

### Module 3 – Financial Accounting for MBAs, 7<sup>th</sup> Edition by Easton, Wild, Halsey & McNally

#### Practice Quiz Solutions

1. Foot Locker, Inc. is a retailer of athletic footwear and apparel. During a recent fiscal year, Foot Locker purchased merchandise inventory costing \$4,047 (\$ millions). Assume that Foot Locker makes all purchases on credit, and that its accounts payable is only used for inventory purchases.

The following T-accounts reflect information contained in the company's balance sheets (\$ millions).

Inventories		Accounts Payable	
Beg. Bal.	1,151	381	Beg. Bal.
End. Bal.	1,254	361	End. Bal.

What amount did Foot Locker pay in cash to its suppliers during the fiscal year?

- a. \$4,067 million
- b. \$20 million
- c. \$103 million
- d. \$381 million

Answer: a

$\$381 + 4,047 - \$361 = \text{Payments} = \$4,067$ . This is the amount in cash payments derived using the information in the accounts payable account.

2. On December 31, 2016, the accounts of Leuz Architect Services showed credit balances in its Common Stock and Retained Earnings accounts of \$60,000 and \$30,000, respectively. The company's stock issuances for 2017 totaled \$12,000, and it paid \$10,000 cash dividends in 2017. During 2017, the company had net income of \$33,000.

What is the total stockholders' equity for Leuz Architect Services at December 31, 2017?

- a. \$ 72,000
- b. \$ 53,000
- c. \$125,000
- d. \$135,000

Answer: c

Leuz Architect Services Statement of Stockholders' Equity For Year Ended December 31, 2017			
	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2016 .....	\$60,000	\$30,000	\$ 90,000
Stock issuance .....	12,000		12,000
Dividends .....		(10,000)	(10,000)
Net income .....		<u>33,000</u>	<u>33,000</u>
Balance at December 31, 2017 .....	<u>\$72,000</u>	<u>\$53,000</u>	<u>\$125,000</u>

3. Francis Real Estate Company has the following account balances at December 31, the end of its fiscal year.

	Debit	Credit
Commissions Earned .....		\$84,900
Wages Expense .....	\$36,000	
Insurance Expense .....	1,900	
Utilities Expense .....	8,200	
Depreciation Expense .....	9,800	
Retained Earnings .....		72,100

Assume that the company has not yet closed any accounts to retained earnings. Prepare journal entries to close the temporary accounts above.

After these entries are posted, what is the balance of the Retained Earnings account?

- a. \$101,100
- b. \$ 72,100
- c. \$ 16,200
- d. \$ 29,000

Answer: a

Dec. 31	Commissions Earned	84,900	
	Retained Earnings		84,900
	<i>To close the revenue account.</i>		
Dec. 31	Retained Earnings	55,900	
	Wages Expense		36,000
	Insurance Expense		1,900
	Utilities Expense		8,200
	Depreciation Expense		9,800
	<i>To close the expense accounts.</i>		

The balance of Retained Earnings after closing entries are posted is \$101,100 credit (\$72,100 + \$84,900 - \$55,900).

4. Lowe's is the second-largest home improvement retailer in the world. During a recent fiscal year, Lowe's purchased merchandise inventory at a cost of \$29,238 (\$ millions). Assume that all purchases were made on account and that accounts payable is only used for inventory purchases.

The following T-accounts reflect information contained in the company's balance sheets in millions.

Merchandise Inventories		Accounts Payable	
Beg. Bal.	5,911	2,695	Beg. Bal.
End. Bal.	6,706	2,832	End. Bal.

What amount did Lowe's pay in cash to its suppliers during the fiscal-year?

- a. \$29,238 million
- b. \$29,101 million
- c. \$137 million
- d. \$2,832 million

Answer: b

Payments to suppliers during the year totaled \$29,101 million. This is calculated using the accounts payable balances and the purchases from as follows:  $\$2,695 + \$29,238 - \$2,832 = \$29,101$ .

5. Bava Consulting has the following account balances at December 31, the end of its fiscal year.

	Debit	Credit
Service Fees Earned .....		\$85,000
Rent Expense .....	\$22,000	
Salaries Expense .....	50,000	
Supplies Expense .....	4,000	
Depreciation Expense .....	18,000	
Retained Earnings .....		70,000

Set up T-accounts for each account and record the above amounts in each account. Then, post the closing entries to the T-accounts. After these entries are posted, what is the balance of the Retained Earnings account?

- a. \$ 61,000
- b. \$ 67,000
- c. \$155,000
- d. \$ 79,000

Answer: a

Retained Earnings			
	70,000	Bal.	
(2)	94,000	85,000	(1)
		61,000	Bal.

Supplies Expense			
Bal.	4,000	4,000	(2)
Bal.	0		

Depreciation Expense			
Bal.	18,000	18,000	(2)
Bal.	0		

Rent Expense			
Bal.	22,000	22,000	(2)
Bal.	0		

Service Fees Earned			
(1)	85,000	85,000	Bal.
		0	Bal.

