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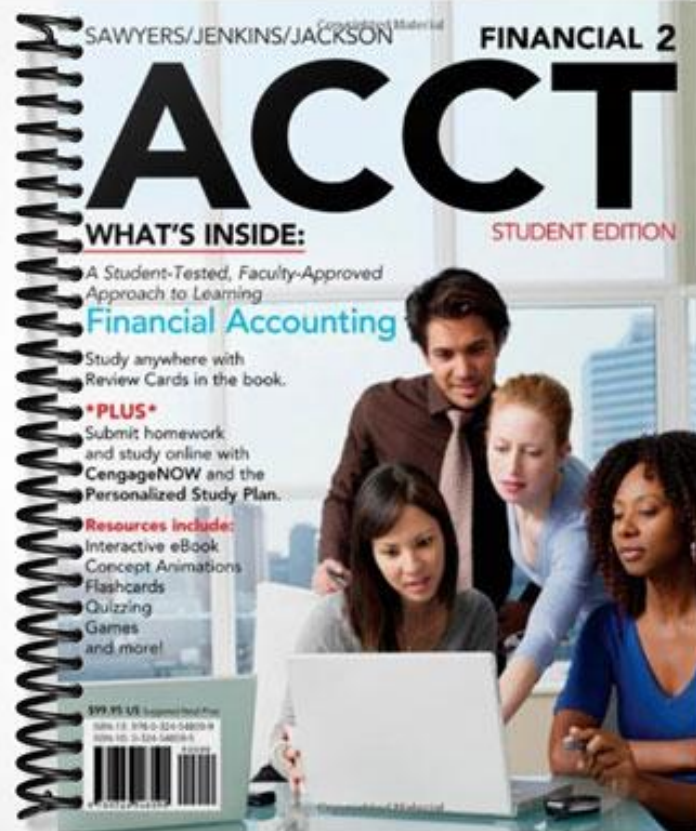
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Chapter 2--Corporate Financial Statements

Student: _____

1. Which of the following is **not** a form of a business entity?
 - A. Sole proprietorship
 - B. Partnership
 - C. Entrepreneurship
 - D. Corporation

2. In which of the following organization forms are the owners' legal responsibility for the debt of the business limited to the amount they invested in the business?
 - A. Sole proprietorship
 - B. Corporation
 - C. Partnership
 - D. Cooperative

3. Which of the following best describes the term "current assets"?
 - A. The amount of total profits earned by a business since it began operations plus all other resources.
 - B. The amount of claim that the owners have in the business in the current year.
 - C. Assets expected to be converted into cash within one year or one.
 - D. The cumulative profits earned by a business less any dividends distributed in the current period.

4. Which one of the following items is a classification on the classified balance sheet?
 - A. Operating accounts
 - B. Stockholders' equity
 - C. Revenues and expenses
 - D. Net income and dividends

5. Which of the following are noncurrent assets?
 - A. Machinery and equipment
 - B. Accounts receivable
 - C. Inventories
 - D. Unearned revenues

6. Short-term investments are:
 - A. fixed assets.
 - B. accounts receivables.
 - C. intangible assets.
 - D. current assets.

7. **IPOD CORPORATION**

IPOD Corporation's end-of-year balance sheet consisted of the following amounts.

| | | | |
|-----------------------------|------------|---------------------|-----------|
| Cash | \$ 250,000 | Accounts receivable | \$500,000 |
| Property, plant & equipment | 900,000 | Long-term debt | 300,000 |
| Capital stock | 1,200,000 | Accounts payable | 100,000 |
| Retained earnings | ? | Inventory | 450,000 |

Refer to the information provided for IPOD Corporation. What amount should IPOD report on its balance sheet for *total assets*?

- A. \$2,000,000
- B. \$2,550,000
- C. \$2,100,000
- D. \$1,900,000

8. **IPOD CORPORATION**

IPOD Corporation's end-of-year balance sheet consisted of the following amounts.

| | | | |
|-----------------------------|------------|---------------------|-----------|
| Cash | \$ 250,000 | Accounts receivable | \$500,000 |
| Property, plant & equipment | 900,000 | Long-term debt | 300,000 |
| Capital stock | 1,200,000 | Accounts payable | 100,000 |
| Retained earnings | ? | Inventory | 450,000 |

Refer to the information provided for IPOD Corporation. What is IPOD's *retained earnings* balance at the end of the current year?

- A. \$ 500,000
- B. \$1,100,000
- C. \$ 400,000
- D. \$1,200,000

9. **Peck Company**

The Peck Company reported the following items on its financial statements for the year ending December 31, 2012.

| | | | |
|--|-------------|----------------|-------------|
| Sales | \$1,560,000 | Cost of sales | \$1,400,000 |
| Selling, general and administrative expenses | 40,000 | Other expenses | 30,000 |
| Dividends | 10,000 | Income taxes | 25,000 |

Refer to the information provided for Peck Company. The income statement for Peck will report *net income* for the current year in the amount of:

- A. \$545,000.
- B. \$ 65,000.
- C. \$ 85,000.
- D. \$120,000.

10. **Peck Company**

The Peck Company reported the following items on its financial statements for the year ending December 31, 2012.

| | | | |
|--|-------------|----------------|-------------|
| Sales | \$1,560,000 | Cost of sales | \$1,400,000 |
| Selling, general and administrative expenses | 40,000 | Other expenses | 30,000 |
| Dividends | 10,000 | Income taxes | 25,000 |

Refer to the information provided for Peck Company. How much will be reported as *retained earnings* on its balance sheet at December 31, 2012, if this is the first year of operations?

- A. \$45,000
- B. \$55,000
- C. \$85,000
- D. \$65,000

11. Paradise Company reports the following information at December 31, 2012:

| | |
|------------------|--------------|
| Sales | \$18,000,000 |
| Cash | 3,000,000 |
| Salaries payable | 400,000 |
| Dividends | 1,000,000 |
| Cost of sales | 12,500,000 |

What is Natural Company's Gross Profit?

- A. \$ 6,100,000
- B. \$ 6,500,000
- C. \$ 5,500,000
- D. \$12,000,000

12. **Wing Company**

| | | | |
|-------------|-----------|--------------------------|-----------|
| Cash | \$234,000 | Accounts payable | \$ 97,000 |
| Inventories | 121,000 | Notes payable (due 2020) | 211,000 |
| Land | 453,000 | Accounts receivable | 46,000 |

Refer to the information provided for Wing Company. Calculate current assets.

- A. \$498,000
- B. \$401,000
- C. \$854,000
- D. \$709,000

13. Wing Company

| | | | |
|-------------|-----------|--------------------------|-----------|
| Cash | \$234,000 | Accounts payable | \$ 97,000 |
| Inventories | 121,000 | Notes payable (due 2020) | 211,000 |
| Land | 453,000 | Accounts receivable | 46,000 |

Refer to the information provided for Wing Company. Calculate current liabilities.

- A. \$ 97,000
 - B. \$211,000
 - C. \$354,000
 - D. \$143,000
14. Which one of the following is a source of equity?

- A. Notes payable
- B. Accounts payable
- C. Land
- D. Contributed capital

15. Jarret Company

| | | | |
|-----------|-----------|------------------|-----------|
| Cash | \$125,000 | Inventory | \$215,000 |
| Land | 275,000 | Unearned revenue | 117,000 |
| Equipment | 350,000 | Common stock | 300,000 |

Refer to the information provided for Jarret Company. Calculate current assets.

- A. \$457,000
 - B. \$615,000
 - C. \$125,000
 - D. \$340,000
16. Which of the following accounts are normally reported as current liabilities on a classified balance sheet?
- A. Accounts payable and Prepaid insurance
 - B. Interest payable and Interest receivable
 - C. Income taxes payable and Salaries payable
 - D. Capital stock and Accounts payable
17. Which one of the following is **not** categorized as a long-term assets?
- A. Intangibles
 - B. Property, plant, and equipment
 - C. Inventory
 - D. Patents

18. Which of the following would **not** be considered an intangible asset?
- A. Franchise rights
 - B. Copyrights
 - C. Investments
 - D. Trademarks
19. If assets are expected to be realized in cash, sold, or consumed within one year, how are they reported on a classified balance sheet?
- A. Property, plant, and equipment
 - B. Current assets
 - C. Intangible assets
 - D. Current liabilities
20. Which set of items below are classified as current assets?
- A. Accounts receivable, Net income, Inventory, and Dividends
 - B. Cash, Accounts receivable, Capital stock, and Sales
 - C. Net income, Cash, Office supplies, and Inventory
 - D. Cash, Accounts receivable, Inventory, and Office supplies

21. **Pacific Corporation**

| | | | |
|-------------------|-----------|-------------------------|-----------|
| Inventory | \$380,000 | Accounts receivable | \$190,000 |
| Land | 290,000 | Accounts payable | 180,000 |
| Cash | 129,000 | Unearned revenue | 110,000 |
| Prepaid rent | 33,000 | Common stock | 312,000 |
| Retained earnings | 220,000 | Long-term notes payable | 200,000 |

Calculate the total amount of current assets for Pacific Corporation.

- A. \$ 842,000
 - B. \$1,022,000
 - C. \$ 732,000
 - D. \$ 842,000
22. Which of the following would appear on an income statement?
- A. Unearned revenue
 - B. Cost of sales
 - C. Retained earnings
 - D. Dividends

23. Gain and losses are reported on the multi-step income statement under which of the following classifications?
- A. Cost of sales
 - B. Other revenues and expenses
 - C. Operating revenues and expenses
 - D. Gross margin
24. A question asked by stockholders is, "How much gross profit did the company make?" What financial statement would have the "gross profit" indicated as a separate line item?
- A. The balance sheet because retained earnings represents gross profits
 - B. The statement of cash flows as cash inflows and outflows represents gross profits
 - C. The multi-step income statement
 - D. The single-step income statement
25. On a multi-step income statement, subtracting total operating expenses from gross profit will equal:
- A. gross margin.
 - B. operating income.
 - C. income before taxes.
 - D. net income.
26. The list below contains several items that appear on a multi-step income statement.
- 1. Other incomes and expenses
 - 2. Income before income taxes
 - 3. Net income
 - 4. Operating expenses
 - 5. Gross margin
 - 6. Net sales
 - 7. Income from operations

Select the choice that lists the items in the order they would appear on a multi-step income statement.

