

Solutions to Practice Quiz

Chapter 2 – From Business Events to Financial Statements

Multiple Choice

Identify the answer that BEST completes the statement or answers the question.

1. Jones & Sons reported the following account balances:

Administrative expenses	\$ 66,000
Accounts receivable	140,000
Sales revenue	760,000
Selling expenses	44,000
Cost of goods sold	525,000
Cash dividends paid	70,000

How much is the company's net income?

- a. \$ 45,000
- b. \$125,000
- c. \$265,000
- d. \$185,000

Answer: b

Rationale:  $(\$760,000 - \$525,000 - \$66,000 - \$44,000)$

2. The Clarion Company had net income of \$110 million and sales revenue of \$3,500 million. Its assets at the end of the year totaled \$1,350 million. Interest expense was \$80 million and the income tax rate was 30 percent.

What is the company's return on assets?

- a. 10.1%
- b. 17.4%
- c. 15.1%
- d. 12.3%

Answer: d

Rationale:  $[\$110 + \$80 (1 - 0.3)] / \$1,350$

3. Centex sold \$500,000 of inventory to customers for \$3,500,000 cash during May. For the first four months of the year, the company's ROS was 47 percent.

What effect will the May events have on Centex's return on sales (ROS) and on total assets?

- a. ROS and total assets will increase.
- b. ROS and total assets will decrease.
- c. ROS will increase and total assets will decrease.
- d. ROS will decrease and total assets will increase.

Answer: a

4. Federal Express opened a new business location on April 1. During April, the company sold \$240,000 of services for cash along with \$150,000 on account to customers. Payments collected from these customers amounted to \$115,000 during April, with the balance to be collected during May.

How much revenue should the company report on its April income statement?

- a. \$350,000
- b. \$362,000
- c. \$390,000
- d. \$592,000

Answer: c

Rationale:  $(\$240,000 + \$150,000)$

5. Wine Stop opened a new store and completed the following transactions during June:

- 1. Shareholders invested \$90,000 cash in exchange for common stock.
- 2. Purchased a delivery truck for \$15,000 cash.
- 3. Purchased \$3,400 of wine on account. Paid \$3,000 of the balance. At the end of the month, \$400 of inventory remained on hand.
- 4. Paid \$6,600 for selling expenses.
- 5. Sold wine to customers and collected \$18,000 cash. Billed corporate clients for an additional \$2,400 of wine delivered during June.

How much will the company report on its balance sheet as 'Cash' on June 30?

- a. \$47,400
- b. \$56,800
- c. \$64,600
- d. \$83,400

Answer: d

Rationale:  $(\$90,000 - \$15,000 - \$3,000 - \$6,600 + \$18,000)$

6. The following information was taken from Jones & Sons statement of cash flow:

	Year 2	Year 1
Cash, beginning balance	\$ 9,460 Million	\$ 2,450 Million
Cash flow from/(for) operating activities	16,500 Million	(4,300) Million
Cash flow from/(for) investing activities	?	1,700 Million
Cash flow from/(for) financing activities	(1,200) Million	?

At the end of Year 2, the company's balance sheet reported cash totaling \$10,400 million.

How much cash did the company use for investing activities during Year 2?

- a. \$21,360 Million
- b. \$21,760 Million
- c. \$21,610 Million
- d. \$14,360 Million

Answer: d

Rationale:  $(\$9,460 + \$16,500 - \$1,200 - \$10,400)$

7. At the end of the most current year, the Clarion Company reported the following key performance indicators:

Return on Assets	15.11%
Return on Equity	20.01%

Which of the following statements provides an accurate interpretation of one of these ratios?

- a. Each dollar invested in assets generated slightly more than 15 cents of profit.
- b. For every dollar of sales revenue, the company generated about 15 cents of profit.
- c. The profit margin ratio is about 20 cents of every dollar of revenue.
- d. Claremont generated about 20 cents of profit for every share of common stock owned by investors.

Answer: a

8. Augustino's reported total assets at December 31 totaling \$200,000. The following selected amounts were taken from the company's financial statements for its year ending December 31:

Retained earnings	\$46,000	Sales	\$340,000
Accounts receivable	7,000	Common stock	20,000
Notes payable	16,000	Net income	35,000

How much is the company's shareholders' equity as of December 31?

- a. \$ 20,000
- b. \$ 46,000
- c. \$ 66,000
- d. \$111,000

Answer: c

Rationale: (\$46,000 + \$20,000)

9. Below are several accounts from Wilson Company's accounting records.

Total assets, end of year	\$100,000
Total liabilities, end of year	35,000
Capital stock, end of year	12,000
Retained earnings, beginning of year	19,000
Dividends for the period	30,000
Net income	67,000

The amount of retained earnings at the end of the year is:

- a. \$34,000
- b. \$40,000
- c. \$64,000
- d. \$56,000

Answer: d

Rationale: (\$19,000 + \$67,000 – \$30,000)

10. If the beginning and ending balances in retained earnings are \$13,000 and \$19,000, respectively, and dividends paid during the year are \$40,000; what is net income?
- a. \$ 6,000
  - b. \$40,000
  - c. \$46,000
  - d. There is insufficient information to determine net income.

Answer: c

Rationale: (\$19,000 + \$40,000 – \$13,000)