

## Practice Quiz

(Fall 2003 Exam)

- This quiz is closed book

**Problem 1: Financial Interpolation [20 pts]** Complete the missing values from (a) to (i) in the chart below. Show your calculations. Note that the first year of operations is 2001.

**CONSOLIDATED BALANCE SHEET**

|   | 2003 | 2002  | 2001  |
|---|------|-------|-------|
| <b>Assets</b>                               |      |       |       |
| Cash  | 600  | 500   | 100   |
| Accounts Receivable                         | 500  | 400   | 400   |
| Inventory                                   | 400  | 350   | (a)   |
| Land  | 300  | 250   | 250   |
| Property, plant, and equipment              | 900  | (d)   | 600   |
| <b>Liabilities and Stockholder's Equity</b> |      |       |       |
| Accounts Payable                            | (g)  | 500   | 200   |
| Bonds Payable                               | 600  | 400   | 600   |
| Contributed Capital                         | 900  | 500   | 500   |
| Retained Earnings                           | 900  | (e)   | 100   |
| <b>Sales</b>                                | 2000 | (f)   | 1000  |
| <b>Expenses</b>                             | (h)  | (800) | (500) |
| <b>Net Income</b>                           | (i)  | 800   | (b)   |
| <b>Dividends</b>                            | 500  | 0     | (c)   |

(a) (Write an equation, solve it)

(b)

(c)

(d)

(e)

(f)

(g)

(h)

(i)

**Problem 2:** *Cash Flow Statement [20 pts]*

Use the Balance sheet and Income statement on the following pages to generate a cash flow statement for the same period in the space below.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR TEST CORPORATION

**CONSOLIDATED BALANCE SHEET FOR TEST CORPORATION**

| <b>PERIOD ENDING</b>                               | 1-Sep-02      | 2-Sep-01     |
|--|---------------|--------------|
| <b>Assets</b>                                      |               |              |
| Current Assests                                    |               |              |
| Cash And Cash Equivalents                          | 806           | 603          |
| Short Term Investments                             | 0             | 5            |
| Accounts Receivables                               | 475           | 325          |
| Inventory  | 3,100         | 2,800        |
| Other Current Assets                               | 223           | 212          |
| <b>Total Current Assets</b>                        | <b>4,604</b>  | <b>3,945</b> |
| Property Plant and Equipment                       |               |              |
| Land   | 2,010         | 1,890        |
| Buildings and leaseholds                           | 4,400         | <b>3,800</b> |
| Equipment and Fixtures                             | 1,730         | 1,530        |
| Construction in progress                           | 200           | 120          |
|  | 8,340         | 7,340        |
| Less Accumulated Depreciation                      | (1,790)       | (1,708)      |
| Total  | 6,650         | 5,632        |
| Other Assets                                       | 420           | 380          |
| <b>Total Assets</b>                                | <b>11,574</b> | <b>9,957</b> |
| <b>Liabilities</b>                                 |               |              |
| Current Liabilities                                |               |              |
| Accounts Payable                                   | 3,637         | 3,364        |
| Short/Current Long Term Debt                       | 105           | 195          |
| Other Current Liabilities                          | 708           | 554          |
| Total Current Liabilities                          | 4,450         | 4,113        |
| Long Term Debt                                     | 1,160         | 860          |
| Deferred Long Term Liability Charges               | 145           | 120          |
| Commitment in Minority Interest                    | 129           | 115          |
| <b>Total Liabilities</b>                           | <b>5,884</b>  | <b>5,208</b> |
| <b>Stockholder's Equity</b>                        |               |              |
| Preferred stock \$.005 par value                   | 0             | 0            |
| Common stock \$.005 par value; 455,325 outstanding | 3             | 3            |
| Retained Earnings                                  | 4,620         | 3,958        |
| Additional Paid-in Capital                         | 1,067         | 788          |
| <b>Total Stockholder Equity</b>                    | <b>5,690</b>  | <b>4,749</b> |

CONSOLIDATED INCOME STATEMENT FOR TEST CORPORATION

| <b>PERIOD ENDING</b>                          | 1-Sep-02 | 2-Sep-01 |
|---|----------|----------|
| <b>Total Revenue</b>                          | 38,700   | 34,800   |
| Cost of Revenue                               | 33,900   | 30,600   |
| <b>Gross Profit</b>                           | 4,800    | 4,200    |
| Operating Expenses                            |          |          |
| Selling General and Administrative            | 3,624    | 3,200    |
| Depreciation and amortization                 | 82       | 18       |
| Total Operating Expenses                      | 3706     | 3218     |
| Operating Income or Loss                      | 1,094    | 982      |
| Income from Continuing Operations             |          |          |
| Total Other Income/Expenses Net               | 35       | 43       |
| Earnings Before Interest and Taxes            | 1,129    | 1,025    |
| Interest Expense                              | (29)     | (32)     |
| Income Before Tax                             | 1,100    | 1,000    |
| Income Tax Expense                            | 438      | 401      |
| Net Income From Continuing Ops                | 662      | 599      |
| Non-recurring Events                          |          |          |
| Discontinued Operations                       |          |          |
| <b>Net Income</b>                             |          |          |
| Preferred Stock and Other Adjustments         | 0        | 0        |
| <b>Net Income Applicable To Common Shares</b> | 662      | 599      |

**Problem 3: Handling Transactions [10 pts]**

(1) Explain in words how transactions are posted to accounts. Provide a rule explaining how to decide whether to debit or credit each amount in a transaction.

(2) Explain how you would treat each of the following transactions for the TEST CORPORATION. Use the list of accounts from Problem 2.

(a) The firm purchases a fancy \$X testing machine and receives a bill due in 30 days.

(b) The first issues a 10 year bond for \$Y.