- A. 6, 5, 4, 7, 1, 2, 3
- B. 7, 6, 1, 4, 2, 3, 5
- C. 6, 5, 4, 1, 7, 2, 3
- D. 6, 7, 4, 1, 2, 3, 5

27. Trump Company

| | | | |
|------------------|-----------|-------------------------------------|-----------|
| Other revenues | \$110,000 | General and administrative expenses | \$250,000 |
| Dividends | \$120,000 | Gross profit | \$750,000 |
| Selling expenses | \$220,000 | Income tax expense | \$117,000 |

Refer to the information provided for Trump Company. What is Trump Company's income from operations?

- A. \$160,000
- B. \$280,000
- C. \$220,000
- D. \$120,000

28. Trump Company

| | | | |
|------------------|-----------|-------------------------------------|-----------|
| Other revenues | \$110,000 | General and administrative expenses | \$250,000 |
| Dividends | \$120,000 | Gross profit | \$750,000 |
| Selling expenses | \$220,000 | Income tax expense | \$117,000 |

Refer to the information provided for Trump Company. What is Trump Company's net income?

- A. \$390,000
- B. \$200,000
- C. \$273,000
- D. \$280,000

29. Trump Company

| | | | |
|------------------|-----------|-------------------------------------|-----------|
| Other revenues | \$110,000 | General and administrative expenses | \$250,000 |
| Dividends | \$120,000 | Gross profit | \$750,000 |
| Selling expenses | \$220,000 | Income tax expense | \$117,000 |

Refer to the information provided for Trump Company. By what amount will net income on a single-step income statement differ from net income on a multi-step income statement if Trump Company prepares both formats?

- A. \$12,000
- B. \$8,000
- C. \$0
- D. \$6,000

30. As used in accounting, the "Notes to the Financial Statements" should be:
- A. shown at the bottom of the income statement.
 - B. shown in the notes section of the balance sheet.
 - C. included as an integral part of the financial statements.
 - D. considered an optional part of the financial statements.
31. Which of the following items will be found in a corporate annual report?
- A. Industry standards
 - B. Notes to the financial statements
 - C. Selected financial data from non-competitor companies
 - D. Management's statement on auditors responsibility for the financial statements.
32. Which one of the following items is **least** likely to be found in a corporate annual report?
- A. Notes to the financial statements
 - B. Internal budget reports
 - C. Auditor's report
 - D. Management's discussion and analysis
33. Management's discussion and analysis:
- A. is a report of the independent accountants.
 - B. can be substituted for the notes to the financial statements.
 - C. provides a discussion and analysis of the financial activities of the company by the company's management.
 - D. provides assurances that the auditors are responsible for the financial statements.
34. In which section of the annual report would you find: "The financial statements, in our opinion, present fairly the financial position, operating results, and cash flows, in conformity with U.S. generally accepted accounting principles"?
- A. Management report
 - B. Notes to the financial statements
 - C. Management's discussion and analysis
 - D. Independent auditor's report
35. Which of the following represents one of the purposes of the auditor's report?
- A. To provide a place for management to justify questionable items in the statements
 - B. To provide comparative ratios for the company's financial data
 - C. To provide the CPA's opinion of the fairness of the financial statements
 - D. To satisfy the need for full disclosure of all the facts relevant to a company's results and financial position

36. Which of the following organizations is primarily responsible for establishing GAAP in the United States?
- A. Securities and Exchange Commission (SEC)
 - B. Financial Accounting Standards Board (FASB)
 - C. International Accounting Standards Board (IASB)
 - D. Internal Revenue Service (IRS)
37. The Securities Exchange Commission (SEC) is concerned with:
- A. developing a new conceptual framework in order to reduce differences in financial reports for global companies.
 - B. setting accounting rules for all companies that are incorporated in the United States.
 - C. setting accounting rules for publicly-traded companies in the United States.
 - D. working to reduce differences in accounting reports issued by governmental units.
38. Which organization has the power to set accounting rules for companies whose stock is publicly-traded in the U.S. stock markets, but has delegated its power to another organization?
- A. International Accounting Standards Board (IASB)
 - B. Financial Accounting Standards Board (FASB)
 - C. General Association of Accounting Practitioners (GAAP)
 - D. Securities and Exchange Commission (SEC)
39. Most businesses in the United States are:
- A. sole proprietorships.
 - B. partnerships.
 - C. corporations.
 - D. separate entities.
40. Which of the items below is a business entity?
- A. Sole proprietorship
 - B. Labor union
 - C. Entrepreneursip
 - D. Political union
41. An entity that is organized according to state or federal statutes and in which ownership is divided into shares of stock is a:
- A. proprietorship.
 - B. corporation.
 - C. partnership.
 - D. governmental unit.

42. Select the type of business that is most likely to obtain large amounts of resources by issuing stock.
- A. Partnership
 - B. Corporation
 - C. Proprietorship
 - D. None are correct
43. The initials GAAP stand for:
- A. General Acceptance of Accounting Procedures.
 - B. Generally Accepted Accounting Plans.
 - C. Generally Accepted Accounting Principles.
 - D. Generally Accepted Accounting Practices.
44. Which of the following is **not** a characteristic of a corporation?
- A. Corporations are organized as a separate legal taxable entity.
 - B. Ownership is divided into shares of stock.
 - C. Corporations experience an ease in obtaining large amounts of resources by issuing stock.
 - D. For tax purposes, a corporation's business is not separated from the stockholder.
45. Presently, the dominant body in the development of accounting principles in the United States is the:
- A. American Institute of Certified Public Accountants (AICPA).
 - B. American Accounting Association (AAA).
 - C. Financial Accounting Standards Board (FASB).
 - D. Institute of Management Accountants (IMA).
46. Which one of the following is the authoritative body having the primary responsibility for developing accounting principles in the United States?
- A. FASB
 - B. IRS
 - C. SEC
 - D. AICPA
47. Countries outside the U.S. use financial accounting standards issued by the:
- A. LLC.
 - B. SEC.
 - C. IASB.
 - D. GAAP.

48. The analysis that calculates both the absolute and percentage change in each account balance on a financial statement is called:
- vertical analysis.
 - solvency analysis.
 - profitability analysis.
 - horizontal analysis.
49. An analysis in which all the components of an income statement are expressed as a percentage of net sales is called:
- vertical analysis.
 - horizontal analysis.
 - liquidity analysis.
 - common-size analysis.
50. Vertical analysis is also known as:
- perpendicular analysis.
 - trend analysis.
 - common-size analysis.
 - straight-line analysis.
51. Which of the following below generally is the most useful in analyzing companies of different sizes?
- Comparative statements
 - Common-size financial statements
 - Price-level accounting
 - Audit report
52. The percent of fixed assets to total assets is an example of:
- vertical analysis.
 - solvency analysis.
 - profitability analysis.
 - horizontal analysis.
53. What type of analysis is indicated by the following?

| | <u>2012</u> | <u>2011</u> | <u>Increase (Decrease)</u> <u>Amount</u> | <u>Percent</u> |
|----------------|-------------|-------------|---|----------------|
| Current assets | \$ 450,000 | \$ 500,000 | (\$ 50,000) | -10% |
| Fixed assets | 1,800,000 | 1,500,000 | 300,000 | 20% |

- Vertical analysis
- Horizontal analysis
- Liquidity analysis
- Common-size analysis

54. In a common-size financial statement, which of the following is given a percentage of 100 percent?
- Total liabilities
 - Net income
 - Costs of goods sold
 - Total assets
55. In performing a vertical analysis, the base for cost of goods sold is:
- total selling expenses.
 - net sales.
 - total expenses.
 - total revenues.
56. The independent auditor's report does which of the following?
- Describes which financial statements are covered by the audit
 - Gives the auditor's opinion regarding the fairness of the financial statements
 - Summarizes what the auditor did
 - States that the financial statements are truthful

57. **Bloom's Garden Center Company**

Selected data from the financial statements of Bloom's Garden Center are provided below.

| | <u>2012</u> | <u>2011</u> |
|---------------------|-------------|-------------|
| Accounts receivable | \$ 70,000 | \$ 56,000 |
| Inventory | 15,000 | 20,000 |
| Total assets | 450,000 | 380,000 |
| Net sales | 400,000 | 300,000 |
| Cost of goods sold | 200,000 | 180,000 |

- Refer to the selected data provided for Bloom's Garden Center. Which of the following would result from a horizontal analysis of Bloom's balance sheet?
- Accounts receivable increased \$14,000 or 25% during 2012.
 - Accounts receivable is around five times larger than inventory in 2012.
 - Accounts receivable is 15.6% of total assets in 2012.
 - The accounts receivable turnover ratio is 6.35 times in 2012.
58. Refer to the selected data provided for Bloom's Garden Center. Which of the following would result from a horizontal analysis of Bloom's income statement?
- Net sales increased \$100,000 during 2012, or 33.33% of the 2011 amount.
 - Gross profit is 50% of net sales for 2012.
 - Accounts receivable is 15.6% of total assets in 2012.
 - The accounts receivable turnover ratio is 6.35 times in 2012.

59. Refer to the selected data provided for Bloom's Garden Center. Which of the following would result from a horizontal analysis of Bloom's income statement?
- A. Cost of goods sold is 50% of net sales for 2012.
 - B. Gross profit is 50% of net sales for 2012.
 - C. Cost of goods sold increased \$20,000 or 11.1% during 2012.
 - D. Inventory decreased \$5,000 or 25% during 2011.
60. Refer to the selected data provided for Bloom's Garden Center. Which of the following would result from a vertical analysis of Bloom's income statement?
- A. The accounts receivable turnover ratio is 6.35 in 2012.
 - B. Gross profit is 50% of net sales for 2012.
 - C. Cost of goods sold increased \$20,000 or 11.11% during 2012.
 - D. Net sales is 88.9% of total assets for 2012.
61. Which of the following statements is true regarding vertical analysis?
- A. Cross-sectional analysis compares financial data for a single entity over time.
 - B. Common-size financial statements are used to compare companies of different sizes.
 - C. Trend analysis compares a company's financial data to industry averages.
 - D. Time series analysis is effective for comparison of different companies over time.
62. Which of the following is one of the elements of stockholders' equity?
- A. Income tax payable
 - B. Dividends payable
 - C. Retained earnings
 - D. Accounts payable
63. The balance in the retained earnings account represents:
- A. cash in the bank.
 - B. the amount of cash available for dividends.
 - C. accumulated revenues from all prior years of operations.
 - D. accumulated earnings that have not been distributed to stockholders.
64. Which of the following statements is true regarding a corporation's purchase of treasury stock?
- A. The cost of treasury stock is a reduction in stockholders' equity.
 - B. Dividends must still be paid on treasury stock because it is still issued.
 - C. Treasury stock is reported as an asset because it is considered an investment in the corporation's own stock.
 - D. Treasury stock is no longer considered issued once it is back in the hands of the issuer.

