

## Chapter 2--Financial Statements: An Overview

Student: \_\_\_\_\_

1. The financial statement that reports resources owned, the obligations to transfer resources to other organizations, and the claims by the entity's owners is known as the

- A. Income statement
- B. Statement of retained earnings
- C. Balance sheet
- D. Statement of cash flows

2. Another name for the balance sheet is the

- A. Statement of cash flows
- B. Statement of earnings
- C. Statement of financial position
- D. Retained earnings statement

3. Which of the following types of accounts are NOT found on the balance sheet?

- A. Revenues
- B. Assets
- C. Liabilities
- D. Owners' equity

4. Economic resources that are owned or controlled by an enterprise are called

- A. Assets
- B. Liabilities
- C. Revenues
- D. Gains

5. Which of the following is generally considered to be an asset?

- A. Notes payable
- B. Mortgage payable
- C. Accounts receivable
- D. Unearned revenue

6. Which of the following accounts is NOT an asset account?

- A. Equipment
- B. Accounts Receivable
- C. Accounts Payable
- D. Supplies

7. Which of the following generally is NOT considered to be a liability?

- A. Notes payable
- B. Taxes payable
- C. Inventory
- D. Accounts payable

8. An enterprise's obligations to pay cash or other economic resources to others are called

- A. Liabilities
- B. Expenses
- C. Losses
- D. Assets

9. Which of the following is generally considered to be a liability?

- A. Accounts receivable
- B. Capital stock
- C. Notes payable
- D. Retained earnings

10. Which of the following types of accounts show how resources came into a firm?

- A. Liabilities
- B. Owners' equity
- C. Assets
- D. Both liabilities and owners' equity

11. A business owned by one person is called a

- A. Nonprofit organization
- B. Partnership
- C. Corporation
- D. Sole proprietorship

12. A business owned by two or more individuals or entities is called a(n)

- A. Nonprofit organization
- B. Partnership
- C. Institution
- D. Sole proprietorship

13. Owners of a corporation are referred to as

- A. Debtors
- B. Partners
- C. Stockholders
- D. Creditors

14. Distributions by a corporation to its stockholders are called

- A. Dividends
- B. Retained earnings
- C. Income
- D. Withdrawals

15. Which of the following usually is NOT considered to be an owners' equity account?

- A. Capital stock
- B. Retained earnings
- C. Inventory
- D. All these are owners' equity accounts

16. The total amount invested to acquire an ownership interest in a corporation is called

- A. Retained earnings
- B. Capital stock
- C. Net assets
- D. Owners' equity

17. Net assets are equal to

- A. Total assets minus owners' equity
- B. Total assets minus net income
- C. Total assets minus dividends paid
- D. Total assets minus total liabilities

18. Which of the following decreases owners' equity?

- A. Additional investments in the company are made by the owners
- B. Operations generate a loss
- C. Operations generate a profit that is retained in the company
- D. None of these decreases owners' equity

19. The basic accounting equation is

- A.  $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$
- B.  $\text{Assets} + \text{Liabilities} = \text{Owners' Equity}$
- C.  $\text{Assets} + \text{Owners' Equity} = \text{Liabilities}$
- D.  $\text{Liabilities} - \text{Owners' Equity} = \text{Assets}$

20. Which of the following is the reason that the accounting equation is true by definition?

- A. Liabilities are the source that funds the purchase of assets
- B. Assets are the source that funds the purchase of liabilities and owner's equity
- C. Liabilities and owner's equity are the sources that fund the purchase of assets
- D. None of these are true, the accounting equation is merely a coincidence

21. The idea that an increase or decrease on one side of the accounting equation must be offset exactly by an increase or decrease on the other side of the accounting equation is called

- A. Additive concept
- B. Going concern assumption
- C. Monetary measurement concept
- D. Double-entry accounting

22. A transaction that causes an increase in an asset may also cause

- A. A decrease in owners' equity
- B. An increase in another asset
- C. A decrease in a liability
- D. An increase in a liability

23. If a corporation has total assets of \$350,000, total liabilities of \$150,000, and retained earnings of \$100,000, what is the amount of capital stock?

- A. \$150,000
- B. \$0
- C. \$100,000
- D. \$250,000

**24. Exhibit 2-1**

The following data were taken from the records of Moss Corporation for the year ending December 31, 2012:

	<u>01/01/12</u>	<u>12/31/12</u>
Assets	\$11,250	?
Liabilities	8,580	\$10,365
Owners' equity	?	6,465

Refer to Exhibit 2-1. Given the above information, owners' equity on January 1, 2012 was

- A. \$19,830
- B. \$2,670
- C. \$885
- D. \$7,695

**25. Exhibit 2-1**

The following data were taken from the records of Moss Corporation for the year ending December 31, 2012:

	<u>01/01/12</u>	<u>12/31/12</u>
Assets	\$11,250	?
Liabilities	8,580	\$10,365
Owners' equity	?	6,465

Refer to Exhibit 2-1. Given the above information, assets on December 31, 2012, were

- A. \$16,830
- B. \$5,025
- C. \$18,060
- D. \$11,250

26. Current assets usually are listed on a balance sheet in

- A. Decreasing order of liquidity
- B. Increasing order of liquidity
- C. A random fashion
- D. Decreasing order of profitability

27. Which of the following would be classified as a current asset?

- A. Accounts payable
- B. Land
- C. Capital stock
- D. Accounts receivable

28. Which of the following would be classified as a long-term asset?

- A. Accounts payable
- B. Land
- C. Inventory
- D. Accounts receivable

29. Companies prepare classified and comparative financial statements because

- A. They are required by international accounting principles
- B. They provide financial statement readers with useful information about trends in financial position and operating performance
- C. They are required by the IRS
- D. They show changes in a company's management policies

30. Which of the following is true of the balance sheet?

- A. It includes revenue and expense accounts.
- B. It identifies a company's assets and liabilities as of a specific date.
- C. It shows the results of operations for an accounting period.
- D. It discloses the amount of dividends paid.

31. Which of the following financial statements provides a picture of the enterprise at a particular point in time?

- A. Balance sheet
- B. Income statement
- C. Statement of cash flows
- D. Statement of retained earnings

32. Which of the following accounts is considered to be the most liquid?

- A. Cash
- B. Land
- C. Accounts Receivable
- D. Inventory

33. Which of the following distinguishes between current and long-term assets?

- A. Comparative balance sheet
- B. Income statement
- C. Classified balance sheet
- D. Liquidity balance sheet

34. Which of the following would be considered a long-term liability?

- A. Mortgage payable
- B. Notes payable
- C. Accounts payable
- D. Land

35. Which of the following includes a company's financial position for both the current year and the preceding year?

- A. Comparative balance sheet
- B. Income statement
- C. Classified balance sheet
- D. Liquidity balance sheet

36. What is the primary limitation of the balance sheet?

- A. It does not reflect the net assets of a company
- B. It does not reflect the current value of the company
- C. It does not reflect the number of shares of capital stock issued
- D. It does not reflect the undistributed earnings of a company

37. Which of these is an economic asset that is NOT found on the balance sheet?

- A. Name recognition
- B. Land
- C. Inventory
- D. Goodwill

38. The price that would be paid today for an asset is the

- A. Book value
- B. Market value
- C. Purchase cost
- D. Economic value

39. Expense and revenue accounts appear on the

- A. Balance sheet
- B. Income statement
- C. Retained earnings statement
- D. Funds statement

40. Another name for the income statement is

- A. Statement of cash flows
- B. Statement of financial position
- C. Statement of earnings
- D. Retained earnings statement

41. Which of the following would be included on an income statement?

- A. Cash
- B. Accounts receivable
- C. Land
- D. Rent expense

42. The financial statement that presents a summary of the revenues and expenses of a business for a specific period of time, such as a month or a year, is called a(n)

- A. Statement of Cash Flows
- B. Statement of Retained Earnings
- C. Income Statement
- D. Balance Sheet

43. Resource increases from the sale of goods or services are called

- A. Net income
- B. Assets
- C. Gains
- D. Revenues

44. Revenues cause

- A. An increase in net assets
- B. A decrease in net assets
- C. No change in net assets
- D. An increase in liabilities

45. Costs that are incurred during the normal operations of a business to generate revenues are called

- A. Losses
- B. Liabilities
- C. Expenses
- D. Assets



46. Expenses generally cause

- A. An increase in net assets
- B. A decrease in net assets
- C. No change in net assets
- D. An increase in liabilities

47. Which of the following is an overall measure of the performance of a business entity's activities?

- A. Revenues
- B. Net income (or net loss)
- C. Assets
- D. Owners' equity

48. Which of the following is a revenue generating activity?

- A. Borrowing money from a bank
- B. Paying rent
- C. Selling a product
- D. Selling capital stock

49. The difference between sales and cost of goods sold is called

- A. Gross profit
- B. Intermediate profit
- C. Net income
- D. Gross income

50. Earnings per share is equal to

- A. Net income divided by total number of shares of stock outstanding
- B. Total revenues divided by total number of shares of stock outstanding
- C. Total revenues divided by the number of shares of stock sold during the year
- D. Net income divided by the number of shares of stock sold during the year

51. Which of the following is the correct way to date an income statement?

- A. For the Year Ended December 31, 2012
- B. At December 31, 2012
- C. As of December 31, 2012
- D. December 31, 2012

52. Which of the following is an example of a nonoperating expense?

- A. Salary expense
- B. Interest expense
- C. Cost of goods sold
- D. Advertising expense

53. If a company sells its equipment for more than it is valued on the balance sheet, the difference is called a(n)

- A. Income
- B. Revenue
- C. Profit
- D. Gain

54. If a company has \$528,000 of sales revenue, pays \$26,400 in dividends, and has net income of \$158,400, how much were the expenses for the year?

