

Financial & Managerial Accounting for Decision Makers, 3rd Edition by Dyckman, Hanlon, Magee, Pfeiffer, Hartgraves, and Morse

Chapter 2—Constructing Financial Statements

Solutions to Practice Quiz

1. Jacobsen Company has the following information for 2016:

Dividends	\$ 5,550
Revenues	56,750
Expenses	43,225
Retained Earnings 1/1/2016	22,220

Based on this information, what would be the Retained earnings balance at 12/31/2016?

- a. \$14,245
- b. \$41,295
- c. \$13,525
- d. \$30,195

Answer: d

Rationale:

Reconciliation of Retained Earnings:

Beginning retained earnings	\$22,220
Net income (loss).....(\$56,750 – 43,225)	13,525
Dividends.....	<u>(5,550)</u>
Ending retained earnings...	<u>\$30,195</u>

2. Jacobsen Company has the following information for 2016:

Dividends	\$ 8,750
Revenues	36,750
Expenses	43,225
Retained Earnings 12/31/2016	25,620

Based on this information, what would be the beginning retained earnings balance at 1/1/2016?

- a. \$23,345
- b. \$40,845
- c. \$10,395
- d. \$27,895

Answer: b

Rationale:

Reconciliation of Retained Earnings:

Beginning retained earnings	\$40,845
Net income (loss).....(\$36,750 – 43,225)	(6,475)
Dividends.....	<u>(8,750)</u>
Ending retained earnings...	<u>\$25,620</u>

3. At the end of the current year, total equity in Rogers Corporation is \$234,000. During the year the assets for the company increased by \$104,000 and the liabilities increased by \$88,000.

Based on this information, total equity on the balance sheet at the beginning of the year must have been:

- a. \$250,000
- b. \$322,000
- c. \$192,000
- d. \$218,000

Answer: d

Rationale:

$$\$104,000 - 88,000 = \$16,000$$

$$\$234,000 - 16,000 = \$218,000$$

4. The following information is from the accounting records of Thompson Company at December 31, 2016:

Notes Payable	\$180,000	Accounts Receivable	\$35,000
Building	162,000	Retained Earnings	161,000
Accounts Payable	15,000	Land	255,000
Equipment	120,000	Cash	?
Common Stock	?		

If Cash is equal to \$36,000 at December 31, 2016, what amount is Common Stock?

- a. \$ 12,000
- b. \$ 34,000
- c. \$252,000
- d. \$326,000

Answer: c

Rationale:

\$36,000	+	35,000	+	255,000	+	162,000	+	120,000	=	\$608,000
Cash		A/R		Land		Building		Equipment		Total Assets

\$15,000	+	180,000	+	?	+	161,000	=	\$608,000
A/P		N/P		Common Stock		R.E.		Total Liabilities and S.E.

$\$608,000 - 356,000 = \$252,000$

5. A transaction caused a \$45,000 increase in both assets and liabilities. Which of the following explains the transaction that could have happened?
- a. The company could have purchased office furniture by paying \$45,000 cash.
 - b. The company could have repaid a \$45,000 bank loan.
 - c. The company could have purchased office furniture for \$135,000 by paying \$90,000 in cash and issuing a \$45,000 note payable.
 - d. The company could have issued stock for \$45,000.

Answer: c

Rationale:

Transaction	Balance Sheet					Income Statement		
	Cash Asset	+	Noncash Assets	=	Liabilities + Contrib. Capital + Earned Capital	Revenues	-	Expenses = Net Income
(c) Purchase \$135,000 of office furniture with a \$90,000 down payment and the remainder on credit	-90,000		+135,000	=	+45,000			=

6. If Spotless Maintenance Service is paid \$430 for its cleaning work in The Esquire Theatre, which of the following would occur in Esquire's records?
- An increase in the Retained Earnings account.
 - An increase in Net Income.
 - An increase in Accounts Payable.
 - An increase in Cleaning Expense.

Answer: d

Rationale:

Transaction	Balance Sheet					Income Statement		
	Cash Asset	+ Noncash Assets	= Liabilities	+ Contrib. Capital	+ Earned Capital	Revenues	- Expenses	= Net Income
(D) Paid Spotless for Cleaning Services	-430		=	-430 Retained Earnings			+430 Cleaning Expense	= -430

7. Morton Company had the following data for 2016:
- A net loss of \$13,000
 - Declared a \$15,000 cash dividend
 - Issued common stock for \$34,000 cash
 - The stockholders' equity beginning balance on January 1, 2016 was \$122,000.

Based on this information, the statement of stockholders' equity for the period ending on December 31, 2016 would show what year-end stockholders' equity balance?

- \$158,000
- \$128,000
- \$ 60,000
- \$154,000

Answer: b

Rationale: $\$122,000 - 13,000 + 34,000 - 15,000 = \$128,000$

8. Ryan Dawson, CFO of Dependable Flooring Company, noticed a debit of \$12,000 to Accounts Payable in the company's ledger accounts.

Which of the following would be a likely explanation of what this could correspond to?

- a. The receipt of \$12,000 on account from a customer.
- b. A \$12,000 credit sale to a customer.
- c. A purchase on account of Office Equipment for \$12,000.
- d. A payment of \$12,000 to a vendor in settlement of a balance due.

Answer: d

Rationale:

Accounts Payable (-L)	12,000	
Cash (-A)		12,000

9. At the end of 2016, Marley Company discovered that its accountant erroneously recorded \$40,000 of inventory purchased for cash at year-end as:

Equipment (-L).....	40,000	
Cash (-A)		40,000

If the current ratio, quick ratio and net working capital had already been computed using the erroneous data, the correction of the accounting records will have which of the following effects?

- a. Net working capital will decrease
- b. Current ratio will stay the same
- c. Quick ratio will decrease
- d. None of these is correct

Answer: d

Rationale: The correct answer is "None of these is correct," since both net working capital and the current ratio will increase and the quick ratio will stay the same.

10. The following journal entry was made by Rogers Company on March 15, 2016:

Land	130,000	
Building	50,000	
Cash		35,000
Notes Payable		145,000

Based on this information, this transaction shows:

- a. A sale of land and building by Rogers for \$180,000.
- b. The receipt of cash by Rogers for \$45,000
- c. An increase of \$145,000 in liabilities for Rogers
- d. Payment by Rogers of \$145,000 on a note payable

Answer: c

Rationale: The entry presents a purchase of land and building by Rogers, whereby Rogers will take on \$145,000 of additional debt in the exchange.