65. Significant changes in stockholders' equity are reported in:
- A. income statement.
 - B. retained earnings statement.
 - C. statement of stockholders' equity.
 - D. statement of cash flows.
66. All of the following are normally found in a corporation's stockholders' equity section **except**:
- A. common stock.
 - B. additional paid-in capital.
 - C. dividends in arrears.
 - D. retained earnings.
67. Stockholders' equity:
- A. is usually equal to cash on hand.
 - B. includes paid-in capital and liabilities.
 - C. includes retained earnings and paid-in capital.
 - D. is shown on the income statement.
68. Which one of the following financial statements shows how and why each equity account in the company's balance sheet changed from one year to the next?
- A. Balance sheet
 - B. Statement of retained earnings
 - C. Income statement
 - D. Statement of stockholders' equity

69. **Barron Corporation**

The accountant for Barron Corporation prepared the following list of account balances from the company's records for the year ended December 31, 2012.

| | | | |
|--------------------------|-------------|----------------------|-----------|
| Sales revenue | \$1,650,000 | Cash | \$300,000 |
| Accounts receivable | 140,000 | Selling expenses | 440,000 |
| Equipment | 420,000 | Common stock | 170,000 |
| Accounts payable | 120,000 | Interest income | 30,000 |
| Salaries & wages expense | 400,000 | Cost of sales | 510,000 |
| Inventories | 220,000 | Prepaid expenses | 20,000 |
| Income taxes payable | 50,000 | Income taxes expense | 180,000 |
| Notes payable | 200,000 | Retained earnings | ? |

Determine the following amounts for Barron Corporation.

- A) Current assets at the end of 2012
Total assets at the end of 2012
- B) Current liabilities at the end of 2012
- C) What parties have a claim on Barron Corporation's assets? Explain your answer in the terms of the accounting equation.

70. Presented below are selected data from the balance sheet of Stuff Company for 2012. The figures are expressed in millions.

| | |
|-----------------------------|-----------|
| Current assets | \$400,000 |
| Property, plant & equipment | 600,000 |
| Other assets | ??? |
| Current liabilities | 250,000 |
| Total long-term debt | 550,000 |
| Total stockholders' equity | 300,000 |

- A) Determine the amount of "Other assets" for Stuff's 2012 balance sheet.
(Hint: you must use the accounting equation concept to determine your answer.)
- B) How much of Stuff Company is financed by creditors? How much is financed by the owners?

71. Presented below are selected data from the accounting records for Hot Rod Hanks Co. for 2012.

| | |
|--------------------|-----------|
| Sales | \$900,000 |
| Income tax expense | 80,000 |
| Cost of sales | 550,000 |
| Operating expenses | 150,000 |
| Dividends | 75,000 |

- A) Calculate the net income or loss for 2012.
- B) Explain how the amount from part A will affect the financial position of Hot Rod Hanks Co.
- C) Is the company profitable? Explain your answer.

72. Classify the following items according to the financial statement on which each belongs, either the income statement (IS), statement of retained earnings (RE), or the balance sheet (BS). Also indicate whether each is a revenue (R), expense (E), asset (A), liability (L), or stockholders' equity (SE) item.

| | | Appears on Which Statement? | Type of Account |
|----|-------------------|--|----------------------------|
| 1. | Retained earnings | | |
| 2. | Equipment | | |
| 3. | Common stock | | |
| 4. | Unearned revenue | | |
| 5. | Sales | | |
| 6. | Rent expense | | |
| 7. | Inventory | | |

73. The following information is taken from Jackson Company's balance sheet as December 31, 2012:

| | | | |
|--------------|-----------|-------------------|-----------|
| Cash | \$240,000 | Retained earnings | \$140,000 |
| Inventory | 80,000 | Accounts payable | 70,000 |
| Equipment | 380,000 | Bonds payable | 230,000 |
| Common stock | 260,000 | | |

Using the information provided for Jackson Company, answer the following questions:

- A) How much did creditors provide to Jackson Company?
- B) On which financial statement would an investor look to see if any stock was issued during the year?

74. **Stimulus Corporation**

All of the items from Stimulus Corporation's income statement for the year ending December 31, 2012, are presented below.

| | |
|--|--------------------|
| | <u>2012</u> |
| Net sales | \$1,500,000 |
| Selling, general and administrative expenses | 900,000 |
| Research and development expenses | 100,000 |
| Other income (net) | 50,000 |

Refer to the information of Stimulus Corporation. How much is net income for the year ended December 31, 2012? If Stimulus Corporation had used a single-step statement what would be their net income and by how much would net income be different than if the multi-step approach had been used? Explain.

75. Listed below are several amounts from the accounting records of Dean, Inc. for the year ended December 31, 2012. Prepare a multi-step income statement in good form.

| | |
|-------------------------------------|-------------|
| Service revenue | \$1,000,000 |
| Selling expenses | 250,000 |
| Income tax expense | 108,000 |
| General and administrative expenses | 400,000 |
| Interest revenue | 10,000 |

76. Most financial reports contain the following list of basic elements. For each element identify the person(s) who prepared the element and describe the information a user would expect to find in each element. Some information is verifiable, while other information is subjectively chosen by management. Indicate whether the information is each element is verifiable.

| | Prepared | Information | Verifiable/ |
|-----------------------------------|----------|-------------|-------------|
| Elements | By | Provided | Yes or No? |
| Management discussion & analysis | | | |
| Financial statements | | | |
| Notes to financial statements | | | |
| Report of independent accountants | | | |

77. Comparative information taken from the Carson Company financial statements is shown below:

| | <u>2012</u> | <u>2011</u> |
|--------------------------|-------------|-------------|
| (a) Notes receivable | \$ 10,000 | \$ -0- |
| (b) Accounts receivable | 175,000 | 140,000 |
| (c) Retained earnings | 30,000 | (40,000) |
| (d) Sales | 840,000 | 750,000 |
| (e) Operating expenses | 160,000 | 200,000 |
| (f) Income taxes payable | 28,000 | 20,000 |

Instructions

Using horizontal analysis, show the percentage change from 2011 to 2012 with 2011 as the base year.

78. The comparative balance sheet of Ramos Company appears below:

RAMOS COMPANY
Comparative Balance Sheet
December 31, 2012

| <u>Assets</u> | <u>2012</u> | <u>2011</u> |
|---|-------------|-------------|
| Current assets | \$ 440 | \$ 280 |
| Fixed assets | 675 | 520 |
| Total assets | \$1,115 | \$ 800 |
| | | |
| <u>Liabilities and stockholders' equity</u> | | |
| Current liabilities | \$ 280 | \$ 120 |
| Long-term debt | 250 | 160 |
| Common stock | 325 | 320 |
| Retained earnings | 260 | 200 |
| Total liabilities and stockholders' equity | \$1,115 | \$ 800 |

Instructions

- (a) Using horizontal analysis, show the percentage change for each balance sheet item using 2011 as a base year.
- (b) Using vertical analysis, prepare a common-size comparative balance sheet.

79. Revenue and expense data for Martinez Company are as follows:

| | <u>2012</u> | <u>2011</u> |
|-------------------------|-------------|-------------|
| Administrative expenses | \$ 35,000 | \$ 25,000 |
| Cost of goods sold | 350,000 | 300,000 |
| Income tax | 103,500 | 82,500 |
| Net sales | 900,000 | 700,000 |
| Selling expenses | 170,000 | 100,000 |

- (a) Prepare a comparative income statement, with vertical analysis, stating each item for both 2012 and 2011 as a percent of sales.
- (b) Comment upon significant changes disclosed by the comparative income statement.

80. Fargo Manufacturing

Condensed data from the financial statements of Fargo Manufacturing for 2012 and 2011 are presented below. The figures are expressed in thousands.

| Statement A | <u>2012</u> | <u>2011</u> |
|--|--------------------|--------------------|
| Total current assets | \$219,560 | \$180,080 |
| Property, plant & equipment (net of accumulated depreciation) | 18,320 | 12,724 |
| Investments | 3,370 | 1,061 |
| Other assets | <u>12,220</u> | <u>10,606</u> |
| Total assets | <u>\$253,470</u> | <u>\$204,471</u> |
| Total current liabilities | 92,990 | 86,600 |
| Long-term debt | <u>15,160</u> | <u>20,156</u> |
| Total liabilities | 108,150 | 106,756 |
| Stockholders' equity: | | |
| Contributed capital | 53,680 | 32,250 |
| Retained earnings | <u>91,640</u> | <u>65,465</u> |
| Total stockholders' equity | <u>145,320</u> | <u>97,715</u> |
| Total liabilities & stockholders' equity | <u>\$253,470</u> | <u>\$204,471</u> |
| | | |
| Statement B | <u>2012</u> | <u>2011</u> |
| Net sales | \$229,301 | \$184,701 |
| Cost of sales | <u>135,453</u> | <u>119,284</u> |
| Gross margin | 93,848 | 65,417 |
| Selling, general and administrative expenses | 64,832 | 52,220 |
| Other income (expense) | <u>693</u> | <u>(118)</u> |
| Income (loss) before income taxes | 29,709 | 13,079 |
| Income tax expense | <u>3,534</u> | <u>2,109</u> |
| Net income (loss) | <u>\$ 26,175</u> | <u>\$ 10,970</u> |

Refer to the information provided for Fargo Manufacturing.

- A) What is the name of Statement A?
- B) What is the name of Statement B?

81. Fargo Manufacturing

Condensed data from the financial statements of Fargo Manufacturing for 2012 and 2011 are presented below. The figures are expressed in thousands.

| Statement A | <u>2012</u> | <u>2011</u> |
|--|------------------------|------------------------|
| Total current assets | \$219,560 | \$180,080 |
| Property, plant & equipment (net of accumulated depreciation) | 18,320 | 12,724 |
| Investments | 3,370 | 1,061 |
| Other assets | <u>12,220</u> | <u>10,606</u> |
| Total assets | <u>\$253,470</u> | <u>\$204,471</u> |
| Total current liabilities | 92,990 | 86,600 |
| Long-term debt | <u>15,160</u> | <u>20,156</u> |
| Total liabilities | 108,150 | 106,756 |
| Stockholders' equity: | | |
| Contributed capital | 53,680 | 32,250 |
| Retained earnings | <u>91,640</u> | <u>65,465</u> |
| Total stockholders' equity | <u>145,320</u> | <u>97,715</u> |
| Total liabilities & stockholders' equity | <u>\$253,470</u> | <u>\$204,471</u> |
| Statement B | <u>2012</u> | <u>2011</u> |
| Net sales | \$229,301 | \$184,701 |
| Cost of sales | <u>135,453</u> | <u>119,284</u> |
| Gross margin | 93,848 | 65,417 |
| Selling, general and administrative expenses | 64,832 | 52,220 |
| Other income (expense) | <u>693</u> | <u>(118)</u> |
| Income (loss) before income taxes | 29,709 | 13,079 |
| Income tax expense | <u>3,534</u> | <u>2,109</u> |
| Net income (loss) | <u>\$ 26,175</u> | <u>\$ 10,970</u> |

Refer to the information provided for Fargo Manufacturing. Which statement indicates the financial position of the company? What information is provided on that statement that indicates the "financial position" of the company? Explain.

