

# Review I

---

1. To determine the source of a company's assets, on which financial statement will you look?
  - a. Balance Sheet only
  - b. Income Statement only
  - c. Both the Balance Sheet and the Income Statement
  - d. Both the Income Statement and the Statement of Retained Earnings
2. How are assets which are expected to be realized in cash, sold, or consumed within the normal operating cycle of a business or within one year (if the operating cycle is shorter than one year) reported on a classified balance sheet?
  - a. Property, Plant, and Equipment
  - b. Current Assets
  - c. Intangible Assets
  - d. Current Liabilities
3. For several years, Bozeman Corporation has had a current ratio that was consistent with other companies in its industry. For the most recent year, Bozeman's current ratio was significantly higher than that for the industry. What is the **best** possible explanation for this situation?
  - a. The other companies in the industry were not as profitable.
  - b. Bozeman's liquidity has improved
  - c. Bozeman has less property, plant and equipment than other companies.
  - d. Bozeman has too much debt.
4. Which financial statement reports information helpful in assessing working capital?
  - a. Income Statement
  - b. Balance Sheet
  - c. Statement of Retained Earnings
  - d. Statement of Cash Flows
5. For which of the following is the current ratio is most useful?
  - a. In evaluating a company's liquidity.
  - b. In evaluating a company's solvency.
  - c. In evaluating a company's profitability.
  - d. In evaluating a company's probability.
6. Which of the following events will cause a company's current ratio to decrease?
  - a. The sale of inventory for cash.
  - b. The sale of inventory for credit (accounts receivable).
  - c. Paying off accounts payable with cash.
  - d. Paying off long-term debt with cash.
7. Which statement is **true** concerning gains and losses?
  - a. Gains and losses are reported on the Balance Sheet in the asset and liability sections, respectively.
  - b. Gains and losses are special types of revenues and expenses that are reported on the Income Statement.
  - c. The amounts of gains and losses are included in the calculations of the gross profit ratio.
  - d. Gains and losses are reported only on a multi-step income statement.
8. How is income from operations determined?
  - a. By subtracting the cost of goods sold from sales.
  - b. By subtracting the total operating expenses from sales
  - c. By subtracting the total operating expenses from gross profit.
  - d. By subtracting selling expenses from operating revenues.

1) Other revenue and expenses	5) Net Income
2) Income before taxes	6) Operating revenues
3) Income taxes	7) Income from operations
4) Operating expenses	

9. The list above contains several items that appear on an income statement. Select the choice that lists the items in the order they would appear on a multi-step income statement
- 6, 1, 7, 4, 2, 3, 5
  - 7, 6, 1, 4, 2, 3, 5
  - 6, 4, 7, 1, 2, 3, 5
  - 6, 7, 4, 1, 2, 3, 5
10. Denton Stores, Inc. is concerned about its profitability for the current year, since its earnings have dropped 10% since last year. Which of the following is the **least** useful comparison in evaluating the drop in Denton Store's profit margin?
- Comparison with the industry average for the current year.
  - Comparison with its current ratio for the current year
  - Comparison with the profit margins for its major competitors for the current year.
  - Comparison with its profit margins for the past five years.
11. Assume that you want to determine the profit margin for a company. Which one of the following financial statements is the **best** source of this information?
- Statement of Retained Earnings
  - Statement of Cash Flows
  - Statement of Stockholders' Equity
  - Income Statement
12. Charmane's Cookies borrowed \$500,000 from the First National Bank. Charmane then hired a contractor to build a new cookie distribution outlet. In which section of Charmane's statement of cash flows would you find information that indicated that Charmane acquired the new cookie distribution outlet?
- Operating Activities
  - Investing Activities
  - Financing Activities
  - Profit Activities
13. A bank loaned \$62 million to Allison Corporation to finance the construction of a new distribution warehouse. In which section of Allison's Statement of Cash Flows would you be able to determine whether the company repaid any portion of the debt during the year?
- Operating Activities
  - Investing Activities
  - Financing Activities
  - Profit Activities