- A. \$343,200
- B. \$422,400
- C. \$396,000
- D. \$369,600

55. During the year, Rigby Corporation earned revenues of \$114,000 and incurred \$98,000 for various operating expenses. There are 1,280 shares of stock outstanding. Earnings per share is

- A. \$12.80
- B. \$12.50
- C. \$8.80
- D. \$8.50

56. The following information was taken from the records of Merle Corporation for the period ending December 31, 2012:

Advertising expense	\$1,200
Equipment	800
Accounts receivable	1,500
Notes payable	6,000
Retained earnings	8,420
Utilities expense	1,385
Revenues	4,620
Dividends	975
Interest receivable	125
Rent expense	655

Assuming that 3,450 shares of stock are outstanding, earnings per share is approximately

- A. \$1.40
- B. \$0.40
- C. \$0.27
- D. \$0.23

57. Eddy Corporation reported the following data for the period: Earnings per share, \$3.00; Retained Earnings, \$27,000; Revenues, \$75,000; Capital Stock, \$15,000; Expenses, \$64,500. With this information, determine how many shares of stock are outstanding.

- A. 9,000
- B. 5,000
- C. 4,000
- D. 3,500

**58. Exhibit 2-2**

The following information was taken from the records of Tellers Corporation for the month ended December 31, 2012:

Advertising expense	\$20,625
Income tax expense	13,095
Accounts payable	13,450
Dividends paid	14,125
Retained earnings (12/1/12)	57,860
Consulting fees revenue	93,550
Rent expense	11,728
Supplies expense	16,917

Refer to Exhibit 2-2. Given the above information, net income is

- A. \$45,110
- B. \$35,310
- C. \$31,185
- D. \$11,385

**59. Exhibit 2-2**

The following information was taken from the records of Tellers Corporation for the month ended December 31, 2012:

Advertising expense	\$20,625
Income tax expense	13,095
Accounts payable	13,450
Dividends paid	14,125
Retained earnings (12/1/12)	57,860
Consulting fees revenue	93,550
Rent expense	11,728
Supplies expense	16,917

Refer to Exhibit 2-2. If Tellers has 2,100 shares of stock outstanding, earnings per share is approximately

- A. \$46.51
- B. \$14.85
- C. \$16.81
- D. \$4.67

60. The following information was taken from the records of McDyce Corporation for the year ended December 31, 2013:

Dividends paid	\$ 12,800
Service revenue	90,500
Accounts payable	139,750
Capital stock	378,750
Total expenses	67,000
Retained earnings (1/1/13)	43,400

The net income at December 31, 2013 was

- A. \$23,500
- B. \$54,100
- C. \$43,400
- D. \$72,750

61. The beginning balance of retained earnings will be greater than the ending balance if

- A. The company has a net income greater than dividends paid
- B. The company issues additional shares of stock during the period
- C. The company has a net income less than dividends paid
- D. The revenues earned for the period are greater than the expenses incurred and dividends paid

62. Which of the following is NOT included in the statement of retained earnings?

- A. Dividends
- B. Net income
- C. Beginning of year retained earnings
- D. Owner investment

63. Retained earnings are

- A. The earnings of a company that have been distributed to the owners.
- B. The earnings of a company that have been retained in the company.
- C. The amount of cash that a company has.
- D. The amount of cash required for company investments.

64. During the year, Roger Company earned revenues of \$114,000, incurred \$98,000 for various operating expenses, and distributed \$5,600 in dividends. If retained earnings for the previous year was \$34,600, what is retained earnings for the current year?

- A. \$45,000
- B. \$24,200
- C. \$16,000
- D. \$34,600

65. The following information was taken from the records of McDyce Corporation for the year ended December 31, 2013:

Dividends paid	\$ 6,400
Service revenue	45,250
Accounts payable	69,875
Capital stock	189,375
Total expenses	33,500
Retained earnings (1/1/13)	21,700

The retained earnings balance at December 31, 2013 was

- A. \$216,425
- B. \$27,050
- C. \$146,550
- D. \$33,450

66. The following information was taken from the records of Tellers Corporation for the year ended December 31, 2013:

Advertising expense	\$20,625
Income tax expense	13,095
Accounts payable	13,450
Dividends paid	14,125
Retained earnings (12/31/13)	57,860
Consulting fees revenue	93,550
Rent expense	11,728
Supplies expense	16,917

Given the above information, retained earnings on December 31, 2012 was

- A. \$45,110
- B. \$40,800
- C. \$31,185
- D. \$57,860

67. Rolf Corporation reported the following data for the period end: Earnings per share, \$6.00; Retained Earnings, \$54,000; Revenues, \$150,000; Capital Stock, \$30,000; Expenses, \$129,000; Dividends, \$24,000. With this information, determine retained earnings for the prior period.

- A. \$54,000
- B. \$51,000
- C. \$57,000
- D. \$180,000

68. The following information was taken from the records of Hart Corporation for the month ended December 31, 2013:

Advertising expense	\$20,625
Income tax expense	13,095
Accounts payable	13,450
Dividends paid	14,125
Retained earnings (12/1/13)	57,860
Consulting fees revenue	97,875
Rent expense	11,728
Supplies expense	16,917

Given the above information, retained earnings as of December 31, 2013 is

- A. \$79,045
- B. \$79,245
- C. \$55,795
- D. \$33,895

69. On April 1, Bonita Corporation's retained earnings account had a balance of \$785,000. During April, Bonita had revenues of \$135,000 and expenses of \$93,000. On April 30, retained earnings had a balance of \$811,500.

What amount of dividends were paid during April?

- A. \$42,500
- B. \$30,750
- C. \$15,500
- D. \$13,250

70. A major source of cash from operating activities is

- A. Receipts from sale of goods
- B. Receipts from borrowing
- C. Receipts from sale of building
- D. Receipts from investment by owner

71. Which of the following is a primary use of cash?

- A. Borrowing
- B. Investment by owners
- C. Operating expenses
- D. Sale of equipment

72. Which of the following financial statements shows an entity's cash receipts and payments?

- A. The statement of financial position
- B. The statement of cash flows
- C. The statement of earnings
- D. The statement of changes in owners' equity

73. Which of the following classifications does NOT appear on the Statement of Cash Flows?

- A. Investing
- B. Operating
- C. Borrowing
- D. Financing

74. Which of the following classifications refers to those activities associated with buying and selling long-term assets?

- A. Investing
- B. Operating
- C. Borrowing
- D. Financing

75. Which of the following classifications refers to those activities whereby cash is obtained or repaid to owners and creditors?

- A. Investing
- B. Operating
- C. Borrowing
- D. Financing

76. Which of the following classifications refers to those activities that are part of the day-to-day business of a company?

- A. Investing
- B. Operating
- C. Borrowing
- D. Financing

77. Which of the following activities would NOT be classified as an investing activity?

- A. Purchase of land
- B. Purchase of inventory
- C. Sale of Land
- D. Sale of equipment

78. Which of the following activities would be classified as a financing activity?

- A. Selling goods
- B. Payment of wages
- C. Repayment of a loan
- D. Purchase of equipment

**79. Exhibit 2-3**

During the month, Meridian Company had the following cash transactions:

Cash collected from customers	\$ 12,500
Cash received from a loan	8,000
Cash paid for wages payable	(5,750)
Cash paid for the purchase of a building	(15,000)
Cash received for the issuance of new shares of stock	2,600
Cash received from sale of land	6,400
Cash paid for rent	(2,500)
Cash paid for dividends	(1,500)

Refer to Exhibit 2-3. Given the above information, compute cash flow from operating activities.

