes are issued to pay-off   accounts payable   1. A fully depreciated asset is retired 2. Accounts receivable are collected 3. Equipment is purchased with short term   notes   1. Merchandise is purchased on credit 2. The estimated taxes payable are increased |  |