

WGU C214 Pre-Test Q & A

1. What is included in the Income Statement and NOT in the Statement of Cash Flows **ANS** Depreciation Expense

2. Computation of Net Income:

A co. sold products in 2014 for \$120k and collected \$100k cash and remainder in 2015. Co. incurred \$70k expenses for 2014 and paid \$100k which included \$30k for expenses incurred in 2013. What is net income for 2014?

: Computation of Net Income (R-E-NI)

\$50,000

Net Income = \$120k - \$70k = \$50k, or

Revenues - Expenses Incurred = Net
Income

3. Retained Earning Statement:

The beginning retained earnings on 1/14/14 is \$25k. The NI for 2014 is \$50k and the dividend payout ratio is 25% of NI. What are retained earnings on 12/31/14 **ANS** Retained Earning Statement:

\$62,500

Retained earnings on 12/31/14 =

\$25k + \$50k - (.25x\$50k) = \$62,500

4. Retained Earnings:

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Firm reported RE of \$300 in 12/31/12. For 12/31/13 firm reports RE of \$400 and pays dividends of \$25. What is NI in 2013 **ANS** Retained Earnings:

Answer \$125

Logic is \$300 from \$400 is \$100 plus the \$25 dividend totals out to \$125. $300 + NI - 25 = 400$: $NI=125$, so

$$300+125-25=400$$

5. Balance Sheet:

Basic equation for the Balance Sheet is **ANS** Balance Sheet: $\text{Equity} = \text{Assets} - \text{Liabilities}$, or it can also be seen as

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Assets = Liabilities + Equity

6. Investment: Simple Interest:

An investment of \$10k made today at 8% simple interest for 3 yrs and 9 mo. will yield in principle and interest of **ANS** Interest: Simple Interest \$13,000

Principal + Interest = \$10,000 + (10k x .08x3.75) = \$13k

7. Investment returns:

A stock will be worth \$36 at EOY and will pay dividend of \$2.25.

How much should an investor pay for the stock if investor expects a 12% rate of return **ANS** Investment returns:

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