

1. Inflation is defined as
  - a. dollar measurements that are restated in terms of current purchasing power.
  - b. generally the cost to replace an asset.
  - c. the amount originally paid to acquire an asset.
  - d. a general decline in the purchasing power of the monetary unit.
  
2. Nominal dollars are defined as
  - a. dollar measurements that are restated in terms of current purchasing power.
  - b. those dollars that are not restated for fluctuations in the general purchasing power of the monetary unit.
  - c. generally the cost to replace an asset.
  - d. the amount originally paid to acquire an asset.
  
3. With respect to accounting under changing prices, which of the following statements is INCORRECT?
  - a. A financial statement can disclose only constant dollar disclosures or current dollar disclosures, or neither.
  - b. Historical costs implies maintenance of financial capital.
  - c. Current costs implies maintenance of physical capital.
  - d. Constant dollar disclosures account for general changes in the purchasing power of the dollar.
  
4. Constant dollars are defined as
  - a. dollar measurements that are restated in terms of current purchasing power.
  - b. generally the cost to replace an asset.
  - c. the amount originally paid to acquire an asset.
  - d. a general decline in the purchasing power of the monetary unit.
  
5. Historical cost is defined as
  - a. dollar measurements that are restated in terms of current purchasing power.
  - b. generally the cost to replace an asset.
  - c. the amount originally paid to acquire an asset.
  - d. a general decline in the purchasing power of the monetary unit.
  
6. With respect to creditors and equity investors, which of the following statements is INCORRECT?
  - a. Both creditors and equity investors are concerned about security prices.
  - b. Creditors are concerned with assessing the short-term liquidity of a company.
  - c. Creditors are concerned with assessing the long-term solvency of a company.
  - d. Equity investors are concerned about dividend payments.
  
7. Short-term liquidity is
  - a. a company's ability to meet current payments as they become due.
  - b. current assets divided by current liabilities.
  - c. a company's ability to sell inventory.
  - d. a company's ability to shift current liabilities into long-term liabilities.

8. With respect to creditors and equity investors, which of the following statements is INCORRECT?
- Both creditors and equity investors are concerned about security prices.
  - Creditors are concerned with assessing the short-term liquidity of a company.
  - Creditors are concerned with assessing the long-term solvency of a company.
  - Equity investors are concerned about dividend payments.
9. Financial statements are helpful to predict the future performance of a company for all of the following reasons EXCEPT that
- the evaluation of management's past performance gives clues to its ability to generate future returns.
  - the assets and liabilities of a company provide clues to a company's future prospects.
  - financial statements are required to give formal projections of management's assessment of the next period's financial results.
  - past performance is often a good indicator of future performance.
10. Which of the following statement(s) describe the principal reason(s) why investors and creditors use financial statement analysis?
- To assess the risks associated with expected returns.
  - To establish recommended dividend and interest payments.
  - To evaluate top and middle level management.
  - To predict the amount of expected returns.
- 1 and 2
  - 1 and 4
  - 3 and 4
  - 1, 2, and 3
11. Which of the following circumstances would result in an increase in income under the cash basis but NOT an increase in income under the accrual basis?
- the credit sale of inventory at a sales price in excess of the inventory's cost
  - the cash collection from a credit customer
  - the cash sale of inventory, at a sales price in excess of the inventory's cost
  - the return of defective inventory purchased on account, to a supplier where a full credit was given
12. The payment of wages to a company's employees is included in which section of the statement of cash flows?
- cash disbursement
  - expense
  - financing
  - operations
13. Given the following events, which affect cash flows from operations?
- cash sale
  - cash dividend paid
  - purchase of a long-term asset
  - purchase of inventory
  - paid employees
- 1 and 5
  - 1, 2, and 5
  - 1, 3, and 4
  - 1, 4, and 5

14. The payment of a cash dividend to common stockholders is included in which section of the statement of cash flows?
- cash disbursements
  - financing
  - investing
  - operations
15. McNutty Company owns a fixed asset with an original cost of \$25,000. As of the end of the year, the accumulated depreciation account had a balance of \$7,500. What can be inferred from this information?
- The asset has approximately 70 percent of its useful life remaining.
  - The asset can be sold for exactly \$32,500.
  - Because of this fixed asset, total assets are \$25,000 higher than they otherwise would be.
  - Because of this fixed asset, total assets are \$32,500 higher than they otherwise would be.
16. On January 1, 19X2, the Rutz Company acquired a machine for \$66,000. As of January 1, 19X6, the machine had accumulated depreciation of \$24,000. During 19X6, depreciation expense totalled \$6,000. The book value of the machine at December 31, 19X6 equals
- \$36,000.
  - \$42,000.
  - \$48,000.
  - \$66,000.
17. On May 1, 19X4, the Reed Company paid \$12,000 for May, June, July and August's rent in advance. The company recorded this transaction by increasing the balance in the prepaid rent account. The balance in the prepaid rent account as of August 31, 19X4 will be
- \$ 0.
  - \$3,000.
  - \$6,000.
  - \$9,000.
18. On January 1, 19X9, Rahn Company paid \$8,000 for January, February, March, and April's rent in advance. At the time of the payment, the entire amount was placed as an increase in the rent expense account. The balance in the prepaid rent account at January 31, 19X9 should be
- \$ 0.
  - \$2,000.
  - \$6,000.
  - \$8,000.