82. Fargo Manufacturing

Condensed data from the financial statements of Fargo Manufacturing for 2012 and 2011 are presented below. The figures are expressed in thousands.

| Statement A | <u>2012</u> | <u>2011</u> |
|--|--------------------|--------------------|
| Total current assets | \$219,560 | \$180,080 |
| Property, plant & equipment (net of accumulated depreciation) | 18,320 | 12,724 |
| Investments | 3,370 | 1,061 |
| Other assets | <u>12,220</u> | <u>10,606</u> |
| Total assets | <u>\$253,470</u> | <u>\$204,471</u> |
| Total current liabilities | 92,990 | 86,600 |
| Long-term debt | <u>15,160</u> | <u>20,156</u> |
| Total liabilities | 108,150 | 106,756 |
| Stockholders' equity: | | |
| Contributed capital | 53,680 | 32,250 |
| Retained earnings | <u>91,640</u> | <u>65,465</u> |
| Total stockholders' equity | <u>145,320</u> | <u>97,715</u> |
| Total liabilities & stockholders' equity | <u>\$253,470</u> | <u>\$204,471</u> |
| | | |
| Statement B | <u>2012</u> | <u>2011</u> |
| Net sales | \$229,301 | \$184,701 |
| Cost of sales | <u>135,453</u> | <u>119,284</u> |
| Gross margin | 93,848 | 65,417 |
| Selling, general and administrative expenses | 64,832 | 52,220 |
| Other income (expense) | <u>693</u> | <u>(118)</u> |
| Income (loss) before income taxes | 29,709 | 13,079 |
| Income tax expense | <u>3,534</u> | <u>2,109</u> |
| Net income (loss) | <u>\$ 26,175</u> | <u>\$ 10,970</u> |

Refer to the information provided for Fargo Manufacturing. Was Fargo Manufacturing profitable both years? What are the amounts of the total revenues and total expenses, respectively, for 2012? Which financial statement provides this information to you?

83. How is a classified balance sheet useful to decision makers?

84. How does the definition of a current liability relate to that of a current asset?

85. Potential stockholders and lenders are interested in a company's financial statements. Several financial statement items appear below. Answer the questions that follow.

Accounts receivable
Cash
Common stock
Retained earnings
Office supplies
Unearned revenue

Accounts payable
Depreciation expense
Land held for future expansion
Loss on the sale of equipment
Patent amortization expense
Utilities expense

Advertising expenses
Income taxes
Dividends
Net income
Sales

- A) List the two items from above in which stockholders would be most interested. Explain why the two you selected are important to stockholders.
- B) In which one item would lenders be most interested? Explain why this item is important.

86. What information is provided in an annual report in addition to the financial statements?

87. What is meant by "generally accepted accounting principles"?

88. The three forms of business organizations are _____, _____, and _____.

89. The step of listing the liabilities of the company in order of their time to maturity is performed for a financial statement called _____.

90. _____ are cash and other assets that are reasonably expected to be realized in cash withing one year.

91. Property, plant and equipment is classified as _____ assets on the balance sheet.

92. In a(n) _____-step income statement, all expenses and losses are added together, then deducted from the sum of all revenues and gains.

93. The _____ is the U.S. federal government agency with the ultimate authority to determine the accounting rules for companies whose stock is sold to the public.

94. The _____ is the private sector group with authority to set accounting standards in the United States.

95. The various rules and conventions that have evolved over time to guide the preparation of financial statements in the U.S. are called _____.
96. In _____ analysis, each financial statement line item is expressed as a percent of a base year, which is typically the earliest year shown.
97. In _____ analysis, each financial statement line item is expressed as a percent of the base amount on the statement, which is net sales or total assets for the income statement or balance sheet, respectively.

98. _____ is a part of issued stock that is repurchased by the corporation but **not** retired.

99. Revenue and expense data for Tower Technologies are as follows:

| | 2012 | 2011 |
|-------------------------|-----------|-----------|
| Sales | \$500,000 | \$440,000 |
| Cost of goods sold | 325,000 | 242,000 |
| Selling expenses | 70,000 | 79,200 |
| Administrative expenses | 75,000 | 70,400 |
| Income tax expense | 25,000 | 26,400 |

Required:

- (1) Prepare an income statement in comparative form, stating each item for both 2012 and 2011 as a percent of sales. (Round your answers to one decimal place.)
- (2) Comment on the significant changes disclosed by the comparative income statement.

100. The cash and accounts receivable balances for a company are provided below:

| | <u>2012</u> | <u>2011</u> |
|---------------------------|-------------|-------------|
| Cash | \$75,000 | \$50,000 |
| Accounts receivable (net) | \$76,800 | \$80,000 |

Based on this information, what is the amount and percentage of increase or decrease that would be shown in a balance sheet with horizontal analysis?

101. Income statement information for Yvonne Company is provided below:

| | |
|--------------------|------------------|
| Sales | \$150,000 |
| Cost of goods sold | <u>105,000</u> |
| Gross profit | <u>\$ 45,000</u> |

Prepare a common-size income statement for Yvonne Company.

Chapter 2--Corporate Financial Statements **Key**

1. Which of the following is **not** a form of a business entity?
 - A. Sole proprietorship
 - B. Partnership
 - C.** Entrepreneurship
 - D. Corporation

2. In which of the following organization forms are the owners' legal responsibility for the debt of the business limited to the amount they invested in the business?
 - A. Sole proprietorship
 - B.** Corporation
 - C. Partnership
 - D. Cooperative

3. Which of the following best describes the term "current assets"?
 - A. The amount of total profits earned by a business since it began operations plus all other resources.
 - B. The amount of claim that the owners have in the business in the current year.
 - C.** Assets expected to be converted into cash within one year or one.
 - D. The cumulative profits earned by a business less any dividends distributed in the current period.

4. Which one of the following items is a classification on the classified balance sheet?
 - A. Operating accounts
 - B.** Stockholders' equity
 - C. Revenues and expenses
 - D. Net income and dividends

5. Which of the following are noncurrent assets?
 - A.** Machinery and equipment
 - B. Accounts receivable
 - C. Inventories
 - D. Unearned revenues

6. Short-term investments are:
 - A. fixed assets.
 - B. accounts receivables.
 - C. intangible assets.
 - D.** current assets.

7. **IPOD CORPORATION**

IPOD Corporation's end-of-year balance sheet consisted of the following amounts.

| | | | |
|-----------------------------|------------|---------------------|-----------|
| Cash | \$ 250,000 | Accounts receivable | \$500,000 |
| Property, plant & equipment | 900,000 | Long-term debt | 300,000 |
| Capital stock | 1,200,000 | Accounts payable | 100,000 |
| Retained earnings | ? | Inventory | 450,000 |

Refer to the information provided for IPOD Corporation. What amount should IPOD report on its balance sheet for *total assets*?

- A. \$2,000,000
- B. \$2,550,000
- C. \$2,100,000**
- D. \$1,900,000

8. **IPOD CORPORATION**

IPOD Corporation's end-of-year balance sheet consisted of the following amounts.

| | | | |
|-----------------------------|------------|---------------------|-----------|
| Cash | \$ 250,000 | Accounts receivable | \$500,000 |
| Property, plant & equipment | 900,000 | Long-term debt | 300,000 |
| Capital stock | 1,200,000 | Accounts payable | 100,000 |
| Retained earnings | ? | Inventory | 450,000 |

Refer to the information provided for IPOD Corporation. What is IPOD's *retained earnings* balance at the end of the current year?

- A. \$ 500,000**
- B. \$1,100,000
- C. \$ 400,000
- D. \$1,200,000

9. **Peck Company**

The Peck Company reported the following items on its financial statements for the year ending December 31, 2012.

| | | | |
|--|-------------|----------------|-------------|
| Sales | \$1,560,000 | Cost of sales | \$1,400,000 |
| Selling, general and administrative expenses | 40,000 | Other expenses | 30,000 |
| Dividends | 10,000 | Income taxes | 25,000 |

Refer to the information provided for Peck Company. The income statement for Peck will report *net income* for the current year in the amount of:

- A. \$545,000.
- B. \$ 65,000.**
- C. \$ 85,000.
- D. \$120,000.

10. **Peck Company**

The Peck Company reported the following items on its financial statements for the year ending December 31, 2012.

| | | | |
|--|-------------|----------------|-------------|
| Sales | \$1,560,000 | Cost of sales | \$1,400,000 |
| Selling, general and administrative expenses | 40,000 | Other expenses | 30,000 |
| Dividends | 10,000 | Income taxes | 25,000 |

Refer to the information provided for Peck Company. How much will be reported as *retained earnings* on its balance sheet at December 31, 2012, if this is the first year of operations?

- A. \$45,000
- B. \$55,000**
- C. \$85,000
- D. \$65,000

11. Paradise Company reports the following information at December 31, 2012:

| | |
|------------------|--------------|
| Sales | \$18,000,000 |
| Cash | 3,000,000 |
| Salaries payable | 400,000 |
| Dividends | 1,000,000 |
| Cost of sales | 12,500,000 |

What is Natural Company's Gross Profit?

- A. \$ 6,100,000
- B. \$ 6,500,000
- C. \$ 5,500,000**
- D. \$12,000,000

12. **Wing Company**

| | | | |
|-------------|-----------|--------------------------|-----------|
| Cash | \$234,000 | Accounts payable | \$ 97,000 |
| Inventories | 121,000 | Notes payable (due 2020) | 211,000 |
| Land | 453,000 | Accounts receivable | 46,000 |

Refer to the information provided for Wing Company. Calculate current assets.