- A. \$4,250
- B. \$20,750
- C. \$15,750
- D. \$9,250

**80. Exhibit 2-3**

During the month, Meridian Company had the following cash transactions:

Cash collected from customers	\$ 12,500
Cash received from a loan	8,000
Cash paid for wages payable	(5,750)
Cash paid for the purchase of a building	(15,000)
Cash received for the issuance of new shares of stock	2,600
Cash received from sale of land	6,400
Cash paid for rent	(2,500)
Cash paid for dividends	(1,500)



Refer to Exhibit 2-3. Given the above information, compute cash flow from investing activities.

- A. \$4,250
- B. (\$4,250)
- C. (\$8,600)
- D. \$8,600

### 81. Exhibit 2-3

During the month, Meridian Company had the following cash transactions:

Cash collected from customers	\$ 12,500
Cash received from a loan	8,000
Cash paid for wages payable	(5,750)
Cash paid for the purchase of a building	(15,000)
Cash received for the issuance of new shares of stock	2,600
Cash received from sale of land	6,400
Cash paid for rent	(2,500)
Cash paid for dividends	(1,500)

Refer to Exhibit 2-3. Given the above information, compute cash flow from financing activities.

- A. \$6,900
- B. \$3,900
- C. \$12,100
- D. \$9,100

82. The idea that certain figures on an operating statement help to explain changes in figures on comparative balance sheets is referred to as

- A. Liquidity
- B. Double entry
- C. Articulation
- D. Classification

83. During 2013, Genoa Corporation had revenues of \$198,000 and expenses of \$156,000. Dividends of \$28,000 were paid during the year and additional stock was issued for \$21,400. If total assets and total liabilities on January 1, 2013, were \$130,000 and \$56,000, respectively, how much is owners' equity on December 31, 2013?

- A. \$137,400
- B. \$109,400
- C. \$81,400
- D. \$65,400

84. In 2012, Rodney Corporation's balance sheet had the following balances: cash, \$306,500; accounts receivable, \$471,400; and accounts payable, \$390,800. During 2013, Rodney had a net increase in cash of \$68,600 and net income of \$47,800. Given this information, what is the cash balance that will be reported on Rodney's 2013 balance sheet?

- A. \$375,100
- B. \$237,900
- C. \$354,300
- D. \$258,700

85. The following data were taken from the records of Mendez Corporation for the year ended December 31, 2013:

	<u>01/01/13</u>	<u>12/31/13</u>
Assets	\$3,750	?
Liabilities	2,860	\$3,455
Owners' Equity	?	3,455
Dividends Paid	0	1,230

Given the above information and assuming that no additional stock was added for the year, net income for the year ended December 31, 2013, is

- A. \$1,675
- B. \$2,120
- C. \$2,905
- D. \$3,795

86. If a company has assets of \$460,000, liabilities of \$100,000, and capital stock of \$210,000, what is the amount of retained earnings?

- A. \$150,000
- B. \$210,000
- C. \$110,000
- D. \$310,000

87. The transactions carried out by Blue Waters Corporation during the year caused an increase in total assets of \$25,650 and a decrease in total liabilities of \$12,250. If no additional stock was issued during the year and dividends of \$7,850 were paid, what was the net income for the year?

- A. \$53,600
- B. \$45,750
- C. \$29,100
- D. \$13,400

88. Vital information that CANNOT be captured solely by dollar amounts is reported in a firm's

- A. Balance sheet
- B. Notes to financial statements
- C. Income statement
- D. Statement of retained earnings

89. Which of the following is NOT one of the four general types of financial statement notes?

- A. Summary of significant accounting policies
- B. Additional information about the summary totals found in the financial statements
- C. Disclosure of important information that is not recognized in the financial statements
- D. Supplementary information required by the Internal Revenue Service

90. Which of the following is an example of a significant accounting policy that would be explained in the notes to the financial statements?

- A. The description of all the individual items that comprise notes payable
- B. The disclosure of quarterly financial information
- C. The method used to estimate depreciation on a piece of equipment
- D. The disclosure of the uncertain, potential outcome of a lawsuit

91. Which of the following is an example of a disclosure of information NOT recognized that would be explained in the notes to the financial statements?

- A. The description of all the individual items that comprise notes payable
- B. The disclosure of quarterly financial information
- C. The method used to estimate depreciation on a piece of equipment
- D. The disclosure of the uncertain, potential outcome of a lawsuit

92. Which of the following is an example of additional information about summary totals that would be explained in the notes to the financial statements?

- A. The description of all the individual items that comprise notes payable
- B. The disclosure of quarterly financial information
- C. The method used to estimate depreciation on a piece of equipment
- D. The disclosure of the uncertain, potential outcome of a lawsuit

93. An independent audit report is usually issued by

- A. Management
- B. A government accountant
- C. A private detective
- D. A certified public accountant

94. In completing an audit of a company's financial statements, auditors

- A. Guarantee that the financial statements are accurate
- B. Examine every transaction underlying the financial statements
- C. Assume responsibility for the accuracy of the financial statements
- D. Provide some assurance that the financial statements are not misleading

95. The accuracy of the information contained in the financial statements is the responsibility of the

- A. Stockholders
- B. Certified Public Accountant
- C. Management
- D. Securities and Exchange Commission

96. Which of the following are the two economic factors that enable us to trust an independent auditor despite the fact that the auditor was hired by the company being audited?

- A. Reputation of auditor and government policy
- B. Risk of lawsuits and integrity of auditor
- C. Reputation of auditor and risk of lawsuits
- D. Integrity of auditor and government policy

97. The idea that the activities of the entity are to be separated from those of the individual owner is the

- A. Separate entity concept
- B. Arm's-length transaction assumption
- C. Money measurement concept
- D. Going concern assumption

98. The idea that both parties to a transaction must be rational and free to act independently is the

- A. Monetary measurement concept
- B. Arm's-length transaction assumption
- C. Going concern assumption
- D. Cost principle

99. The idea that transactions are recorded at their exchange prices at the transaction date is referred to as the

- A. Arm's-length transaction assumption
- B. Monetary measurement principle
- C. Cost principle
- D. Going concern assumption

100. The accounting idea that only items quantifiable in terms of U.S. currency are recorded is the

- A. Monetary measurement concept
- B. Arm's-length transaction assumption
- C. Going concern concept
- D. Double-entry assumption

101. The idea that businesses must be accounted for as though they will exist at least for the foreseeable future is the

- A. Going concern concept
- B. Entity concept
- C. Monetary measurement concept
- D. Arm's-length transaction assumption

102. Which of the following is an essential characteristic of the traditional accounting model?

- A. Going concern assumption
- B. Cost principle
- C. Entity concept
- D. All of these are essential characteristics

103. Suppose you decide to purchase a stereo and an independent store dealer offers to sell you a system that retails for \$4,000 for a price of \$3,695. After some negotiation, you purchase the system for \$3,400. The \$3,400 is considered the accounting measurement for the transaction because of the

- A. Going concern assumption
- B. Fair value assumption
- C. Double-entry assumption
- D. Arm's-length transaction assumption

104. Markanich Company purchased land for \$90,000 in 2010. In 2013, the land is valued at \$115,000. The land would appear on the company's books in 2013 at

- A. \$25,000
- B. \$90,000
- C. \$75,000
- D. \$115,000

105. The following financial statement was prepared by Schenck Corporation's accountant:

Schenck Corporation Balance Sheet December 31, 2012			
<b>Assets</b>		<b>Liabilities and Stockholders' Equity</b>	
Cash	\$ 6,000	Accounts Payable	\$ 4,000
Accounts Receivable	6,500	Notes Payable	?
Inventory	15,000	Total Liabilities	<u>\$ 9,500</u>
Building	?	Capital Stock (10,000 shares @ \$10 per share)	\$120,000
Total Assets	<u>\$165,000</u>	Retained Earnings	?
		Total Stockholders' Equity	?
		Total Liabilities and Stockholders' Equity	?

Based on the above Balance Sheet for Schenck Corporation, what are the correct balances for the accounts listed below:

- Building
- Notes Payable
- Total Liabilities and Stockholders' Equity
- Total Stockholders' Equity
- Retained Earnings

106. The comparative balance sheet for Earthwork Company is presented below:

Earthwork Company Comparative Balance Sheet December 31, 2013 and 2012		
<b>Assets</b>	<u>12/31/13</u>	<u>12/31/12</u>
Cash	\$39,000	\$32,500
Supplies	?	9,100
Land	52,000	52,000
Equipment	32,500	26,000
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	\$23,400	\$19,500
Notes payable	26,000	28,600
Capital stock	52,000	52,000
Retained earnings	35,100	?

Additional information for Earthwork's 2013 operations revealed that the company had revenues of \$65,000 for the year and no dividends were paid. Based on this information, compute the account balances below.

- Retained Earnings balance at 12/31/12
- Supplies balance at 12/31/13
- Total Current Assets as of 12/31/13
- Total expenses incurred for 2013

107. List the three categories of the balance sheet. For each category, provide the definition and examples of two types of accounts that are found in that particular category.

