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| |  | | --- | | **1.** (TCO A) A corporation has which of the following advantages? (Points : 5) |   Reduced taxes        Simple to set up        Limited liability for stockholders        Owner maintains control |

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| |  | | --- | | Question 2. **2.** (TCO A) Which one of the following statements is correct with regard to dividends? (Points : 5) |   Dividends are increased by credits.        Dividends are subtracted on the income statement.        Common stock dividends are required to be paid.        Dividends reduce stockholders’ equity. |

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| |  | | --- | | Question 4. **4.** (TCOs B and E) Which of the following statements is incorrect with regard to accrual accounting? (Points : 5) |   Accrual accounting is consistent with the matching principle.        Accrual accounting does not record expenses until they are paid.        Accrual accounting is more complex than cash basis accounting.        Accrual accounting is required by GAAP. |

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| |  | | --- | | Question 5. **5.** (TCO D) Three different companies each utilize a different inventory costing method. If the price of goods has increased during the period, then the company using \_\_\_\_\_. (Points : 5) |   FIFO will have the highest ending inventory        FIFO will have the highest cost of goods sold        LIFO will have the lowest cost of goods sold        LIFO will have the highest ending inventory |

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| |  | | --- | | Question 6. **6.** (TCOs A and E) Equipment was purchased for $200,000. Freight charges amounted to $10,000 and there was a cost of $15,000 for building a foundation and installing the equipment. It is estimated that the equipment will have a $20,000 salvage value at the end of its 5-year useful life. Depreciation expense each year using the straight-line method will be \_\_\_\_\_. (Points : 5) |   $41,000        $38,000        $45,000        $40,000 |

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| |  | | --- | | Question 7. **7.** (TCOs D and G) When the market rate of interest is equal to the stated rate of interest on the bond, the bond will require \_\_\_\_\_. (Points : 5) |   a debit to Discount on Bonds Payable        a credit to Discount on Bonds Payable        a credit to Bonds Payable        a debit to Bonds Payable |

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| |  | | --- | | Question 8. **8.** (TCO C) Which inventory accounting system does not require a physical count of the inventory at the year end? (Points : 5) |   Periodic inventory system        Perpetual inventory system        Specific Identification        None of the above |

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| |  | | --- | | Question 9. **9.** (TCO F) A company has Preferred stock, 8%, $10 par, 30,000 shares authorized and issued. The balance in the Preferred Stock account is $300,000. Generally, this means that: (Points : 5) |   Preferred stockholders receive dividends before the common stockholders.        Dividends on preferred stock are always paid even if the board of directors does not declare the dividend.        Preferred stock provides voting rights.        All corporations issue preferred stock. |

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| |  | | --- | | Question 10. **10.** (TCO F) Horizontal analysis (Points : 5) |   involves calculating a percentage change from one period to the next        can be the basis of comparative analysis or trend analysis        is useful in studying the growth or decline of a company over time        all of the above are correct |

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| |  | | --- | | Question 11. **11.** (TCO F) Ratios are most useful in expressing \_\_\_\_\_. (Points : 5) |   cause-and-effect relationships        the relationships between numbers        the delta between numbers        the root cause of the problem |

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| |  | | --- | | Question 12. **12.** (TCO F) A common ratio to measure profitability is the \_\_\_\_\_. (Points : 5) |   quick ratio        inventory turnover        days’ sales in receivables        asset turnover |

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| |  | | --- | | Question 13. **13.** (TCO F) DuPont analysis measures which of the following? (Points : 5) |   Liquidity        Leverage        Turnover        Profitability |

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| |  | | --- | | Question 14. **14.** (TCO G) To calculate the market value of a bond, we need to use the time-value-of-money concept called \_\_\_\_\_. (Points : 5) |   interpolation        future value        compounding        discounting |

**1.** (TCO A) Below you will find selected information (in millions) from Coca-Cola Co.’s 2012 Annual Report.

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| Income Taxes Payable | $471 |
| Short-term Investments and Marketable Securities | 8,109 |
| Cash | 8,442 |
| Other non-current Liabilities | 10,449 |
| Common Stock | 1,760 |
| Receivables | 4,812 |
| Other Current Assets | 2,973 |
| Long-term Investments | 10,448 |
| Other Non-current Assets | 3,585 |
| Property, Plant and Equipment | 23,486 |
| Trademarks | 6,527 |
| Other Intangible Assets | 20,810 |
| Allowance for Doubtful Accounts | 53 |
| Accumulated Depreciation | 9,010 |
| Accounts Payable | 8,680 |
| Short Term Notes Payable | 17,874 |
| Prepaid Expenses | 2,781 |
| Other Current Liabilities | 796 |
| Long-Term Liabilities | 14,736 |
| Paid-in-Capital in Excess of Par Value | 11,379 |
| Retained Earnings | 55,038 |
| Inventories | 3,264 |
| Treasury Stock | 35,009 |

 Other information taken from the Annual Report.