- A. \$498,000
- B. \$401,000**
- C. \$854,000
- D. \$709,000

13. **Wing Company**

| | | | |
|-------------|-----------|--------------------------|-----------|
| Cash | \$234,000 | Accounts payable | \$ 97,000 |
| Inventories | 121,000 | Notes payable (due 2020) | 211,000 |
| Land | 453,000 | Accounts receivable | 46,000 |

Refer to the information provided for Wing Company. Calculate current liabilities.

- A. \$ 97,000
- B. \$211,000
- C. \$354,000
- D. \$143,000

14. Which one of the following is a source of equity?

- A. Notes payable
- B. Accounts payable
- C. Land
- D. Contributed capital

15. **Jarret Company**

| | | | |
|-----------|-----------|------------------|-----------|
| Cash | \$125,000 | Inventory | \$215,000 |
| Land | 275,000 | Unearned revenue | 117,000 |
| Equipment | 350,000 | Common stock | 300,000 |

Refer to the information provided for Jarret Company. Calculate current assets.

- A. \$457,000
- B. \$615,000
- C. \$125,000
- D. \$340,000

16. Which of the following accounts are normally reported as current liabilities on a classified balance sheet?

- A. Accounts payable and Prepaid insurance
- B. Interest payable and Interest receivable
- C. Income taxes payable and Salaries payable
- D. Capital stock and Accounts payable

17. Which one of the following is **not** categorized as a long-term assets?

- A. Intangibles
- B. Property, plant, and equipment
- C. Inventory
- D. Patents

18. Which of the following would **not** be considered an intangible asset?
- A. Franchise rights
 - B. Copyrights
 - C. Investments**
 - D. Trademarks
19. If assets are expected to be realized in cash, sold, or consumed within one year, how are they reported on a classified balance sheet?
- A. Property, plant, and equipment
 - B. Current assets**
 - C. Intangible assets
 - D. Current liabilities
20. Which set of items below are classified as current assets?
- A. Accounts receivable, Net income, Inventory, and Dividends
 - B. Cash, Accounts receivable, Capital stock, and Sales
 - C. Net income, Cash, Office supplies, and Inventory
 - D. Cash, Accounts receivable, Inventory, and Office supplies**

21. **Pacific Corporation**

| | | | |
|-------------------|-----------|-------------------------|-----------|
| Inventory | \$380,000 | Accounts receivable | \$190,000 |
| Land | 290,000 | Accounts payable | 180,000 |
| Cash | 129,000 | Unearned revenue | 110,000 |
| Prepaid rent | 33,000 | Common stock | 312,000 |
| Retained earnings | 220,000 | Long-term notes payable | 200,000 |

Calculate the total amount of current assets for Pacific Corporation.

- A. \$ 842,000
 - B. \$1,022,000
 - C. \$ 732,000**
 - D. \$ 842,000
22. Which of the following would appear on an income statement?
- A. Unearned revenue
 - B. Cost of sales**
 - C. Retained earnings
 - D. Dividends

23. Gain and losses are reported on the multi-step income statement under which of the following classifications?
- A. Cost of sales
 - B. Other revenues and expenses**
 - C. Operating revenues and expenses
 - D. Gross margin
24. A question asked by stockholders is, "How much gross profit did the company make?" What financial statement would have the "gross profit" indicated as a separate line item?
- A. The balance sheet because retained earnings represents gross profits
 - B. The statement of cash flows as cash inflows and outflows represents gross profits
 - C. The multi-step income statement**
 - D. The single-step income statement
25. On a multi-step income statement, subtracting total operating expenses from gross profit will equal:
- A. gross margin.
 - B. operating income.**
 - C. income before taxes.
 - D. net income.
26. The list below contains several items that appear on a multi-step income statement.
1. Other incomes and expenses
 2. Income before income taxes
 3. Net income
 4. Operating expenses
 5. Gross margin
 6. Net sales
 7. Income from operations

Select the choice that lists the items in the order they would appear on a multi-step income statement.

- A. 6, 5, 4, 7, 1, 2, 3**
- B. 7, 6, 1, 4, 2, 3, 5
- C. 6, 5, 4, 1, 7, 2, 3
- D. 6, 7, 4, 1, 2, 3, 5

27. **Trump Company**

| | | | |
|------------------|-----------|-------------------------------------|-----------|
| Other revenues | \$110,000 | General and administrative expenses | \$250,000 |
| Dividends | \$120,000 | Gross profit | \$750,000 |
| Selling expenses | \$220,000 | Income tax expense | \$117,000 |

Refer to the information provided for Trump Company. What is Trump Company's income from operations?

- A. \$160,000
- B. \$280,000**
- C. \$220,000
- D. \$120,000

28. **Trump Company**

| | | | |
|------------------|-----------|-------------------------------------|-----------|
| Other revenues | \$110,000 | General and administrative expenses | \$250,000 |
| Dividends | \$120,000 | Gross profit | \$750,000 |
| Selling expenses | \$220,000 | Income tax expense | \$117,000 |

Refer to the information provided for Trump Company. What is Trump Company's net income?

- A. \$390,000
- B. \$200,000
- C. \$273,000**
- D. \$280,000

29. **Trump Company**

| | | | |
|------------------|-----------|-------------------------------------|-----------|
| Other revenues | \$110,000 | General and administrative expenses | \$250,000 |
| Dividends | \$120,000 | Gross profit | \$750,000 |
| Selling expenses | \$220,000 | Income tax expense | \$117,000 |

Refer to the information provided for Trump Company. By what amount will net income on a single-step income statement differ from net income on a multi-step income statement if Trump Company prepares both formats?

- A. \$12,000
- B. \$8,000
- C. \$0**
- D. \$6,000

30. As used in accounting, the "Notes to the Financial Statements" should be:
- A. shown at the bottom of the income statement.
 - B. shown in the notes section of the balance sheet.
 - C.** included as an integral part of the financial statements.
 - D. considered an optional part of the financial statements.
31. Which of the following items will be found in a corporate annual report?
- A. Industry standards
 - B.** Notes to the financial statements
 - C. Selected financial data from non-competitor companies
 - D. Management's statement on auditors responsibility for the financial statements.
32. Which one of the following items is **least** likely to be found in a corporate annual report?
- A. Notes to the financial statements
 - B.** Internal budget reports
 - C. Auditor's report
 - D. Management's discussion and analysis
33. Management's discussion and analysis:
- A. is a report of the independent accountants.
 - B. can be substituted for the notes to the financial statements.
 - C.** provides a discussion and analysis of the financial activities of the company by the company's management.
 - D. provides assurances that the auditors are responsible for the financial statements.
34. In which section of the annual report would you find: "The financial statements, in our opinion, present fairly the financial position, operating results, and cash flows, in conformity with U.S. generally accepted accounting principles"?
- A. Management report
 - B. Notes to the financial statements
 - C. Management's discussion and analysis
 - D.** Independent auditor's report
35. Which of the following represents one of the purposes of the auditor's report?
- A. To provide a place for management to justify questionable items in the statements
 - B. To provide comparative ratios for the company's financial data
 - C.** To provide the CPA's opinion of the fairness of the financial statements
 - D. To satisfy the need for full disclosure of all the facts relevant to a company's results and financial position

36. Which of the following organizations is primarily responsible for establishing GAAP in the United States?
- A. Securities and Exchange Commission (SEC)
 - B. Financial Accounting Standards Board (FASB)**
 - C. International Accounting Standards Board (IASB)
 - D. Internal Revenue Service (IRS)
37. The Securities Exchange Commission (SEC) is concerned with:
- A. developing a new conceptual framework in order to reduce differences in financial reports for global companies.
 - B. setting accounting rules for all companies that are incorporated in the United States.
 - C. setting accounting rules for publicly-traded companies in the United States.**
 - D. working to reduce differences in accounting reports issued by governmental units.
38. Which organization has the power to set accounting rules for companies whose stock is publicly-traded in the U.S. stock markets, but has delegated its power to another organization?
- A. International Accounting Standards Board (IASB)
 - B. Financial Accounting Standards Board (FASB)
 - C. General Association of Accounting Practitioners (GAAP)
 - D. Securities and Exchange Commission (SEC)**
39. Most businesses in the United States are:
- A. sole proprietorships.**
 - B. partnerships.
 - C. corporations.
 - D. separate entities.
40. Which of the items below is a business entity?
- A. Sole proprietorship**
 - B. Labor union
 - C. Entrepreneursip
 - D. Political union
41. An entity that is organized according to state or federal statutes and in which ownership is divided into shares of stock is a:
- A. proprietorship.
 - B. corporation.**
 - C. partnership.
 - D. governmental unit.

42. Select the type of business that is most likely to obtain large amounts of resources by issuing stock.
- A. Partnership
 - B. Corporation**
 - C. Proprietorship
 - D. None are correct
43. The initials GAAP stand for:
- A. General Acceptance of Accounting Procedures.
 - B. Generally Accepted Accounting Plans.
 - C. Generally Accepted Accounting Principles.**
 - D. Generally Accepted Accounting Practices.
44. Which of the following is **not** a characteristic of a corporation?
- A. Corporations are organized as a separate legal taxable entity.
 - B. Ownership is divided into shares of stock.
 - C. Corporations experience an ease in obtaining large amounts of resources by issuing stock.
 - D. For tax purposes, a corporation's business is not separated from the stockholder.**
45. Presently, the dominant body in the development of accounting principles in the United States is the:
- A. American Institute of Certified Public Accountants (AICPA).
 - B. American Accounting Association (AAA).
 - C. Financial Accounting Standards Board (FASB).**
 - D. Institute of Management Accountants (IMA).
46. Which one of the following is the authoritative body having the primary responsibility for developing accounting principles in the United States?
- A. FASB**
 - B. IRS
 - C. SEC
 - D. AICPA
47. Countries outside the U.S. use financial accounting standards issued by the:
- A. LLC.
 - B. SEC.
 - C. IASB.**
 - D. GAAP.