108. On December 31, 2012, Pipe Company had the following account balances:

Mortgage payable	\$150,000
Taxes payable	15,000
Accounts receivable	35,000
Cash	25,000
Land	125,000
Capital stock	75,000
Inventory	75,000
Building	200,000
Accounts payable	50,000
Notes payable (due in 9 months)	45,000
Retained earnings	125,000

Given the above information, compute the following items:

- a. Current assets
- b. Total assets
- c. Current liabilities
- d. Total liabilities
- e. Total owners' equity

109. The following information was taken from Hemp Corporation's books as of December 31, 2013:

Accounts receivable	\$ 80,000	Salaries payable	\$ 32,000
Mortgage payable	175,000	Accounts payable	40,000
Cash	57,000	Inventory	95,000
Service revenue	360,000	Buildings	325,000
Accumulated depreciation	105,000	Retained earnings	140,000
Notes payable (due in 5 months)	15,000	Capital stock	50,000

Prepare a classified balance sheet for the year ended December 31, 2013.



110. The income statement for Highline Corporation is presented below:

Highline Corporation Income Statement For the Year Ended December 31, 2013			
Sales revenue		\$ ?	
Expense s:			
	Advertising expense	\$ 28,800	
	Salaries expense	264,000	
	Supplies expense	73,600	
	Utilities expense	4,800	
	Rent expense	19,200	?
Income before taxes		?	
Income tax expense		99,200	
Net income		\$230,400	
Earnings per Share		\$ ?	

Additional information for Highline's 2013 operations revealed that the company had beginning retained earnings of \$65,000 for the year, \$60,000 dividends were paid, and 10,000 shares of capital stock were outstanding. Based on this information, compute the items below.

- Net income before taxes
- Total expense
- Sales revenue
- Earnings per share

111. For the year ended December 31, 2012, Southern Company had the following account balances:

Sales revenue	\$445,000
Rent expense	60,000
Salary expense	200,000
Utility expense	45,000
Retained earnings (1/1/2012)	130,000
Dividends paid	75,000
Interest expense	25,000

Given the above information, compute the following items:

- a. Total sales revenue
- b. Total expenses
- c. Net income
- d. Retained earnings at 12/31/2012

112. The following information was taken from the Hall Corporation's books:

Accounts receivable	\$ 78,400	Salaries expense	\$132,000
Income tax expense	49,600	Accounts payable	40,000
Retained earnings	201,600	Supplies expense	36,800
Service revenue	360,000	Utilities expense	2,400
Advertising expense	14,400	Rent expense	9,600

Prepare an income statement for the year ended December 31, 2013 (assume that 10,000 shares of stock are outstanding).

113. On January 1, 2013, Sorenson Company had a retained earnings balance of \$780,000. During 2013, Sorenson Company earned a net income of \$145,000. Cash dividends of \$50,000 were paid during the year. Using this information, prepare a Statement of Retained Earnings, in good form, for the year 2013.

114. For each of the following items, indicate whether it would be classified as an operating activity, an investing activity, or a financing activity on the statement of cash flows.

	a.	Cash payments for taxes
	b.	Cash proceeds from the sale of land
	c.	Cash receipts from providing services
	d.	Cash proceeds from a long-term loan
	e.	Issuance of stock for cash
	f.	Cash payments for interest
	g.	Cash payments for the purchase of equipment
	h.	Cash payments for dividends paid to stockholders

115. On December 31, 2013, Skidmore Company had the following cash flow data:

Cash paid for dividends	\$ 20,000
Cash collected from sale of building	90,000
Cash paid for wages	50,000
Cash received from issuing new shares of stock	600,000
Cash collected from customers	1,000,000
Cash paid to purchase inventory	500,000
Cash paid for income taxes	100,000
Cash paid for advertising	30,000
Cash paid for purchase of equipment	200,000
Cash paid on principal of loan	300,000
Cash paid for rent	60,000

Skidmore Company had a cash balance of \$750,000 on January 1, 2013. Given the above information, compute the following items:

- Net cash flow provided (used) by operating activities
- Net cash flow provided (used) by investing activities
- Net cash flow provided (used) by financing activities
- Net increase (decrease) in cash during 2013
- The cash balance at the end of 2013

116. On December 31, 2013, Halloway Company had the following financial information on its books:

Total assets	\$365,000
Net increase in operating activities	425,000
Total liabilities	185,000
Net decrease in financing activities	250,000
Sales revenue	680,000
Total expenses	605,000
Net decrease in investing activities	135,000
Capital stock	30,000

Additional information for Halloway's 2013 operations revealed that the company had beginning retained earnings of \$120,000 for the year, a beginning cash balance of \$35,000, and dividends paid of \$45,000. Based on this information, compute the following items at December 31, 2013:

- Net increase/decrease in cash
- Total owner's equity
- Net income
- Cash balance
- Retained earnings

117. While the three financial statements contain a lot of information, they don't tell the readers everything they may need to know about a company. Additional information can be found in the notes to the financial statements. Identify the four types of notes (be specific).

118. Financial accounting is based on certain fundamental concepts and assumptions. The importance of these items is that they allow the accountant to determine which events to account for and in what manner. Define the following:

- a. Separate entity concept
- b. Arm's-length transactions
- c. Cost principle
- d. Monetary measurement concept
- e. Going concern assumption

## Chapter 2--Financial Statements: An Overview **Key**

1. The financial statement that reports resources owned, the obligations to transfer resources to other organizations, and the claims by the entity's owners is known as the

- A. Income statement
- B. Statement of retained earnings
- C.** Balance sheet
- D. Statement of cash flows

2. Another name for the balance sheet is the

- A. Statement of cash flows
- B. Statement of earnings
- C.** Statement of financial position
- D. Retained earnings statement

3. Which of the following types of accounts are NOT found on the balance sheet?

- A.** Revenues
- B. Assets
- C. Liabilities
- D. Owners' equity

4. Economic resources that are owned or controlled by an enterprise are called

- A.** Assets
- B. Liabilities
- C. Revenues
- D. Gains

5. Which of the following is generally considered to be an asset?

- A. Notes payable
- B. Mortgage payable
- C.** Accounts receivable
- D. Unearned revenue

6. Which of the following accounts is NOT an asset account?

- A. Equipment
- B. Accounts Receivable
- C.** Accounts Payable
- D. Supplies

7. Which of the following generally is NOT considered to be a liability?

- A. Notes payable
- B. Taxes payable
- C.** Inventory
- D. Accounts payable

8. An enterprise's obligations to pay cash or other economic resources to others are called

- A.** Liabilities
- B. Expenses
- C. Losses
- D. Assets

9. Which of the following is generally considered to be a liability?

- A. Accounts receivable
- B. Capital stock
- C.** Notes payable
- D. Retained earnings

10. Which of the following types of accounts show how resources came into a firm?

- A. Liabilities
- B. Owners' equity
- C. Assets
- D.** Both liabilities and owners' equity

11. A business owned by one person is called a

- A. Nonprofit organization
- B. Partnership
- C. Corporation
- D.** Sole proprietorship

12. A business owned by two or more individuals or entities is called a(n)

- A. Nonprofit organization
- B.** Partnership
- C. Institution
- D. Sole proprietorship

13. Owners of a corporation are referred to as

- A. Debtors
- B. Partners
- C.** Stockholders
- D. Creditors

14. Distributions by a corporation to its stockholders are called

- A.** Dividends
- B. Retained earnings
- C. Income
- D. Withdrawals

15. Which of the following usually is NOT considered to be an owners' equity account?

- A. Capital stock
- B. Retained earnings
- C.** Inventory
- D. All these are owners' equity accounts

16. The total amount invested to acquire an ownership interest in a corporation is called

- A. Retained earnings
- B.** Capital stock
- C. Net assets
- D. Owners' equity

17. Net assets are equal to

- A. Total assets minus owners' equity
- B. Total assets minus net income
- C. Total assets minus dividends paid
- D.** Total assets minus total liabilities



18. Which of the following decreases owners' equity?

- A. Additional investments in the company are made by the owners
- B. Operations generate a loss**
- C. Operations generate a profit that is retained in the company
- D. None of these decreases owners' equity

19. The basic accounting equation is

- A. Assets = Liabilities + Owners' Equity**
- B. Assets + Liabilities = Owners' Equity
- C. Assets + Owners' Equity = Liabilities
- D. Liabilities - Owners' Equity = Assets

20. Which of the following is the reason that the accounting equation is true by definition?

- A. Liabilities are the source that funds the purchase of assets
- B. Assets are the source that funds the purchase of liabilities and owner's equity
- C. Liabilities and owner's equity are the sources that fund the purchase of assets**
- D. None of these are true, the accounting equation is merely a coincidence

21. The idea that an increase or decrease on one side of the accounting equation must be offset exactly by an increase or decrease on the other side of the accounting equation is called

- A. Additive concept
- B. Going concern assumption
- C. Monetary measurement concept
- D. Double-entry accounting**

22. A transaction that causes an increase in an asset may also cause

- A. A decrease in owners' equity
- B. An increase in another asset
- C. A decrease in a liability
- D. An increase in a liability**

23. If a corporation has total assets of \$350,000, total liabilities of \$150,000, and retained earnings of \$100,000, what is the amount of capital stock?