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| Sales Revenue for 2012 | $48,017 |
| Cost of Goods Sold for 2012 | 19,053 |
| Net Income for 2012 | 9,019 |
| Inventory Balance on 12/31/11 | 3,092 |
| Net Accounts Receivable Balance on 12/31/11 | 4,920 |
| Total Assets on 12/31/11 | 79,974 |
| Equity Balance on 12/31/11 | 31,921 |

Required: 1:  Using the information provided prepare a Balance Sheet. Separate the current assets from non-current assets and provide a total for each. Also, separate the current liabilities from the non-current liabilities and provide a total for each.  
2:  Using the Balance Sheet from your answer above, calculate the Current Ratio and Return on common stockholders’ equity. (Points : 36)

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| Question 2. **2.** (TCO B) The following selected data was retrieved from the Walmart, Inc. financial statements for the year ending January 31, 2013.   |  |  | | --- | --- | | Accounts Payable | $38,080 | | Accounts Receivable | 6,768 | | Cash | 7,781 | | Common Stock | 3,952 | | Cost of Goods Sold | 352,488 | | Income Tax Expense | 7,981 | | Interest Expense | 2,064 | | Membership Revenues | 3,048 | | Net Sales | 466,114 | | Operating, Selling and Administrative Expenses | 88,873 | | Retained Earnings | 72,978 |   Required: 1: Using the information provided above, prepare a multiple-step income statement. 2: Calculate the Profit Margin, and Gross profit rate for the company. Be sure to provide the formula you are using, show your calculations, and discuss your findings and results.(Points : 36) |

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| Question 3. **3.** 45. (TCO C) Please review the following real-world Hewlett Packard Statement of Cash flows and address the two questions below.   |  |  |  | | --- | --- | --- | | Cash flow from operating activities | In millions | In millions | |  | For the year ended 2012 | For the year ended 2011 | | Net (loss) earnings | $(12,650) | $7,074 | | Depreciation and amortization | 5,095 | 4,984 | | Impairment of goodwill and purchased intangible assets | 18,035 | 885 | | Stock-based compensation expense | 635 | 685 | | Provision for doubtful accounts | 142 | 81 | | Provision for inventory | 277 | 217 | | Restructuring charges | 2,266 | 645 | | Deferred taxes on earnings | (711) | 166 | | Excess tax benefit from stock-based competition | (12) | (163) | | Other, net | 265 | (46) | | Accounts and financing receivables | 1,269 | (227) | | Inventory | 890 | (1,252) | | Accounts payable | (1,414) | 275 | | Taxes on earnings | (320) | 610 | | Restructuring | (840) | (1,002) | | Other assets and liabilities | (2,356) | (293) | | **Net cash provided by operating activities** | 10,571 | 12,639 | | Cash flows from investing activities: |  |  | | Investment in property, plant, and equipment | (3,706) | (4,539) | | Proceeds from sale of property, plant, and equipment | 617 | 999 | | Purchases of available-for-sale securities and other investments | (972) | (96) | | Maturities and sales of available-for-sale securities and other investment | 662 | 68 | | Payments in connection with business acquisitions, net of cash acquired | (141) | (10,480) | | Proceeds from business divestiture, net | 87 | 89 | | **Net cash used in investing activities** | (3,453) | (13,959) | | Cash flow from financing activities: |  |  | | (Payments) issuance of commercial paper and notes payable, net | (2,775) | (1,270) | | Issuance of debt | 5,154 | 11,942 | | Payment of debt | (4,333) | (2,336) | | Issuance of common stock under employee stock plans | 716 | 896 | | Repurchase of common stock | (1,619) | (10,117) | | Excess tax benefit from stock-based compensation | 12 | 163 | | Cash dividends paid | (1,015) | (844) | | **Net cash used in financing activities** | (3,860) | (1,566) | | Increase (decrease) in cash and cash equivalents | 3,258 | (2,886) | | Cash and cash equivalents at beginning of period | 8,043 | 10,929 | | Cash and cash equivalents at end of period | $11,301 | $8,043 |   Required: 1: Please calculate the percentage increase or decrease in cash for the total line of the operating, investing, and financing sections bolded above and explain the major reasons for the increase or decrease for each of these sections. 2: Please calculate the free cash flow for 2012 and explain the meaning of this ratio. (Points : 36) |

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| Question 4. **4.** (TCO D) You are CFO of Goforit, Inc., a wholesale distribution company specializing in emerging technologies. Your CEO is a brilliant marketer, but relies on you to explain issues and choices in accounting and finance. She has heard from other members of a CEO organization to which she belongs that a company’s net income can vary widely depending on which accounting choices are made from the “GAAP menu.”     *Assuming the goal is to maximize net income*, choose an accounting treatment from each of the following scenarios, and explain to your CEO why the choice will produce the desired effect on reported net income for the current year. Include in your answer the effect of the choice on both the income statement and balance sheet.    Required: 1: Goforit carries significant electronics inventory in a competitive environment in which prices are actually falling. Which inventory valuation method would you choose—LIFO, FIFO, or average cost? Assume that unit purchases exceed unit sales. 2: Goforit has a large investment in warehouse equipment, including conveyor belts, forklifts, and automated packaging systems. Which depreciation method would you choose: straight line (SL) or double declining balance (DDB)? (Points : 36) |

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| Question 5. **5.** (TCO F) Please review the following real-world ratios for Johnson & Johnson and Pfizer for the year ended 2012 and address the 2 questions below.   |  |  |  | | --- | --- | --- | | Ratio Name | Johnson & Johnson | Pfizer | |  |  |  | | Profit margin | 16.1% | 24.7% | | Inventory turnover ratio | 3.1 | 1.7 | | Average collection period | 59.4 days | 69.1 days | | Cash debt coverage ratio | .27 | .16 | | Debt to Total assets | 46.6% | 127.5% |   Required: 1: Please explain the meaning of each of the Pfizer ratios above. 2: Please state which company performed better for each ratio. (Points : 36) |

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