48. The analysis that calculates both the absolute and percentage change in each account balance on a financial statement is called:
- vertical analysis.
 - solvency analysis.
 - profitability analysis.
 - D.** horizontal analysis.
49. An analysis in which all the components of an income statement are expressed as a percentage of net sales is called:
- A.** vertical analysis.
 - horizontal analysis.
 - liquidity analysis.
 - common-size analysis.
50. Vertical analysis is also known as:
- perpendicular analysis.
 - trend analysis.
 - C.** common-size analysis.
 - straight-line analysis.
51. Which of the following below generally is the most useful in analyzing companies of different sizes?
- Comparative statements
 - B.** Common-size financial statements
 - Price-level accounting
 - Audit report
52. The percent of fixed assets to total assets is an example of:
- A.** vertical analysis.
 - solvency analysis.
 - profitability analysis.
 - horizontal analysis.
53. What type of analysis is indicated by the following?

| | <u>2012</u> | <u>2011</u> | <u>Increase (Decrease)</u> | |
|----------------|-------------|-------------|----------------------------|----------------|
| | | | <u>Amount</u> | <u>Percent</u> |
| Current assets | \$ 450,000 | \$ 500,000 | (\$ 50,000) | -10% |
| Fixed assets | 1,800,000 | 1,500,000 | 300,000 | 20% |

- Vertical analysis
- B.** Horizontal analysis
- Liquidity analysis
- Common-size analysis

54. In a common-size financial statement, which of the following is given a percentage of 100 percent?
- A. Total liabilities
 - B. Net income
 - C. Costs of goods sold
 - D. Total assets**

55. In performing a vertical analysis, the base for cost of goods sold is:
- A. total selling expenses.
 - B. net sales.**
 - C. total expenses.
 - D. total revenues.

56. The independent auditor's report does which of the following?
- A. Describes which financial statements are covered by the audit
 - B. Gives the auditor's opinion regarding the fairness of the financial statements**
 - C. Summarizes what the auditor did
 - D. States that the financial statements are truthful

57. **Bloom's Garden Center Company**
Selected data from the financial statements of Bloom's Garden Center are provided below.

| | <u>2012</u> | <u>2011</u> |
|---------------------|-------------|-------------|
| Accounts receivable | \$ 70,000 | \$ 56,000 |
| Inventory | 15,000 | 20,000 |
| Total assets | 450,000 | 380,000 |
| Net sales | 400,000 | 300,000 |
| Cost of goods sold | 200,000 | 180,000 |

Refer to the selected data provided for Bloom's Garden Center. Which of the following would result from a horizontal analysis of Bloom's balance sheet?

- A. Accounts receivable increased \$14,000 or 25% during 2012.**
 - B. Accounts receivable is around five times larger than inventory in 2012.
 - C. Accounts receivable is 15.6% of total assets in 2012.
 - D. The accounts receivable turnover ratio is 6.35 times in 2012.
58. Refer to the selected data provided for Bloom's Garden Center. Which of the following would result from a horizontal analysis of Bloom's income statement?
- A. Net sales increased \$100,000 during 2012, or 33.33% of the 2011 amount.**
 - B. Gross profit is 50% of net sales for 2012.
 - C. Accounts receivable is 15.6% of total assets in 2012.
 - D. The accounts receivable turnover ratio is 6.35 times in 2012.

59. Refer to the selected data provided for Bloom's Garden Center. Which of the following would result from a horizontal analysis of Bloom's income statement?
- A. Cost of goods sold is 50% of net sales for 2012.
 - B. Gross profit is 50% of net sales for 2012.
 - C.** Cost of goods sold increased \$20,000 or 11.1% during 2012.
 - D. Inventory decreased \$5,000 or 25% during 2011.
60. Refer to the selected data provided for Bloom's Garden Center. Which of the following would result from a vertical analysis of Bloom's income statement?
- A. The accounts receivable turnover ratio is 6.35 in 2012.
 - B.** Gross profit is 50% of net sales for 2012.
 - C. Cost of goods sold increased \$20,000 or 11.11% during 2012.
 - D. Net sales is 88.9% of total assets for 2012.
61. Which of the following statements is true regarding vertical analysis?
- A. Cross-sectional analysis compares financial data for a single entity over time.
 - B.** Common-size financial statements are used to compare companies of different sizes.
 - C. Trend analysis compares a company's financial data to industry averages.
 - D. Time series analysis is effective for comparison of different companies over time.
62. Which of the following is one of the elements of stockholders' equity?
- A. Income tax payable
 - B. Dividends payable
 - C.** Retained earnings
 - D. Accounts payable
63. The balance in the retained earnings account represents:
- A. cash in the bank.
 - B. the amount of cash available for dividends.
 - C. accumulated revenues from all prior years of operations.
 - D.** accumulated earnings that have not been distributed to stockholders.
64. Which of the following statements is true regarding a corporation's purchase of treasury stock?
- A.** The cost of treasury stock is a reduction in stockholders' equity.
 - B. Dividends must still be paid on treasury stock because it is still issued.
 - C. Treasury stock is reported as an asset because it is considered an investment in the corporation's own stock.
 - D. Treasury stock is no longer considered issued once it is back in the hands of the issuer.

65. Significant changes in stockholders' equity are reported in:
- A. income statement.
 - B. retained earnings statement.
 - C.** statement of stockholders' equity.
 - D. statement of cash flows.
66. All of the following are normally found in a corporation's stockholders' equity section **except**:
- A. common stock.
 - B. additional paid-in capital.
 - C.** dividends in arrears.
 - D. retained earnings.
67. Stockholders' equity:
- A. is usually equal to cash on hand.
 - B. includes paid-in capital and liabilities.
 - C.** includes retained earnings and paid-in capital.
 - D. is shown on the income statement.
68. Which one of the following financial statements shows how and why each equity account in the company's balance sheet changed from one year to the next?
- A. Balance sheet
 - B. Statement of retained earnings
 - C. Income statement
 - D.** Statement of stockholders' equity

69. **Barron Corporation**

The accountant for Barron Corporation prepared the following list of account balances from the company's records for the year ended December 31, 2012.

| | | | |
|--------------------------|-------------|----------------------|-----------|
| Sales revenue | \$1,650,000 | Cash | \$300,000 |
| Accounts receivable | 140,000 | Selling expenses | 440,000 |
| Equipment | 420,000 | Common stock | 170,000 |
| Accounts payable | 120,000 | Interest income | 30,000 |
| Salaries & wages expense | 400,000 | Cost of sales | 510,000 |
| Inventories | 220,000 | Prepaid expenses | 20,000 |
| Income taxes payable | 50,000 | Income taxes expense | 180,000 |
| Notes payable | 200,000 | Retained earnings | ? |

Determine the following amounts for Barron Corporation.

- A) Current assets at the end of 2012
Total assets at the end of 2012
- B) Current liabilities at the end of 2012
- C) What parties have a claim on Barron Corporation's assets? Explain your answer in the terms of the accounting equation.
- A) Current assets = \$680,000
 $\$300,000 \text{ (Cash)} + 140,000 \text{ (Accounts receivable)} + 220,000 \text{ (Inventory)} + 20,000 \text{ (Prepaid expenses)} = \$680,000$
 Total assets = \$1,100,000
 $\$300,000 \text{ (Cash)} + 140,000 \text{ (Accounts receivable)} + 220,000 \text{ (Inventory)} + 20,000 \text{ (Prepaid expenses)} + \$420,000 \text{ (Equipment)} = \$1,100,000$
- B) Current liabilities = \$370,000
 $\$120,000 \text{ (Accounts payable)} + 50,000 \text{ (Income taxes payable)} + 200,000 \text{ (Notes payable)} = \$370,000$
- C) Both the creditors and the owners have a claim on the assets of the corporation. The creditors have their claim arising from the liabilities of the corporation, while the owners have a claim through the stockholders' equity.

70. Presented below are selected data from the balance sheet of Stuff Company for 2012. The figures are expressed in millions.

| | |
|-----------------------------|-----------|
| Current assets | \$400,000 |
| Property, plant & equipment | 600,000 |
| Other assets | ??? |
| Current liabilities | 250,000 |
| Total long-term debt | 550,000 |
| Total stockholders' equity | 300,000 |

- A) Determine the amount of "Other assets" for Stuff's 2012 balance sheet.
(Hint: you must use the accounting equation concept to determine your answer.)
- B) How much of Stuff Company is financed by creditors? How much is financed by the owners?
- A) \$100,000 million
 $\$250,000$ (Current liabilities) + $550,000$ (Long-term debt) + $300,000$ (Stockholders' equity) = $\$1,100,000$ (Total liabilities and stockholders' equity or Total assets)
 $\$1,100,000$ (Total assets) - $400,000$ (Current assets) - $600,000$ (Property, plant & equipment) = $\$100,000$
- B) Amount of financing by creditors: $\$800,000$ million
 $\$250,000$ (Current liabilities) + $550,000$ (Long-term debt) = $\$800,000$
- Amount of financing by owners: $\$300,000$ million
 $\$275,000$ (Stockholders' equity)

71. Presented below are selected data from the accounting records for Hot Rod Hanks Co. for 2012.

| | |
|--------------------|-----------|
| Sales | \$900,000 |
| Income tax expense | 80,000 |
| Cost of sales | 550,000 |
| Operating expenses | 150,000 |
| Dividends | 75,000 |

- A) Calculate the net income or loss for 2012.
- B) Explain how the amount from part A will affect the financial position of Hot Rod Hanks Co.
- C) Is the company profitable? Explain your answer.
- A) $\$120,000$
 $\$900,000$ (Sales) - $550,000$ (Cost of sales) - $150,000$ (Operating expenses) - $80,000$ (Income tax expense) = $\$120,000$
- B) Net income will improve the company's financial position, as it will increase the company's retained earnings.
- C) Yes. The amount of revenues exceeds the amount of expenses by $\$120,000$.

72. Classify the following items according to the financial statement on which each belongs, either the income statement (IS), statement of retained earnings (RE), or the balance sheet (BS). Also indicate whether each is a revenue (R), expense (E), asset (A), liability (L), or stockholders' equity (SE) item.

| | | Appears on | |
|----|-------------------|------------|---------|
| | | Which | Type of |
| | | Statement? | Account |
| 1. | Retained earnings | | |
| 2. | Equipment | | |
| 3. | Common stock | | |
| 4. | Unearned revenue | | |
| 5. | Sales | | |
| 6. | Rent expense | | |
| 7. | Inventory | | |

| | | | |
|----|-------------------|--------|----|
| 1. | Retained earnings | BS, RE | SE |
| 2. | Equipment | BS | A |
| 3. | Common stock | BS | SE |
| 4. | Unearned revenue | BS | L |
| 5. | Sales | IS | R |
| 6. | Rent expense | IS | E |
| 7. | Inventory | BS | A |

73. The following information is taken from Jackson Company's balance sheet as December 31, 2012:

| | | | |
|--------------|-----------|-------------------|-----------|
| Cash | \$240,000 | Retained earnings | \$140,000 |
| Inventory | 80,000 | Accounts payable | 70,000 |
| Equipment | 380,000 | Bonds payable | 230,000 |
| Common stock | 260,000 | | |

Using the information provided for Jackson Company, answer the following questions:

- A) How much did creditors provide to Jackson Company?
- B) On which financial statement would an investor look to see if any stock was issued during the year?
- A) \$300,000
\$70,000 (Accounts Payable) + \$230,000 (Bond Payable)
- B) The primary source for seeing whether any stock was issued during the year would be the Statement of stockholders' equity. While the balance sheet may show an amount for "common stock," this amount is an ending balance, and would not show the results of any transactions involving new issuances of stock during the period. Additionally, an investor can also review financing activities in the statement of cash flows to see if stock was issued during the year.

