BUS1510: PRINCIPLES OF FINANCIAL ACCOUNTING
CHAPTER 4 EXAM

True/False: Write T for each true statement and F for each false statement.

1. The single-step and the multi-step income statements will result in different net income figures.
2. Asset turnover measures how efficiently assets are used to produce sales.
3. Profit Margin and Gross Margin are the same thing.
4. Sales Returns and Allowances are deducted from Gross Sales.
5. Operating Expenses are included in the Cost of Goods Sold total.
6. The income statement of a service business will include a Gross Margin.
7. For accounting information to be useful, it must be both relevant and reliable.
8. Both investors and creditors have an interest in a company's ability to generate favorable cash flow.
9. The main difference between intangible assets and property, plant, and equipment is the length of the asset's useful life.
10. General and Administrative Expenses are classified as an Operating Expense.

Multiple Choice: Select the answer that best answers each question.

1. Patents would appear in which section of the balance sheet?
   a. Investments
   b. Property, Plant, and Equipment
   c. Current Assets
   d. Intangible Assets

2. Liabilities have which of the two major categories?
   a. Accounts Payable and Notes Payable
   b. Contributed Capital and Retained Earnings
   c. Current and Long Term
   d. Unearned Revenues and Other Payables

3. Which of the following is not considered an operating expense?
   a. General Office Expenses
   b. Cost of Goods Sold
   c. Freight-out Expense
   d. Advertising Expense

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4. Which of the following is not a subtotal?
    a. Cost of Goods Sold
    b. Gross Margin
    c. Net Income
    d. Income from Operations

5. Which type of account is Cost of Goods Sold?
    a. An asset account
    b. A liability account
    c. An expense account
    d. An income account

6. Land held for future use is classified as
    a. a current asset.
    b. an investment.
    c. property, plant, and equipment.
    d. an intangible asset.

7. Which of the following will *not* be found anywhere in a single-step income statement?
    a. Cost of goods sold
    b. Net sales
    c. Gross margin
    d. Operating expenses

8. The multistep income statement of a service company would *not* contain…
    a. Income Taxes
    b. Cost of Goods Sold
    c. Other Revenues & Expenses
    d. Operating Expenses

9. In which category would office salaries expense be included?
    a. General and Admin. Expenses
    b. Cost of Goods Sold
    c. Selling Expenses
    d. Net Sales

10. Asset turnover is expressed
    a. in dollars.
    b. as a percentage.
    c. in times.
    d. in days.

11. Accounting information should make a difference to the outcome of a decision, according to the qualitative characteristic of
    a. reliability.
    b. relevance.
    c. understandability.
    d. verifiability.

12. To expense an item that would normally be recorded as an asset because the item is insignificant in amount is an application of
    a. materiality.
    b. conservatism.
    c. full disclosure.
    d. comparability.

13. The convention of consistency refers to consistent use of accounting principles
    a. among firms.
    b. throughout the accounting period.
    c. within industries.
    d. among accounting periods.

14. To obtain a more accurate measure of net income, Gi, Inc., has determined that it must hire two full-time accountants. If it decides against the hiring, it has followed the convention of
    a. Full disclosure.
    b. materiality.
    c. comparability.
    d. cost-benefit.

15. Trademarks are categorized as
    a. a current asset.
    b. revenue.
    c. an intangible asset.
    d. property, plant, and equipment.

Calculations:

Use the following information to calculate the liquidity and profitability ratios listed on the answer sheet. Round to one decimal place and label each item appropriately. Ex. Times or %

Average Stockholder's Equity… $ 9,250
Average Total Assets…$18,000
Current Assets…$11,250
Current Liabilities…$7,500
Net Income…$ 1,500
Net Sales…$ 15,625
Total Liabilities…$ 8,750