- A. \$150,000
- B. \$0
- C. \$100,000**
- D. \$250,000

#### 24. Exhibit 2-1

The following data were taken from the records of Moss Corporation for the year ending December 31, 2012:

	<u>01/01/12</u>	<u>12/31/12</u>
Assets	\$11,250	?
Liabilities	8,580	\$10,365
Owners' equity	?	6,465

Refer to Exhibit 2-1. Given the above information, owners' equity on January 1, 2012 was

- A. \$19,830
- B. \$2,670**
- C. \$885
- D. \$7,695

#### 25. Exhibit 2-1

The following data were taken from the records of Moss Corporation for the year ending December 31, 2012:

	<u>01/01/12</u>	<u>12/31/12</u>
Assets	\$11,250	?
Liabilities	8,580	\$10,365
Owners' equity	?	6,465

Refer to Exhibit 2-1. Given the above information, assets on December 31, 2012, were

- A. \$16,830**
- B. \$5,025
- C. \$18,060
- D. \$11,250

26. Current assets usually are listed on a balance sheet in

- A. Decreasing order of liquidity**
- B. Increasing order of liquidity
- C. A random fashion
- D. Decreasing order of profitability

27. Which of the following would be classified as a current asset?

- A. Accounts payable
- B. Land
- C. Capital stock
- D. Accounts receivable**

28. Which of the following would be classified as a long-term asset?

- A. Accounts payable
- B. Land**
- C. Inventory
- D. Accounts receivable

29. Companies prepare classified and comparative financial statements because

- A. They are required by international accounting principles
- B. They provide financial statement readers with useful information about trends in financial position and operating performance**
- C. They are required by the IRS
- D. They show changes in a company's management policies

30. Which of the following is true of the balance sheet?

- A. It includes revenue and expense accounts.
- B. It identifies a company's assets and liabilities as of a specific date.**
- C. It shows the results of operations for an accounting period.
- D. It discloses the amount of dividends paid.

31. Which of the following financial statements provides a picture of the enterprise at a particular point in time?

- A. Balance sheet**
- B. Income statement
- C. Statement of cash flows
- D. Statement of retained earnings

32. Which of the following accounts is considered to be the most liquid?

- A. Cash**
- B. Land
- C. Accounts Receivable
- D. Inventory

33. Which of the following distinguishes between current and long-term assets?

- A. Comparative balance sheet
- B. Income statement
- C. Classified balance sheet**
- D. Liquidity balance sheet

34. Which of the following would be considered a long-term liability?

- A.** Mortgage payable
- B. Notes payable
- C. Accounts payable
- D. Land

35. Which of the following includes a company's financial position for both the current year and the preceding year?

- A.** Comparative balance sheet
- B. Income statement
- C. Classified balance sheet
- D. Liquidity balance sheet

36. What is the primary limitation of the balance sheet?

- A. It does not reflect the net assets of a company
- B.** It does not reflect the current value of the company
- C. It does not reflect the number of shares of capital stock issued
- D. It does not reflect the undistributed earnings of a company

37. Which of these is an economic asset that is NOT found on the balance sheet?

- A.** Name recognition
- B. Land
- C. Inventory
- D. Goodwill

38. The price that would be paid today for an asset is the

- A. Book value
- B.** Market value
- C. Purchase cost
- D. Economic value

39. Expense and revenue accounts appear on the

- A. Balance sheet
- B.** Income statement
- C. Retained earnings statement
- D. Funds statement

40. Another name for the income statement is

- A. Statement of cash flows
- B. Statement of financial position
- C.** Statement of earnings
- D. Retained earnings statement

41. Which of the following would be included on an income statement?

- A. Cash
- B. Accounts receivable
- C. Land
- D.** Rent expense

42. The financial statement that presents a summary of the revenues and expenses of a business for a specific period of time, such as a month or a year, is called a(n)

- A. Statement of Cash Flows
- B. Statement of Retained Earnings
- C.** Income Statement
- D. Balance Sheet

43. Resource increases from the sale of goods or services are called

- A. Net income
- B. Assets
- C. Gains
- D.** Revenues

44. Revenues cause

- A.** An increase in net assets
- B. A decrease in net assets
- C. No change in net assets
- D. An increase in liabilities

45. Costs that are incurred during the normal operations of a business to generate revenues are called

- A. Losses
- B. Liabilities
- C.** Expenses
- D. Assets

46. Expenses generally cause

- A. An increase in net assets
- B. A decrease in net assets**
- C. No change in net assets
- D. An increase in liabilities

47. Which of the following is an overall measure of the performance of a business entity's activities?

- A. Revenues
- B. Net income (or net loss)**
- C. Assets
- D. Owners' equity

48. Which of the following is a revenue generating activity?

- A. Borrowing money from a bank
- B. Paying rent
- C. Selling a product**
- D. Selling capital stock

49. The difference between sales and cost of goods sold is called

- A. Gross profit**
- B. Intermediate profit
- C. Net income
- D. Gross income

50. Earnings per share is equal to

- A. Net income divided by total number of shares of stock outstanding**
- B. Total revenues divided by total number of shares of stock outstanding
- C. Total revenues divided by the number of shares of stock sold during the year
- D. Net income divided by the number of shares of stock sold during the year

51. Which of the following is the correct way to date an income statement?

- A. For the Year Ended December 31, 2012**
- B. At December 31, 2012
- C. As of December 31, 2012
- D. December 31, 2012

52. Which of the following is an example of a nonoperating expense?

- A. Salary expense
- B. Interest expense**
- C. Cost of goods sold
- D. Advertising expense

53. If a company sells its equipment for more than it is valued on the balance sheet, the difference is called a(n)

- A. Income
- B. Revenue
- C. Profit
- D. Gain**

54. If a company has \$528,000 of sales revenue, pays \$26,400 in dividends, and has net income of \$158,400, how much were the expenses for the year?

- A. \$343,200
- B. \$422,400
- C. \$396,000
- D. \$369,600**

55. During the year, Rigby Corporation earned revenues of \$114,000 and incurred \$98,000 for various operating expenses. There are 1,280 shares of stock outstanding. Earnings per share is

- A. \$12.80
- B. \$12.50**
- C. \$8.80
- D. \$8.50

56. The following information was taken from the records of Merle Corporation for the period ending December 31, 2012:

Advertising expense	\$1,200
Equipment	800
Accounts receivable	1,500
Notes payable	6,000
Retained earnings	8,420
Utilities expense	1,385
Revenues	4,620
Dividends	975
Interest receivable	125
Rent expense	655

Assuming that 3,450 shares of stock are outstanding, earnings per share is approximately

- A. \$1.40
- B. \$0.40**
- C. \$0.27
- D. \$0.23

57. Eddy Corporation reported the following data for the period: Earnings per share, \$3.00; Retained Earnings, \$27,000; Revenues, \$75,000; Capital Stock, \$15,000; Expenses, \$64,500. With this information, determine how many shares of stock are outstanding.

- A. 9,000
- B. 5,000
- C. 4,000
- D. 3,500**

**58. Exhibit 2-2**

The following information was taken from the records of Tellers Corporation for the month ended December 31, 2012:

Advertising expense	\$20,625
Income tax expense	13,095
Accounts payable	13,450
Dividends paid	14,125
Retained earnings (12/1/12)	57,860
Consulting fees revenue	93,550
Rent expense	11,728
Supplies expense	16,917

Refer to Exhibit 2-2. Given the above information, net income is

- A. \$45,110
- B. \$35,310
- C. \$31,185**
- D. \$11,385

**59. Exhibit 2-2**

The following information was taken from the records of Tellers Corporation for the month ended December 31, 2012:

Advertising expense	\$20,625
Income tax expense	13,095
Accounts payable	13,450
Dividends paid	14,125
Retained earnings (12/1/12)	57,860
Consulting fees revenue	93,550
Rent expense	11,728
Supplies expense	16,917



Refer to Exhibit 2-2. If Tellers has 2,100 shares of stock outstanding, earnings per share is approximately

- A. \$46.51
- B.** \$14.85
- C. \$16.81
- D. \$4.67

60. The following information was taken from the records of McDyce Corporation for the year ended December 31, 2013:

Dividends paid	\$ 12,800
Service revenue	90,500
Accounts payable	139,750
Capital stock	378,750
Total expenses	67,000
Retained earnings (1/1/13)	43,400

The net income at December 31, 2013 was

- A.** \$23,500
- B. \$54,100
- C. \$43,400
- D. \$72,750

61. The beginning balance of retained earnings will be greater than the ending balance if

- A. The company has a net income greater than dividends paid
- B. The company issues additional shares of stock during the period
- C.** The company has a net income less than dividends paid
- D. The revenues earned for the period are greater than the expenses incurred and dividends paid

62. Which of the following is NOT included in the statement of retained earnings?

- A. Dividends
- B. Net income
- C. Beginning of year retained earnings
- D.** Owner investment

63. Retained earnings are

- A. The earnings of a company that have been distributed to the owners.
- B.** The earnings of a company that have been retained in the company.
- C. The amount of cash that a company has.
- D. The amount of cash required for company investments.