1. Given below are the comparative income statement and balance sheet for Van Meter Company at, and for the years ended, December 31, 19X5 and 19X4. Determine the following ratios for 19X5. (1) quick ratio, (2) average collection period in days, (3) interest coverage, (4) return on stockholders' equity, (5) price-earnings ratio, and (6) dividend-yield.

	19X5	19X4
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Sales	\$1,702	\$1,606
Cost of goods sold	1,126	1,022
	-----	-----
Gross profit	\$ 576	\$ 584
Operating expenses	318	280
	-----	-----
Operating income	\$ 258	\$ 304
Interest expense	72	68
	-----	-----
Income before taxes	\$ 186	\$ 236
Income tax expense	74	94
	-----	-----
Net income	\$ 112	\$ 142
	=====	=====

	19X5	19X4		19X5	19X4
	----	----		----	----
Current assets:			Current liabilities:		
Cash	\$ 86	\$ 76	Accounts payable	\$ 136	\$ 120
Accounts receivable	160	156	Notes pay.--current	90	102
Inventory	120	104		-----	-----
	-----	-----	Total current liab	\$ 226	\$ 222
Ttl current assets	\$ 366	\$ 336	Long-term liab	608	592
Long-term assets:				-----	-----
Fixed assets	1,424	1,390	Total liabilities	\$ 834	\$ 814
Accum depreciation	(406)	(382)		-----	-----
	-----	-----	Owners' equity:		
Total LT assets	\$1,018	\$1,008	Common stk \$4 par	\$ 184	\$ 184
	-----	-----	Retained income	366	346
				-----	-----
			Ttl owners' equity	\$ 550	\$ 530
				-----	-----
Total assets	\$1,384	\$1,344	Ttl liab & OE	\$1,384	\$1,344
	=====	=====		=====	=====
December 31 market price per Share				\$ 50	\$ 58

2. Randy Hedges began a sole proprietorship named Hedges Company on June 1, 19X4. Below are the transactions which occurred during the first 10 days of June, 19X4.

- June 1 Randy invested \$5,000 cash in Hedges Company.
- June 2 Hedges Company acquired equipment costing \$4,000. One-fourth of the balance was paid in cash with the balance as a note.
- June 4 Hedges Company acquired inventory costing \$1,400 which was paid in cash.
- June 5 Hedges Company acquired \$300 in supplies on open account.
- June 7 Randy's brother purchased \$350 of inventory, at cost and on open account from Hedges Company.
- June 9 Hedges Company returned \$100 of defective inventory to its supplier and received a full credit.
- June 10 Hedges Company received \$200 from Randy's brother.

Given these transactions, prepare a balance sheet for Hedges Company as of June 10, 19X4.

3. Give three reasons why a basic knowledge about reporting the effects of changing prices is useful.

4. Given the following for Estes Company, prepare a statement of cash flows using the indirect method for 19X2.

For the Year Ended 12/31/X2

Sales		\$293,000
Less expenses:		
Cost of goods sold	\$155,500	
Depreciation expense	7,000	
Amortization expense	1,500	
Wage expense	44,000	
Rent expense	12,000	
Interest expense	2,450	
Income tax expense	28,000	
Gain on sale of fixed asset	(1,300)	
		(249,150)
Net Income		\$ 43,850

	12/31/X2	12/31/X1		12/31/X2	12/31/X1
Current assets:			Current liab:		
Cash	\$ 9,950	\$ 8,150	Acct payable	\$ 13,850	\$ 10,550
Acct receiv.	18,150	13,950	Wages payable	3,100	2,850
Inventory	24,100	26,950	Interest pay	800	200
Prepaid rent	1,000	900	Taxes payable	3,400	3,950
	\$53,200	\$49,950		\$ 21,150	\$ 17,550
Long-term assets:			Long-term liab:		
Land	\$16,000	\$11,000	Bonds payable	22,000	18,000
Fixed assets	65,000	59,000		\$ 43,150	\$ 35,550
Accum deprec	(23,000)	(19,500)	Owners' equity:		
Patent	6,000	5,500	Common stock	\$ 17,500	\$ 16,000
	\$64,000	\$56,000	Retained inc.	56,550	54,400
Total assets	\$117,200	\$105,950		\$ 74,050	\$ 70,400
	=====	=====	Total liab & owners' eq.	\$117,200	\$105,950
				=====	=====

Also: No land was sold in 19X2, and any land purchased was acquired by issuing bonds payable. A fixed asset was sold for \$2,050.