Salaries Expense			
Bal.	50,000	50,000	(2)
Bal.	0		

After the accounts are closed, the balance in Retained Earnings is \$61,000.

6. Selected T-account balances for Bloomfield Company are shown below as of January 31, 2017; accounting adjustments have already been posted. The firm uses a calendar-year accounting period but prepares *monthly* adjustments.

Truck	Accumulated Depreciation-Truck
Jan. 31 Bal. 10,200	Jan. 31 Bal. 2,040

If the truck has a useful life of five years (or 60 months), how many months has Bloomfield owned the truck?

- a. 3 months
- b. 24 months
- c. 12 months
- d. 18 months

Answer: c

Monthly depreciation expense = \$10,200 / 60 months = \$170.  
 Bloomfield has owned the truck for 12 months (\$2,040 / \$170 = 12).

7. The following information is taken Aiello Corporation's fiscal 2016 annual report.

Selected Balance Sheet Data	2016	2015
Inventories.....	\$221,418	\$226,893
Accounts Receivable.....	\$121,333	\$122,087

Aiello Corporation spent \$3,296,240 to purchase and manufacture inventories during its 2016 fiscal year.

What is the cost of goods sold for Aiello's fiscal year end?

- a. \$3,301,715
- b. \$3,296,240
- c. \$3,290,765
- d. \$3,300,000

Answer: a

We calculate COGS using the opening and closing inventory balances and the purchases during the year as follows: \$226,893 + 3,296,240 - 221,418 = \$3,301,715.

8. The following information is taken Aiello Corporation's fiscal 2016 annual report.

Selected Balance Sheet Data	2016	2015
Inventories.....	\$221,418	\$226,893
Accounts Receivable.....	\$121,333	\$122,087

Assume that Aiello Corporation had \$1,003,881 sales on credit during fiscal year 2016. What amount did the company collect from credit customers during the year?

- a. \$1,003,881
- b. \$1,004,635
- c. \$1,003,127
- d. \$1,247,301

Answer: b

We calculate cash received from credit customers using the opening and closing accounts receivable balances and the credit sales during the year, as follows:  $\$122,087 + 1,003,881 - 121,333 = \$1,004,635$ .

9. Plumlee Corporation has the following account balances at December 31, 2017.

	Debit	Credit
Service Fees Earned .....		\$92,500
Interest Income .....		2,200
Salaries Expense .....	\$41,800	
Advertising Expense .....	4,300	
Depreciation Expense .....	8,700	
Income Tax Expense .....	9,900	
Retained Earnings .....		42,700

Prepare entries to close these accounts in journal entry form. Set up T-accounts for each of the ledger accounts and post the entries to them. After these entries are posted, what is the balance of the Retained Earnings account?

- a. \$ 42,700
- b. \$ 72,700
- c. \$ 12,700
- d. \$137,400

Answer: b

Dec. 31	Service Fees Earned	92,500	
	Interest Income	2,200	
	Retained Earnings		94,700
	<i>To close the revenue accounts.</i>		

Dec. 31	Retained Earnings	64,700	
	Salaries Expense		41,800
	Advertising Expense		4,300
	Depreciation Expense		8,700
	Income Tax Expense		9,900
	<i>To close the expense accounts.</i>		

Retained Earnings			
	42,700	Bal.	
(2)	64,700	94,700	(1)
		72,700	Bal.

Service Fees Earned			
(1)	92,500	92,500	Bal.
		0	Bal.

Interest Income			
(1)	2,200	2,200	Bal.
		0	Bal.

Salaries Expense			
Bal.	41,800	41,800	(2)
Bal.	0		

Advertising Expense			
Bal.	4,300	4,300	(2)
Bal.	0		

Income Tax Expense			
Bal.	9,900	9,900	(2)
Bal.	0		

Depreciation Expense			
Bal.	8,700	8,700	(2)
Bal.	0		

After the temporary accounts are closed, the balance in the Retained Earnings account is \$72,700.

10. Flex Fitness is a health and fitness club that operates gym facilities throughout the United States. Flex Fitness members pay their membership dues annually. Selected fiscal-year information from the company's balance sheets follows (\$ thousands).

Selected Balance Sheet Data	2016	2015
Deferred membership income (liability) .....	500,558	453,881

During fiscal 2016, Flex Fitness collected \$1,119,833 cash for membership fees.

Calculate the membership fee revenue that Flex Fitness recognized during the year.

- a. \$ 500,558 thousand
- b. \$1,166,510 thousand
- c. \$1,119,833 thousand
- d. \$1,073,156 thousand

Answer: d

We calculate membership fee income using the opening and closing deferred membership income balances and the cash received from members during the year, as follows:  $\$453,881 + 1,119,833 - 500,558 = \$1,073,156$ .