64. During the year, Roger Company earned revenues of \$114,000, incurred \$98,000 for various operating expenses, and distributed \$5,600 in dividends. If retained earnings for the previous year was \$34,600, what is retained earnings for the current year?

- A.** \$45,000
- B. \$24,200
- C. \$16,000
- D. \$34,600

65. The following information was taken from the records of McDyce Corporation for the year ended December 31, 2013:

Dividends paid	\$ 6,400
Service revenue	45,250
Accounts payable	69,875
Capital stock	189,375
Total expenses	33,500
Retained earnings (1/1/13)	21,700

The retained earnings balance at December 31, 2013 was

- A. \$216,425
- B.** \$27,050
- C. \$146,550
- D. \$33,450

66. The following information was taken from the records of Tellers Corporation for the year ended December 31, 2013:

Advertising expense	\$20,625
Income tax expense	13,095
Accounts payable	13,450
Dividends paid	14,125
Retained earnings (12/31/13)	57,860
Consulting fees revenue	93,550
Rent expense	11,728
Supplies expense	16,917

Given the above information, retained earnings on December 31, 2012 was

- A. \$45,110
- B.** \$40,800
- C. \$31,185
- D. \$57,860

67. Rolf Corporation reported the following data for the period end: Earnings per share, \$6.00; Retained Earnings, \$54,000; Revenues, \$150,000; Capital Stock, \$30,000; Expenses, \$129,000; Dividends, \$24,000. With this information, determine retained earnings for the prior period.

- A. \$54,000
- B. \$51,000
- C.** \$57,000
- D. \$180,000

68. The following information was taken from the records of Hart Corporation for the month ended December 31, 2013:

Advertising expense	\$20,625
Income tax expense	13,095
Accounts payable	13,450
Dividends paid	14,125
Retained earnings (12/1/13)	57,860
Consulting fees revenue	97,875
Rent expense	11,728
Supplies expense	16,917

Given the above information, retained earnings as of December 31, 2013 is

- A. \$79,045
- B.** \$79,245
- C. \$55,795
- D. \$33,895

69. On April 1, Bonita Corporation's retained earnings account had a balance of \$785,000. During April, Bonita had revenues of \$135,000 and expenses of \$93,000. On April 30, retained earnings had a balance of \$811,500. What amount of dividends were paid during April?

- A. \$42,500
- B. \$30,750
- C.** \$15,500
- D. \$13,250

70. A major source of cash from operating activities is

- A.** Receipts from sale of goods
- B. Receipts from borrowing
- C. Receipts from sale of building
- D. Receipts from investment by owner

71. Which of the following is a primary use of cash?

- A. Borrowing
- B. Investment by owners
- C.** Operating expenses
- D. Sale of equipment

72. Which of the following financial statements shows an entity's cash receipts and payments?

- A. The statement of financial position
- B.** The statement of cash flows
- C. The statement of earnings
- D. The statement of changes in owners' equity

73. Which of the following classifications does NOT appear on the Statement of Cash Flows?

- A. Investing
- B. Operating
- C.** Borrowing
- D. Financing

74. Which of the following classifications refers to those activities associated with buying and selling long-term assets?

- A.** Investing
- B. Operating
- C. Borrowing
- D. Financing

75. Which of the following classifications refers to those activities whereby cash is obtained or repaid to owners and creditors?

- A. Investing
- B. Operating
- C. Borrowing
- D.** Financing

76. Which of the following classifications refers to those activities that are part of the day-to-day business of a company?

- A. Investing
- B.** Operating
- C. Borrowing
- D. Financing

77. Which of the following activities would NOT be classified as an investing activity?

- A. Purchase of land
- B. Purchase of inventory**
- C. Sale of Land
- D. Sale of equipment

78. Which of the following activities would be classified as a financing activity?

- A. Selling goods
- B. Payment of wages
- C. Repayment of a loan**
- D. Purchase of equipment

**79. Exhibit 2-3**

During the month, Meridian Company had the following cash transactions:

Cash collected from customers	\$ 12,500
Cash received from a loan	8,000
Cash paid for wages payable	(5,750)
Cash paid for the purchase of a building	(15,000)
Cash received for the issuance of new shares of stock	2,600
Cash received from sale of land	6,400
Cash paid for rent	(2,500)
Cash paid for dividends	(1,500)

Refer to Exhibit 2-3. Given the above information, compute cash flow from operating activities.

- A. \$4,250**
- B. \$20,750
- C. \$15,750
- D. \$9,250

**80. Exhibit 2-3**

During the month, Meridian Company had the following cash transactions:

Cash collected from customers	\$ 12,500
Cash received from a loan	8,000
Cash paid for wages payable	(5,750)
Cash paid for the purchase of a building	(15,000)
Cash received for the issuance of new shares of stock	2,600
Cash received from sale of land	6,400
Cash paid for rent	(2,500)
Cash paid for dividends	(1,500)

Refer to Exhibit 2-3. Given the above information, compute cash flow from investing activities.

- A. \$4,250
- B. (\$4,250)
- C.** (\$8,600)
- D. \$8,600

### 81. Exhibit 2-3

During the month, Meridian Company had the following cash transactions:

Cash collected from customers	\$ 12,500
Cash received from a loan	8,000
Cash paid for wages payable	(5,750)
Cash paid for the purchase of a building	(15,000)
Cash received for the issuance of new shares of stock	2,600
Cash received from sale of land	6,400
Cash paid for rent	(2,500)
Cash paid for dividends	(1,500)

Refer to Exhibit 2-3. Given the above information, compute cash flow from financing activities.

- A. \$6,900
- B. \$3,900
- C. \$12,100
- D.** \$9,100

82. The idea that certain figures on an operating statement help to explain changes in figures on comparative balance sheets is referred to as

- A. Liquidity
- B. Double entry
- C.** Articulation
- D. Classification

83. During 2013, Genoa Corporation had revenues of \$198,000 and expenses of \$156,000. Dividends of \$28,000 were paid during the year and additional stock was issued for \$21,400. If total assets and total liabilities on January 1, 2013, were \$130,000 and \$56,000, respectively, how much is owners' equity on December 31, 2013?

- A. \$137,400
- B.** \$109,400
- C. \$81,400
- D. \$65,400

84. In 2012, Rodney Corporation's balance sheet had the following balances: cash, \$306,500; accounts receivable, \$471,400; and accounts payable, \$390,800. During 2013, Rodney had a net increase in cash of \$68,600 and net income of \$47,800. Given this information, what is the cash balance that will be reported on Rodney's 2013 balance sheet?

- A.** \$375,100
- B. \$237,900
- C. \$354,300
- D. \$258,700

85. The following data were taken from the records of Mendez Corporation for the year ended December 31, 2013:

	<u>01/01/13</u>	<u>12/31/13</u>
Assets	\$3,750	?
Liabilities	2,860	\$3,455
Owners' Equity	?	3,455
Dividends Paid	0	1,230

Given the above information and assuming that no additional stock was added for the year, net income for the year ended December 31, 2013, is

- A. \$1,675
- B. \$2,120
- C. \$2,905
- D.** \$3,795

86. If a company has assets of \$460,000, liabilities of \$100,000, and capital stock of \$210,000, what is the amount of retained earnings?

- A.** \$150,000
- B. \$210,000
- C. \$110,000
- D. \$310,000

87. The transactions carried out by Blue Waters Corporation during the year caused an increase in total assets of \$25,650 and a decrease in total liabilities of \$12,250. If no additional stock was issued during the year and dividends of \$7,850 were paid, what was the net income for the year?

- A. \$53,600
- B.** \$45,750
- C. \$29,100
- D. \$13,400

88. Vital information that CANNOT be captured solely by dollar amounts is reported in a firm's

- A. Balance sheet
- B. Notes to financial statements**
- C. Income statement
- D. Statement of retained earnings

89. Which of the following is NOT one of the four general types of financial statement notes?

- A. Summary of significant accounting policies
- B. Additional information about the summary totals found in the financial statements
- C. Disclosure of important information that is not recognized in the financial statements
- D. Supplementary information required by the Internal Revenue Service**

90. Which of the following is an example of a significant accounting policy that would be explained in the notes to the financial statements?