### Northern Shoes

Northern Shoes reported the following items on its Statement of Cash Flows for the current year:

Net cash inflows from operating activities	\$ 70,000
Net cash outflows from investing activities	( 20,000)
Net cash outflows from financing activities	( 40,000)
Cash balance at the beginning of the year	\$ 30,000

14. Refer to Northern Shoes. What was the amount of their net increase or decrease in the cash balance for the current year?
- \$ 10,000 increase
  - \$ 30,000 increase
  - \$ 40,000 increase
  - \$ 70,000 increase
15. Refer to Northern Shoes. What was their cash balance at the end of the current year?
- \$ 10,000
  - \$ 30,000
  - \$ 40,000
  - \$ 70,000
16. As used in accounting, the "Notes to the Financial Statements" should be:
- Listed with the liabilities on the Balance Sheet
  - Omitted at the option of the company
  - Included as an integral part of the financial statements
  - Reported as expenses on the Income Statement
17. Which of the following items will be found in a corporate annual report?
- Company Budgets
  - Notes to the Financial Statements
  - Selected financial data from competitor companies
  - Managements statement that the auditors are responsible for the financial statements.
18. Which one of the following items is **least** likely to be found in a corporate annual report?
- Notes to the Financial Statements
  - Forecasts of Cash Flows and Earnings
  - Report of the Independent Accountants
  - Management's Discussion and Analysis
19. A discussion of the financial statements with explanations of certain amounts in the statements is **most** likely found in which of the following sections of a corporate annual report?
- Report of the Independent Accountants
  - Notes to the Financial Statements
  - Management's Discussion and Analysis
  - Balance Sheet
20. An investor found the following in an annual report: "The financial statements, in our opinion, present fairly the financial position, operating results, and cash flows, in conformity with accounting principles generally accepted in the United States." In which section of the annual report did the investor find this?
- Balance Sheet
  - Notes to the Financial Statements
  - Management's Discussion and Analysis
  - Report of the Independent Accountants
21. Which of the following represents one of the purposes of the notes to financial statements?
- To provide a place for management to justify questionable items in the statements.
  - To provide comparative ratios for the company's financial data
  - To provide the CPA's opinion of the fairness of the financial statements.
  - To satisfy the need for full disclosure of all the facts relevant to a company's results and financial position

22. Camelot Co. reported a net loss of \$30,000 for 2010, yet its cash balance increased during the year. Which financial statement should Camelot's management refer to for an explanation of this situation?
- Balance Sheet
  - Income Statement
  - Statement of Retained Earnings
  - Statement of Cash Flows
23. Which balance sheet accounts are most affected by operating activities?
- Current assets and current liabilities.
  - Long-term assets.
  - Long-term liabilities.
  - Stockholders' equity.
24. Which balance sheet accounts are most affected by investing activities?
- Current assets and current liabilities.
  - Long-term assets.
  - Long-term liabilities.
  - Stockholders' equity.
25. Which balance sheet accounts are most affected by financing activities?
- Current assets.
  - Current liabilities.
  - Long-term assets.
  - Long-term liabilities and stockholders' equity.
26. Upon review of Bart's Statement of Cash Flows, the following was noted:
- |                                      |          |
|--------------------------------------|----------|
| Cash flows from operating activities | \$15,000 |
| Cash flows from financing activities | (60,000) |
| Cash flows from investing activities | 80,000   |

From this information, the most likely explanation is that Bart is

- using cash from operations and selling long-term assets to pay back debt.
  - using cash from operations and borrowing to purchase long-term assets.
  - using its profits to expand growth.
  - using cash from investors to provide for operations
- 27 . The following items were reported on the balance sheets and income statement for Buckeye Company:

Accounts receivable, December 31, 2009	\$ 85,000
Accounts receivable, December 31, 2010	98,000
Sales -- 2010	750,000

How would the change in accounts receivable be reported in the operating activities section of the statement of cash flows under the **indirect** method?