74. **Stimulus Corporation**

All of the items from Stimulus Corporation's income statement for the year ending December 31, 2012, are presented below.

| | |
|--|-------------|
| | <u>2012</u> |
| Net sales | \$1,500,000 |
| Selling, general and administrative expenses | 900,000 |
| Research and development expenses | 100,000 |
| Other income (net) | 50,000 |

Refer to the information of Stimulus Corporation. How much is net income for the year ended December 31, 2012? If Stimulus Corporation had used a single-step statement what would be their net income and by how much would net income be different than if the multi-step approach had been used? Explain.

Net income = \$550,000

$\$1,500,000$ (Net sales) + $50,000$ (Other income, net) - $900,000$ (Selling, general and administrative expenses) - $100,000$ (Research and development expenses) = $\$550,000$

Net income is the same under a single-step or a multi-step income statement. Only subtotals and the order the amounts are listed differ.

75. Listed below are several amounts from the accounting records of Dean, Inc. for the year ended December 31, 2012. Prepare a multi-step income statement in good form.

| | |
|-------------------------------------|-------------|
| Service revenue | \$1,000,000 |
| Selling expenses | 250,000 |
| Income tax expense | 108,000 |
| General and administrative expenses | 400,000 |
| Interest revenue | 10,000 |

| | | |
|--------------------------------------|-----------|-------------|
| Dean, Inc. | | |
| Income Statement | | |
| For the Year Ended December 31, 2012 | | |
| Service revenue | | \$1,000,000 |
| Operating expenses: | | |
| Selling expenses | \$250,000 | |
| General and administrative expenses | 400,000 | |
| Total operating expenses | | 650,000 |
| Income from operations | | 350,000 |
| Other revenue and expenses | | |
| Interest revenue | | 10,000 |
| Income before taxes | | 360,000 |
| Income tax expense | | 108,000 |
| Net income | | 252,000 |

76. Most financial reports contain the following list of basic elements. For each element identify the person(s) who prepared the element and describe the information a user would expect to find in each element. Some information is verifiable, while other information is subjectively chosen by management. Indicate whether the information in each element is verifiable.

| | Prepared | Information | Verifiable/ |
|-----------------------------------|----------|-------------|-------------|
| Elements | By | Provided | Yes or No? |
| Management discussion & analysis | | | |
| Financial statements | | | |
| Notes to financial statements | | | |
| Report of independent accountants | | | |

| | Prepared | Information | Verifiable/ |
|-----------------------------------|-----------|---|-------------|
| Elements | By | Provided | Yes or No? |
| Management discussion & analysis | Mgmt. | Discussion of financial statements and explanation. Highlight favorable and unfavorable trends. | No |
| Financial statements | Mgmt. | Income statement, balance sheet, statement of cash flows, statement of retained earnings | Yes |
| Notes to financial statements | Mgmt. | Clarifications and explanations that expand upon the information presented in the financial statements | Yes |
| Report of independent accountants | CPA firm. | Opinion that the financial statements are presented fairly in accordance with generally accepted accounting principles. | No |

77. Comparative information taken from the Carson Company financial statements is shown below:

| | | | |
|-----|----------------------|-------------|-------------|
| | | <u>2012</u> | <u>2011</u> |
| (a) | Notes receivable | \$ 10,000 | \$ -0- |
| (b) | Accounts receivable | 175,000 | 140,000 |
| (c) | Retained earnings | 30,000 | (40,000) |
| (d) | Sales | 840,000 | 750,000 |
| (e) | Operating expenses | 160,000 | 200,000 |
| (f) | Income taxes payable | 28,000 | 20,000 |

Instructions

Using horizontal analysis, show the percentage change from 2011 to 2012 with 2011 as the base year.

- (a) Base year is zero. Not possible to compute.
 (b) $\$35,000 \div \$140,000 = 25\%$ increase
 (c) Base year is negative. Not possible to compute.
 (d) $\$90,000 \div \$750,000 = 12\%$ increase
 (e) $\$40,000 \div \$200,000 = 20\%$ decrease
 (f) $\$8,000 \div \$20,000 = 40\%$ increase

78. The comparative balance sheet of Ramos Company appears below:

RAMOS COMPANY
Comparative Balance Sheet
December 31, 2012

| | 2012 | 2011 |
|---|---------|--------|
| <u>Assets</u> | | |
| Current assets | \$ 440 | \$ 280 |
| Fixed assets | 675 | 520 |
| Total assets | \$1,115 | \$ 800 |
| | | |
| <u>Liabilities and stockholders' equity</u> | | |
| Current liabilities | \$ 280 | \$ 120 |
| Long-term debt | 250 | 160 |
| Common stock | 325 | 320 |
| Retained earnings | 260 | 200 |
| Total liabilities and stockholders' equity | \$1,115 | \$ 800 |

Instructions

- (a) Using horizontal analysis, show the percentage change for each balance sheet item using 2011 as a base year.
 (b) Using vertical analysis, prepare a common-size comparative balance sheet.

| RAMOS COMPANY Comparative Balance Sheet December 31, 2012 | | | | | |
|---|---------------|----------------|---------------|----------------|---------------|
| | <u>2012</u> | | <u>2011</u> | | |
| | | (b) | | (b) | (a) |
| | | | | | |
| <u>Assets</u> | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> | <u>Change</u> |
| Current assets | \$ 440 | 39% | \$280 | 35% | 57% |
| Fixed assets | 675 | 61% | 520 | 65% | 30% |
| Total assets | \$1,115 | 100% | \$800 | 100% | 39% |
| <u>Liabilities and stockholders' equity</u> | | | | | |
| Current liabilities | \$ 280 | 25% | \$120 | 15% | 133% |
| Long-term debt | 250 | 22% | 160 | 20% | 56% |
| Common stock | 325 | 29% | 320 | 40% | 2% |
| Retained earnings | 260 | 23% | 200 | 25% | 30% |
| Total liabilities and stockholders' equity | \$1,115 | 100% | \$800 | 100% | 39% |

79. Revenue and expense data for Martinez Company are as follows:

| | <u>2012</u> | <u>2011</u> |
|-------------------------|-------------|-------------|
| Administrative expenses | \$ 35,000 | \$ 25,000 |
| Cost of goods sold | 350,000 | 300,000 |
| Income tax | 103,500 | 82,500 |
| Net sales | 900,000 | 700,000 |
| Selling expenses | 170,000 | 100,000 |

- (a) Prepare a comparative income statement, with vertical analysis, stating each item for both 2012 and 2011 as a percent of sales.
 (b) Comment upon significant changes disclosed by the comparative income statement.

(a)

| Martinez Company Comparative Income Statement For Years Ended December 31, 2012 and 2011 | | | | |
|--|---------------|----------------|---------------|----------------|
| | <u>2012</u> | | <u>2011</u> | |
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Net sales | \$900,000 | 100.0% | \$700,000 | 100.0% |
| Cost of goods sold | 350,000 | 38.9% | 300,000 | 42.9% |
| Gross profit | 550,000 | 68.8% | 400,000 | 57.1% |
| Selling expenses | 170,000 | 21.3% | 100,000 | 14.3% |
| Administrative expenses | 35,000 | 4.4% | 25,000 | 3.6% |
| Total operating expenses | 205,000 | 25.6% | 125,000 | 17.9% |
| Income before income tax | 345,000 | 43.1% | 275,000 | 39.3% |
| Income tax | 103,500 | 12.9% | 82,500 | 11.8% |
| Net income | \$241,500 | 30.2% | \$192,500 | 27.5% |

- (b) There was a 4% decrease in the cost of goods sold, and a 0.80% increase in administrative expenses. However, the more significant increase of 6.96% in selling expenses offset the 4% decrease in cost of goods sold and contributed greatly to the 2.69% decrease in net income.

80. **Fargo Manufacturing**

Condensed data from the financial statements of Fargo Manufacturing for 2012 and 2011 are presented below. The figures are expressed in thousands.

| Statement A | <u>2012</u> | <u>2011</u> |
|--|------------------------|------------------------|
| Total current assets | \$219,560 | \$180,080 |
| Property, plant & equipment (net of accumulated depreciation) | 18,320 | 12,724 |
| Investments | 3,370 | 1,061 |
| Other assets | <u>12,220</u> | <u>10,606</u> |
| Total assets | <u>\$253,470</u> | <u>\$204,471</u> |
| Total current liabilities | 92,990 | 86,600 |
| Long-term debt | <u>15,160</u> | <u>20,156</u> |
| Total liabilities | 108,150 | 106,756 |
| Stockholders' equity: | | |
| Contributed capital | 53,680 | 32,250 |
| Retained earnings | <u>91,640</u> | <u>65,465</u> |
| Total stockholders' equity | <u>145,320</u> | <u>97,715</u> |
| Total liabilities & stockholders' equity | <u>\$253,470</u> | <u>\$204,471</u> |
| Statement B | <u>2012</u> | <u>2011</u> |
| Net sales | \$229,301 | \$184,701 |
| Cost of sales | <u>135,453</u> | <u>119,284</u> |
| Gross margin | 93,848 | 65,417 |
| Selling, general and administrative expenses | 64,832 | 52,220 |
| Other income (expense) | <u>693</u> | <u>(118)</u> |
| Income (loss) before income taxes | 29,709 | 13,079 |
| Income tax expense | <u>3,534</u> | <u>2,109</u> |
| Net income (loss) | <u>\$ 26,175</u> | <u>\$ 10,970</u> |

Refer to the information provided for Fargo Manufacturing.

- A) What is the name of Statement A?
- B) What is the name of Statement B?

- A) Statement A is the classified balance sheet.
- B) Statement B is the multi-step income statement.