- A. The description of all the individual items that comprise notes payable
- B. The disclosure of quarterly financial information
- C. The method used to estimate depreciation on a piece of equipment**
- D. The disclosure of the uncertain, potential outcome of a lawsuit

91. Which of the following is an example of a disclosure of information NOT recognized that would be explained in the notes to the financial statements?

- A. The description of all the individual items that comprise notes payable
- B. The disclosure of quarterly financial information
- C. The method used to estimate depreciation on a piece of equipment
- D. The disclosure of the uncertain, potential outcome of a lawsuit**

92. Which of the following is an example of additional information about summary totals that would be explained in the notes to the financial statements?

- A. The description of all the individual items that comprise notes payable**
- B. The disclosure of quarterly financial information
- C. The method used to estimate depreciation on a piece of equipment
- D. The disclosure of the uncertain, potential outcome of a lawsuit

93. An independent audit report is usually issued by

- A. Management
- B. A government accountant
- C. A private detective
- D. A certified public accountant**



94. In completing an audit of a company's financial statements, auditors

- A. Guarantee that the financial statements are accurate
- B. Examine every transaction underlying the financial statements
- C. Assume responsibility for the accuracy of the financial statements
- D.** Provide some assurance that the financial statements are not misleading

95. The accuracy of the information contained in the financial statements is the responsibility of the

- A. Stockholders
- B. Certified Public Accountant
- C.** Management
- D. Securities and Exchange Commission

96. Which of the following are the two economic factors that enable us to trust an independent auditor despite the fact that the auditor was hired by the company being audited?

- A. Reputation of auditor and government policy
- B. Risk of lawsuits and integrity of auditor
- C.** Reputation of auditor and risk of lawsuits
- D. Integrity of auditor and government policy

97. The idea that the activities of the entity are to be separated from those of the individual owner is the

- A.** Separate entity concept
- B. Arm's-length transaction assumption
- C. Money measurement concept
- D. Going concern assumption

98. The idea that both parties to a transaction must be rational and free to act independently is the

- A. Monetary measurement concept
- B.** Arm's-length transaction assumption
- C. Going concern assumption
- D. Cost principle

99. The idea that transactions are recorded at their exchange prices at the transaction date is referred to as the

- A. Arm's-length transaction assumption
- B. Monetary measurement principle
- C.** Cost principle
- D. Going concern assumption

100. The accounting idea that only items quantifiable in terms of U.S. currency are recorded is the

- A.** Monetary measurement concept
- B. Arm's-length transaction assumption
- C. Going concern concept
- D. Double-entry assumption

101. The idea that businesses must be accounted for as though they will exist at least for the foreseeable future is the

- A.** Going concern concept
- B. Entity concept
- C. Monetary measurement concept
- D. Arm's-length transaction assumption

102. Which of the following is an essential characteristic of the traditional accounting model?

- A. Going concern assumption
- B. Cost principle
- C. Entity concept
- D.** All of these are essential characteristics

103. Suppose you decide to purchase a stereo and an independent store dealer offers to sell you a system that retails for \$4,000 for a price of \$3,695. After some negotiation, you purchase the system for \$3,400. The \$3,400 is considered the accounting measurement for the transaction because of the

- A. Going concern assumption
- B. Fair value assumption
- C. Double-entry assumption
- D.** Arm's-length transaction assumption

104. Markanich Company purchased land for \$90,000 in 2010. In 2013, the land is valued at \$115,000. The land would appear on the company's books in 2013 at

- A. \$25,000
- B.** \$90,000
- C. \$75,000
- D. \$115,000

105. The following financial statement was prepared by Schenck Corporation's accountant:

Schenck Corporation Balance Sheet December 31, 2012			
<b>Assets</b>		<b>Liabilities and Stockholders' Equity</b>	
Cash	\$ 6,000	Accounts Payable	\$ 4,000
Accounts Receivable	6,500	Notes Payable	?
Inventory	15,000	Total Liabilities	<u>\$ 9,500</u>
Building	?	Capital Stock (10,000 shares @ \$10 per share)	\$120,000
Total Assets	<u>\$165,000</u>	Retained Earnings	?
		Total Stockholders' Equity	?
		Total Liabilities and Stockholders' Equity	?

Based on the above Balance Sheet for Schenck Corporation, what are the correct balances for the accounts listed below:

- Building
- Notes Payable
- Total Liabilities and Stockholders' Equity
- Total Stockholders' Equity
- Retained Earnings

- \$137,500 (\$165,000 - \$6,000 - \$6,500 - \$15,000)
- \$5,500 (\$9,500 - \$4,000)
- \$165,000 (same as Total Assets)
- \$155,500 (\$165,000 - \$9,500)
- \$35,500 (\$155,500 - \$120,000)

106. The comparative balance sheet for Earthwork Company is presented below:

Earthwork Company Comparative Balance Sheet December 31, 2013 and 2012		
	12/31/13	12/31/12
<b>Assets</b>		
Cash	\$39,000	\$32,500
Supplies	?	9,100
Land	52,000	52,000
Equipment	32,500	26,000
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	\$23,400	\$19,500
Notes payable	26,000	28,600
Capital stock	52,000	52,000
Retained earnings	35,100	?

Additional information for Earthwork's 2013 operations revealed that the company had revenues of \$65,000 for the year and no dividends were paid. Based on this information, compute the account balances below.

- Retained Earnings balance at 12/31/12
- Supplies balance at 12/31/13
- Total Current Assets as of 12/31/13
- Total expenses incurred for 2013

- $\$19,500 = (\text{Total Assets at 12/31/12 of } \$119,600 - [\$19,500 + \$28,600 + \$52,000])$
- $\$13,000 = (\text{Total Liabilities and Stockholders' Equity at 12/31/13 of } \$136,500 - [\$39,000 + \$52,000 + \$32,500])$
- $\$52,000 = (\$39,000 + \$13,000)$
- $\$49,400 = (\text{R/E at 12/31/12} + \text{revenue} - \text{income at 12/31/13}) = (\$19,500 + \$65,000 - \$35,100)$

107. List the three categories of the balance sheet. For each category, provide the definition and examples of two types of accounts that are found in that particular category.

#### Assets

Definition: economic resources that are owned or controlled by a company  
 Examples: Cash, Accounts Receivable, Inventory, Buildings (answers may vary)

#### Liabilities

Definition: obligations to pay cash, transfer other assets, or provide services to someone else  
 Examples: Accounts Payable, Taxes Payable, Mortgage Payable, Unearned Revenue (answers may vary)

#### Owners' Equity

Definition: the ownership interest in the net assets of an entity  
 Examples: Capital Stock, Retained Earnings (answers may vary)

108. On December 31, 2012, Pipe Company had the following account balances:

Mortgage payable	\$150,000
Taxes payable	15,000
Accounts receivable	35,000
Cash	25,000
Land	125,000
Capital stock	75,000
Inventory	75,000
Building	200,000
Accounts payable	50,000
Notes payable (due in 9 months)	45,000
Retained earnings	125,000

Given the above information, compute the following items:

- a. Current assets
- b. Total assets
- c. Current liabilities
- d. Total liabilities
- e. Total owners' equity

- a.  $\$135,000 = (\$25,000 + \$35,000 + \$75,000)$
- b.  $\$460,000 = (\$25,000 + \$35,000 + \$75,000 + \$125,000 + \$200,000)$
- c.  $\$110,000 = (\$15,000 + \$50,000 + \$45,000)$
- d.  $\$260,000 = (\$15,000 + \$50,000 + \$45,000 + \$150,000)$
- e.  $\$200,000 = (\$75,000 + \$125,000)$

109. The following information was taken from Hemp Corporation's books as of December 31, 2013:

Accounts receivable	\$ 80,000	Salaries payable	\$ 32,000
Mortgage payable	175,000	Accounts payable	40,000
Cash	57,000	Inventory	95,000
Service revenue	360,000	Buildings	325,000
Accumulated depreciation	105,000	Retained earnings	140,000
Notes payable (due in 5 months)	15,000	Capital stock	50,000

Prepare a classified balance sheet for the year ended December 31, 2013.