- As an addition to sales.
  - As a deduction from sales.
  - As an addition to net income.
  - As a deduction from net income.
28. Occasionally, companies engage in important investing and financing activities which do not affect cash. If the amount of the transaction is significant, how should it be disclosed when financial statements are prepared?
- In a separate section in the cash flow statement.
  - In a supplemental schedule of all cash investing and financing activities.
  - In a note to the financial statements or in a supplemental schedule.
  - The transaction does not need to be disclosed.

29. Dawson Corp. reported the following information for 2009 and 2010.

Accounts receivable, December 31, 2009	\$ 67,000
Accounts receivable, December 31, 2010	63,000
Sales (all on credit) -- 2010	745,000

How much cash was collected from customers during 2010?

- a. \$741,000
  - b. \$745,000
  - c. \$749,000
  - d. \$753,000
30. Adventurers Company reported the following information for 2009 and 2010.

Prepaid insurance, December 31, 2009	\$ 2,400
Prepaid insurance, December 31, 2010	1,500
Insurance expense--2010	14,200

How much cash was paid for insurance during 2010?

- a. \$13,300
  - b. \$14,200
  - c. \$15,100
  - d. \$15,700
31. Ross Corp. reported the following information for 2009 and 2010.

Salaries payable, December 31, 2009	\$ 3,700
Salaries payable, December 31, 2010	1,800
Salaries expense--2010	57,000

How much cash was paid for salaries during 2010?

- a. \$55,100
  - b. \$55,200
  - c. \$57,000
  - d. \$58,900
32. The following items were reported on the balance sheets and income statement for Sharpley Corp.:

Accounts payable, December 31, 2009	\$ 42,000
Accounts payable, December 31, 2010	48,000
Operating expenses	286,000

How would the change in accounts payable be reported in the operating activities section of the statement of cash flows under the **indirect** method?

- a. As an addition to operating expenses.
  - b. As a deduction from operating expenses.
  - c. As an addition to net income.
  - d. As a deduction from net income.
33. Most annual reports now include a report of management to the stockholders. In this report, which group has the primary responsibility for the preparation and integrity of the financial statements
- a. Management
  - b. The company's CPAs
  - c. The company's internal audit staff
  - d. The audit committee of the company's board of directors

34. Which of the following is *not* a requirement of Sarbanes-Oxley?
  - a. Annual report must include an internal control report
  - b. External auditors can no longer provide human resource services
  - c. External auditors can no longer provide brokerage services
  - d. Must establish an internal control system that guarantees financial accuracy
  
35. Which internal control procedure is followed when management authorizes the purchasing department to order goods and services for the company?
  - a. Segregation of duties
  - b. Safeguarding of assets and records
  - c. Independent verifications
  - d. Proper authorizations
  
36. Which internal control procedure is followed when the work of one department acts as a check on the work of another?
  - a. Segregation of duties
  - b. Safeguarding assets and records
  - c. Independent verifications
  - d. Proper authorizations
  
37. Which internal control procedure is followed when storage areas are secured with limited access?
  - a. Segregation duties
  - b. Safeguarding assets and records
  - c. Independent verifications
  - d. Proper authorizations
  
38. Which internal control procedure is followed when a physical count of inventory is performed in a perpetual inventory system?
  - a. Segregation of duties
  - b. Safeguarding assets and records
  - c. Independent verifications
  - d. Proper authorizations

*The following set of items describes activities completed by a company in purchasing and paying for merchandise. For each activity, identify whether or not the activity adheres to or violates sound internal control procedures.*

39. Refer to Internal Control – Purchasing & Paying. Although the department supervisor can indicate a preferred supplier or vendor on purchase requisitions, the purchasing department has the responsibility for making the final decision on a vendor.
  - a. Adheres to sound internal control procedures
  - b. Violates sound internal control procedures
  - c. Neither strengthens nor violates internal control
  
40. The following set of items describes activities completed by a company in collecting cash for merchandise sales. For each activity, identify whether or not the activity adheres to or violates sound internal control procedures.

An employee in the accounting department records cash receipts from customers and prepares a bank deposit slip.

- a. Adheres to sound internal control procedures
- b. Violates sound internal control procedures
- c. Neither strengthens nor violates internal control