81. **Fargo Manufacturing**

Condensed data from the financial statements of Fargo Manufacturing for 2012 and 2011 are presented below. The figures are expressed in thousands.

| Statement A | <u>2012</u> | <u>2011</u> |
|--|------------------------|------------------------|
| Total current assets | \$219,560 | \$180,080 |
| Property, plant & equipment (net of accumulated depreciation) | 18,320 | 12,724 |
| Investments | 3,370 | 1,061 |
| Other assets | <u>12,220</u> | <u>10,606</u> |
| Total assets | <u>\$253,470</u> | <u>\$204,471</u> |
| Total current liabilities | 92,990 | 86,600 |
| Long-term debt | <u>15,160</u> | <u>20,156</u> |
| Total liabilities | 108,150 | 106,756 |
| Stockholders' equity: | | |
| Contributed capital | 53,680 | 32,250 |
| Retained earnings | <u>91,640</u> | <u>65,465</u> |
| Total stockholders' equity | <u>145,320</u> | <u>97,715</u> |
| Total liabilities & stockholders' equity | <u>\$253,470</u> | <u>\$204,471</u> |
| Statement B | <u>2012</u> | <u>2011</u> |
| Net sales | \$229,301 | \$184,701 |
| Cost of sales | <u>135,453</u> | <u>119,284</u> |
| Gross margin | 93,848 | 65,417 |
| Selling, general and administrative expenses | 64,832 | 52,220 |
| Other income (expense) | <u>693</u> | <u>(118)</u> |
| Income (loss) before income taxes | 29,709 | 13,079 |
| Income tax expense | <u>3,534</u> | <u>2,109</u> |
| Net income (loss) | <u>\$ 26,175</u> | <u>\$ 10,970</u> |

Refer to the information provided for Fargo Manufacturing. Which statement indicates the financial position of the company? What information is provided on that statement that indicates the "financial position" of the company? Explain.

The classified balance sheet provides information on the financial position of the company. It is expressed in terms of the accounting equation. When total liabilities are subtracted from total assets, the difference is stockholders' equity. This amount represents net worth or the financial position of a company at the balance sheet date.

82. **Fargo Manufacturing**

Condensed data from the financial statements of Fargo Manufacturing for 2012 and 2011 are presented below. The figures are expressed in thousands.

| Statement A | <u>2012</u> | <u>2011</u> |
|--|------------------------|------------------------|
| Total current assets | \$219,560 | \$180,080 |
| Property, plant & equipment (net of accumulated depreciation) | 18,320 | 12,724 |
| Investments | 3,370 | 1,061 |
| Other assets | <u>12,220</u> | <u>10,606</u> |
| Total assets | <u>\$253,470</u> | <u>\$204,471</u> |
| Total current liabilities | 92,990 | 86,600 |
| Long-term debt | <u>15,160</u> | <u>20,156</u> |
| Total liabilities | 108,150 | 106,756 |
| Stockholders' equity: | | |
| Contributed capital | 53,680 | 32,250 |
| Retained earnings | <u>91,640</u> | <u>65,465</u> |
| Total stockholders' equity | <u>145,320</u> | <u>97,715</u> |
| Total liabilities & stockholders' equity | <u>\$253,470</u> | <u>\$204,471</u> |
| Statement B | <u>2012</u> | <u>2011</u> |
| Net sales | \$229,301 | \$184,701 |
| Cost of sales | <u>135,453</u> | <u>119,284</u> |
| Gross margin | 93,848 | 65,417 |
| Selling, general and administrative expenses | 64,832 | 52,220 |
| Other income (expense) | <u>693</u> | <u>(118)</u> |
| Income (loss) before income taxes | 29,709 | 13,079 |
| Income tax expense | <u>3,534</u> | <u>2,109</u> |
| Net income (loss) | <u>\$ 26,175</u> | <u>\$ 10,970</u> |

Refer to the information provided for Fargo Manufacturing. Was Fargo Manufacturing profitable both years? What are the amounts of the total revenues and total expenses, respectively, for 2012? Which financial statement provides this information to you?

The company was profitable in both 2012 and 2011.

For 2012, total revenues include net sales of \$229,301, and other income, \$693, for a total of \$229,994.

Total expenses for 2012 include cost of sales of \$135,453, selling, general and administrative expenses of \$64,832, and income tax expense of \$3,534, or a total of \$203,819.

Information about revenues, expenses, and profitability is reported on the income statement.

83. How is a classified balance sheet useful to decision makers?

A classified balance sheet helps evaluate the liquidity of a company by separating the current assets from long-term assets and current liabilities from long-term liabilities. The user can then determine the amount of working capital and the current ratio, which are both useful measures of liquidity.

84. How does the definition of a current liability relate to that of a current asset?

Current liabilities are obligations that will be satisfied within the operating cycle or within one year if the cycle is shorter than one year. Current assets will be realized in cash, or sold, or consumed during the operating cycle or within one year if the cycle is shorter. For most companies, both current assets and liabilities are reported on the balance sheet using a one-year time period.

85. Potential stockholders and lenders are interested in a company's financial statements. Several financial statement items appear below. Answer the questions that follow.

| | | |
|---------------------|--------------------------------|----------------------|
| Accounts receivable | Accounts payable | Advertising expenses |
| Cash | Depreciation expense | Income taxes |
| Common stock | Land held for future expansion | Dividends |
| Retained earnings | Loss on the sale of equipment | Net income |
| Office supplies | Patent amortization expense | Sales |
| Unearned revenue | Utilities expense | |

A) List the two items from above in which stockholders would be most interested. Explain why the two you selected are important to stockholders.

B) In which one item would lenders be most interested? Explain why this item is important.

A) Stockholders are interested in net income and dividends. They want to make sure the company is profitable. If a company is incurring losses, it may not pay dividends.

B) Lenders are most interested in the company's ability to pay bills when they become due. Cash can be a big problem if a company does not have enough to pay its bills. This includes the company's ability to repay the lender.

86. What information is provided in an annual report in addition to the financial statements?

An annual report contains the reports of management, the auditor's report, management's discussion and analysis of the amounts appearing in the statements, notes to the financial statements, and a summary of selected financial data over a period of years.

87. What is meant by "generally accepted accounting principles"?

Generally accepted accounting principles (GAAP) are a set of guidelines that are based on a conceptual framework. They represent accounting standards, rules, principles, and procedures that comprise authoritative practice for financial accounting. GAAP was created in response to the need to make it easier to use financial statements over time and across companies.

88. The three forms of business organizations are _____, _____, and _____.

sole proprietorship, partnership, corporation

89. The step of listing the liabilities of the company in order of their time to maturity is performed for a financial statement called _____.

classified balance sheet

90. _____ are cash and other assets that are reasonably expected to be realized in cash withing one year.

Current Assets

91. Property, plant and equipment is classified as _____ assets on the balance sheet.

Noncurrent

92. In a(n) _____-step income statement, all expenses and losses are added together, then deducted from the sum of all revenues and gains.

single

93. The _____ is the U.S. federal government agency with the ultimate authority to determine the accounting rules for companies whose stock is sold to the public.

Securities and Exchange Commission
SEC

94. The _____ is the private sector group with authority to set accounting standards in the United States.

Financial Accounting Standards Board
FASB

95. The various rules and conventions that have evolved over time to guide the preparation of financial statements in the U.S. are called _____.

generally accepted accounting principles
GAAP

96. In _____ analysis, each financial statement line item is expressed as a percent of a base year, which is typically the earliest year shown.

horizontal

97. In _____ analysis, each financial statement line item is expressed as a percent of the base amount on the statement, which is net sales or total assets for the income statement or balance sheet, respectively.

vertical

98. _____ is a part of issued stock that is repurchased by the corporation but **not** retired.

Treasury stock

99. Revenue and expense data for Tower Technologies are as follows:

| | 2012 | 2011 |
|-------------------------|-----------|-----------|
| Sales | \$500,000 | \$440,000 |
| Cost of goods sold | 325,000 | 242,000 |
| Selling expenses | 70,000 | 79,200 |
| Administrative expenses | 75,000 | 70,400 |
| Income tax expense | 25,000 | 26,400 |

Required:

- (1) Prepare an income statement in comparative form, stating each item for both 2012 and 2011 as a percent of sales. (Round your answers to one decimal place.)
- (2) Comment on the significant changes disclosed by the comparative income statement.

(1)
Tower Technologies
Comparative Income Statement
For the Years Ended December 31, 2012 and 2011

| | 2012 Amount | 2012 Percent | 2011 Amount | 2011 Percent |
|--------------------------|-------------|--------------|-------------|--------------|
| Sales | \$500,000 | 100.0% | \$440,000 | 100.0% |
| Cost of goods sold | 325,000 | 65.0% | 242,000 | 55.0% |
| Gross profit | 175,000 | 35.0% | 198,000 | 45.0% |
| Selling expenses | 70,000 | 14.0% | 79,200 | 18.0% |
| Administrative expenses | 75,000 | 15.0% | 70,400 | 16.0% |
| Total operating expenses | 145,000 | 29.0% | 149,600 | 34.0% |
| Income from operations | 30,000 | 6.0% | 48,400 | 11.0% |
| Income tax expense | 25,000 | 5.0% | 26,400 | 6.0% |
| Net income | \$ 5,000 | 1.0% | \$ 22,000 | 5.0% |

- (2) The vertical analysis indicates that the cost of goods sold as a percent of sales increased by 10 percentage points between 2011 and 2012. However, the selling expenses as a percentage of sales decreased by 4 percentage points. The net income as a percent of sales dropped by 4 percent.

100. The cash and accounts receivable balances for a company are provided below:

| | 2012 | 2011 |
|---------------------------|----------|----------|
| Cash | \$75,000 | \$50,000 |
| Accounts receivable (net) | \$76,800 | \$80,000 |

Based on this information, what is the amount and percentage of increase or decrease that would be shown in a balance sheet with horizontal analysis?

| | |
|---------------------------|---|
| Cash | \$25,000 increase (\$75,000 - \$50,000), or 50% |
| Accounts receivable (net) | \$ 3,200 decrease (\$80,000 - \$76,800), or -4% |

101. Income statement information for Yvonne Company is provided below:

| | |
|--------------------|------------------|
| Sales | \$150,000 |
| Cost of goods sold | <u>105,000</u> |
| Gross profit | <u>\$ 45,000</u> |

Prepare a common-size income statement for Yvonne Company.

| | <u>Amount</u> | <u>Percentage</u> | |
|--------------------|------------------|-------------------|-------------------------|
| Sales | \$150,000 | 100% | (\$150,000 / \$150,000) |
| Cost of goods sold | <u>105,000</u> | <u>70%</u> | (\$105,000 / \$150,000) |
| Gross profit | <u>\$ 45,000</u> | <u>30%</u> | (\$45,000 / \$150,000) |