Hemp Corporation Balance Sheet Year End December 31, 2013			
Current assets:			
	Cash	\$ 57,000	
	Accounts receivable	80,000	
	Inventory	95,000	
	Total current assets		232,000
Property, plant, and equipment:			
	Buildings	325,000	
	Less accumulated depreciation	(105,000)	
	Total property, plant, and equipment		220,000
Total assets		\$452,000	
Current liabilities:			
	Accounts payable	\$ 40,000	
	Salaries payable	32,000	
	Notes payable	15,000	
	Total current liabilities		87,000
Long-term liabilities:			
	Mortgage payable	175,000	
	Total long-term liabilities		175,000
Total liabilities		262,000	
Stockholders' equity:			

	Capital stock	50,000	
	Retained earnings	140,000	
Total stockholders' equity		<u>190,000</u>	
Total liabilities and stockholders' equity		<u>452,000</u>	

110. The income statement for Highline Corporation is presented below:

Highline Corporation Income Statement For the Year Ended December 31, 2013			
Sales revenue		\$ ?	
Expense s:			
Advertising expense		\$ 28,800	
Salaries expense		264,000	
Supplies expense		73,600	
Utilities expense		4,800	
Rent expense		<u>19,200</u>	<u>?</u>
Income before taxes		?	
Income tax expense		<u>99,200</u>	
Net income		<u>\$230,400</u>	
Earnings per Share		\$ ?	

Additional information for Highline's 2013 operations revealed that the company had beginning retained earnings of \$65,000 for the year, \$60,000 dividends were paid, and 10,000 shares of capital stock were outstanding. Based on this information, compute the items below.

- Net income before taxes
- Total expense
- Sales revenue
- Earnings per share

- a.  $\$329,600 = (\$230,400 + \$99,200)$
- b.  $\$390,400 = (\$28,800 + \$264,000 + \$73,600 + \$4,800 + 19,200)$
- c.  $\$720,000 = (\$329,600 + \$390,400)$
- d.  $\$23.04 = (\$230,400/10,000 \text{ shares})$

111. For the year ended December 31, 2012, Southern Company had the following account balances:

Sales revenue	\$445,000
Rent expense	60,000
Salary expense	200,000
Utility expense	45,000
Retained earnings (1/1/2012)	130,000
Dividends paid	75,000
Interest expense	25,000

Given the above information, compute the following items:

- a. Total sales revenue
- b. Total expenses
- c. Net income
- d. Retained earnings at 12/31/2012

- a. \$445,000
- b.  $\$330,000 = (\$60,000 + \$200,000 + \$45,000 + \$25,000)$
- c.  $\$115,000 = (\$445,000 - \$330,000)$
- d.  $\$170,000 = (\$130,000 + \$115,000 - \$75,000)$

112. The following information was taken from the Hall Corporation's books:

Accounts receivable	\$ 78,400	Salaries expense	\$132,000
Income tax expense	49,600	Accounts payable	40,000
Retained earnings	201,600	Supplies expense	36,800
Service revenue	360,000	Utilities expense	2,400
Advertising expense	14,400	Rent expense	9,600



Prepare an income statement for the year ended December 31, 2013 (assume that 10,000 shares of stock are outstanding).

Hall Corporation Income Statement For the Year Ended December 31, 2013			
Service revenue		\$360,000	
Expense s:			
	Advertising expense	\$ 14,400	
	Salaries expense	132,000	
	Supplies expense	36,800	
	Utilities expense	2,400	
	Rent expense	<u>9,600</u>	<u>195,200</u>
Income before taxes		164,800	
Income tax expense		<u>49,600</u>	
Net income		<u>\$115,200</u>	
Earnings per Share (\$115,200/10,000 shares)		<u>\$11.52</u>	

113. On January 1, 2013, Sorenson Company had a retained earnings balance of \$780,000. During 2013, Sorenson Company earned a net income of \$145,000. Cash dividends of \$50,000 were paid during the year. Using this information, prepare a Statement of Retained Earnings, in good form, for the year 2013.

Sorenson Company Statement of Retained Earnings For the Year Ended December 31, 2013	
Retained earnings, January 1, 2013	\$780,000
Plus net income for the year	145,000
Less dividends	<u>(50,000)</u>
Retained earnings, December 31, 2013	<u>\$875,000</u>

114. For each of the following items, indicate whether it would be classified as an operating activity, an investing activity, or a financing activity on the statement of cash flows.

	a.	Cash payments for taxes
	b.	Cash proceeds from the sale of land
	c.	Cash receipts from providing services
	d.	Cash proceeds from a long-term loan
	e.	Issuance of stock for cash
	f.	Cash payments for interest
	g.	Cash payments for the purchase of equipment
	h.	Cash payments for dividends paid to stockholders

a.	Cash payments for taxes	Operating
b.	Cash proceeds from the sale of land	Investing
c.	Cash receipts from providing services	Operating
d.	Cash proceeds from a long-term loan	Financing
e.	Issuance of stock for cash	Financing
f.	Cash payments for interest	Operating
g.	Cash payments for the purchase of equipment	Investing
h.	Cash payments for dividends paid to stockholders	Financing

115. On December 31, 2013, Skidmore Company had the following cash flow data:

Cash paid for dividends	\$ 20,000
Cash collected from sale of building	90,000
Cash paid for wages	50,000
Cash received from issuing new shares of stock	600,000
Cash collected from customers	1,000,000
Cash paid to purchase inventory	500,000
Cash paid for income taxes	100,000
Cash paid for advertising	30,000
Cash paid for purchase of equipment	200,000
Cash paid on principal of loan	300,000
Cash paid for rent	60,000

Skidmore Company had a cash balance of \$750,000 on January 1, 2013. Given the above information, compute the following items:

- Net cash flow provided (used) by operating activities
- Net cash flow provided (used) by investing activities
- Net cash flow provided (used) by financing activities
- Net increase (decrease) in cash during 2013
- The cash balance at the end of 2013

a.	Operati ng activiti es: Cash \$ (50,000) paid for wages Cash 1,000,000 collecte d from custom ers Cash (500,000) paid to purchas e invento ry Cash (100,000) paid for income taxes Cash (30,000) paid for adverti sing Cash <u>(60,000)</u> paid for rent	
	Net operating activities	<u>\$ 260,000</u>

b.	Investi ng activiti es: Cash \$ 90,000 collecte d from sale of buildin g Cash <u>(200,000)</u> paid for purchas e of equipm ent	
	Net investing activities	<u>\$ (110,000)</u>

c.	Financi ng activiti es: Cash \$ (20,000) paid for dividen ds Cash 600,000 receive d from issuing new shares of stock	
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	Cash <u>(300,000)</u>	
	paid on	
	princip	
	al of	
	loan	
	Net financing activities	<u>\$ 280,000</u>
d.	Net	
	change	
	in cash:	
	Operati \$ 260,000	
	ng	
	activiti	
	es	
	Investi (110,000)	
	ng	
	activiti	
	es	
	Financi <u>280,000</u>	
	ng	
	activiti	
	es	
	Net increase in cash during 2013	<u>\$ 430,000</u>
e.	Cash balance at end of 2013:	
	Beginning cash balance	\$ 750,000
	Increase in cash during 2013	<u>430,000</u>
	Ending cash balance	<u>\$1,180,000</u>

116. On December 31, 2013, Halloway Company had the following financial information on its books:

Total assets	\$365,000
Net increase in operating activities	425,000
Total liabilities	185,000
Net decrease in financing activities	250,000
Sales revenue	680,000
Total expenses	605,000
Net decrease in investing activities	135,000
Capital stock	30,000

Additional information for Halloway's 2013 operations revealed that the company had beginning retained earnings of \$120,000 for the year, a beginning cash balance of \$35,000, and dividends paid of \$45,000. Based on this information, compute the following items at December 31, 2013:

- Net increase/decrease in cash
- Total owner's equity
- Net income
- Cash balance
- Retained earnings

- $\$40,000 = (\$425,000 - \$135,000 - \$250,000)$
- $\$180,000 = (\$365,000 - \$185,000)$
- $\$75,000 = (\$680,000 - \$605,000)$
- $\$75,000 = (\$35,000 + \$40,000)$
- $\$150,000 = (\$120,000 + \$75,000 - \$45,000)$  or  $(\$180,000 - \$30,000)$

117. While the three financial statements contain a lot of information, they don't tell the readers everything they may need to know about a company. Additional information can be found in the notes to the financial statements. Identify the four types of notes (be specific).

1. Summary of significant accounting policies.
2. Additional information about the summary totals found in the financial statements.
3. Disclosure of important information that is not recognized in the financial statements.
4. Supplementary information required by the FASB or the SEC.

118. Financial accounting is based on certain fundamental concepts and assumptions. The importance of these items is that they allow the accountant to determine which events to account for and in what manner. Define the following:

- a. Separate entity concept
  - b. Arm's-length transactions
  - c. Cost principle
  - d. Monetary measurement concept
  - e. Going concern assumption
- 
- a. The idea that the activities of an entity are to be separated from those of the individual owners.
  - b. Business dealings between independent and rational parties who are looking out for their own interests.
  - c. The idea that transactions are recorded at their historical costs or exchange prices at the transaction date.
  - d. The idea that money is the accounting unit of measurement, and that only economic activities measurable in monetary terms are included in the accounting model.
  - e. The idea that an accounting entity will have a continuing existence for the foreseeable future.