

Chapter 01 - Accounting Information and Decision Making

Chapter 01
Accounting Information and Decision Making**Multiple Choice Questions**

1. The primary focus for financial accounting information is to provide information useful for:

	Investing decisions	Credit decisions
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

- A. Option a
- B. Option b
- C. Option c
- D. Option d

2. What is the primary purpose of financial accounting?

- A. Determine the amount of tax liability owed to the government.
- B. Communicate business transactions to internal management.
- C. Measure business transactions and communicate those measures to external users to make decisions.
- D. Measure the profitability of the company in order to assist employees with making decisions.

3. Financial accounting does not deal with which of the following?

- A. Measuring a company's economic activity.
- B. Preparing financial reports.
- C. Making business decisions.
- D. Communicating financial results to investors.

4. Which of the following groups is not among the external users for whom financial statements are prepared?

- A. Creditors.
- B. Regulators.
- C. Investors.
- D. Managers.

5. Financial accounting:

- A. Provides information primarily for external decision makers.
- B. Provides information primarily for a company's employees.
- C. Provides information primarily for the use of managers of the company.
- D. Is primarily used to compute a company's tax obligation.

6. The primary purpose(s) of financial accounting is (are) to:

- A. Measure and record business transactions.
- B. Prepare federal and state tax returns.
- C. Communicate financial results to investors and creditors.
- D. a and c

7. Which definition below best describes financial accounting?

- A. Process of measuring income taxes owed to the government.
- B. System of maintaining communication with a company's customers and suppliers.
- C. Procedures designed to enhance the company's image to potential investors.
- D. Measuring business activities and communicating them to external parties.

8. The accounting equation is defined as:

- A. $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$.
- B. $\text{Assets} = \text{Liabilities} - \text{Stockholders' Equity}$.
- C. $\text{Net Income} = \text{Revenues} - \text{Expenses}$.
- D. $\text{Liabilities} + \text{Revenues} = \text{Assets}$.

9. Which statement below best describes the accounting equation?
- A. The change in retained earnings equals net income less dividends.
 - B. Equality of revenue and expense transactions over time.
 - C. Resources of the company equal creditors' and owners' claims to those resources.
 - D. Financing activities equal investing and operating activities.
10. If a company has stockholders' equity of \$60,000 at the end of the year, which of the following statements must be true?
- A. The company's assets exceed liabilities by \$60,000.
 - B. The company has issued \$60,000 of common stock.
 - C. Net income for the year equals \$60,000.
 - D. Total revenues earned during the year equal \$60,000.
11. Emmitt had the following final balances after the first year of operations: assets, \$55,000; stockholders' equity, \$25,000; dividends, \$3,000; and net income, \$10,000. What is the amount of Emmitt's liabilities?
- A. \$55,000.
 - B. \$30,000.
 - C. \$13,000.
 - D. \$7,000.
12. Transactions of a company involving external sources of funding are referred to as:
- A. Investing activities.
 - B. Financing activities.
 - C. External activities.
 - D. Operating activities.
13. Transactions of a company that include the purchase and sale of long-term productive assets are referred to as:
- A. Investing activities.
 - B. Financing activities.
 - C. Expenditure activities.
 - D. Operating activities.

14. McGill purchases additional office equipment to better serves its customers. This purchase is classified as what type of activity?

- A. Company activity.
- B. Financing activity.
- C. Investing activity.
- D. Operating activity.

15. Transactions related to the primary business activities of the company, such as selling goods and services to customers, are referred to as:

- A. Investing activities.
- B. Management activities.
- C. Operating activities.
- D. Financing activities.

16. Stimpleton Company engages in the following cash payments:

Purchase equipment	\$2,000
Pay rent	500
Repay loan to the bank	5,000
Pay workers' salaries	1,000

What is the total amount of cash paid for operating activities?

- A. \$6,000.
- B. \$2,000.
- C. \$7,000.
- D. \$1,500.

17. The form of business organization that is legally separate from its owners is a:

- A. Partnership.
- B. Sole proprietorship.
- C. Corporation.
- D. Separation entity.

18. Which business form has the advantage of limited liability?

- A. Corporation.
- B. Sole proprietorship.
- C. Partnership.
- D. All business forms share equal limited liability.

19. Limited liability means:

- A. Stockholders of a corporation are not obligated to pay the corporation's debts out of their own pocket.
- B. Liabilities of a company cannot exceed its assets.
- C. Companies are not allowed to borrow unless they are profitable.
- D. Companies are less likely to be sued if they are formed as a corporation.

20. One disadvantage of the corporate form of business is:

- A. Limited liability.
- B. Access to more capital.
- C. Smaller in size.
- D. Double taxation.

21. The costs of providing goods and services to customers are referred to as:

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

22. The accounts which represent the resources of the company are called:

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

23. An alternative form of the accounting equation is:

- A. $\text{Net Income} = \text{Revenues} - \text{Expenses}$.
- B. $\text{Stockholders' Equity} = \text{Assets} + \text{Liabilities}$.
- C. $\text{Assets} = \text{Liabilities} - \text{Stockholders' Equity}$.
- D. $\text{Assets} - \text{Liabilities} = \text{Stockholders' Equity}$.

24. The owners' interest in a corporation is called:

- A. Dividends.
- B. Assets.
- C. Liabilities.
- D. Stockholders' equity.

25. Creditors' claims to a corporation's resources are referred to as:

- A. Dividends.
- B. Assets.
- C. Liabilities.
- D. Stockholders' equity.

26. Net income can best be described as:

- A. Net cash received by a company during the year.
- B. Revenues minus expenses.
- C. The amount of profits retained in a company for the year.
- D. Resources owned by a company.

27. Use the following appropriate amounts to calculate net income: Revenues, \$12,000; Liabilities, \$5,000; Expenses, \$4,000; Assets, \$19,000; Dividends, \$4,000.

- A. \$6,000.
- B. \$8,000.
- C. \$4,000.
- D. \$14,000.

28. Liabilities are best defined as:

- A. Amounts the company expects to collect in the future from customers.
- B. Debts or obligations the company owes resulting from past transactions.
- C. The amounts that owners have invested in the business.
- D. Payments to stockholders.

29. Which of the following best describes a revenue?

- A. Resources owned.
- B. Cash received from a customer.
- C. Amounts earned from providing goods and services to a customer.
- D. Dividends paid to stockholders.

30. The account type that represents payments to stockholders is called:

- A. Liabilities.
- B. Assets.
- C. Stockholders' equity.
- D. Dividends.

31. The accounts that represent resources owed to creditors are called:

- A. Assets.
- B. Liabilities.
- C. Dividends.
- D. Stockholders' equity.

32. Using the information below from the accounting records of Thomas Corporation, owners' claims to the company's resources amount to:

Assets	\$1,200,000
Liabilities	\$800,000
Net income	\$100,000
Retained earnings	\$250,000

- A. \$1,200,000.
- B. \$800,000.
- C. \$250,000.
- D. \$400,000.

33. Which of the following is an operating activity?

- A. Issuing common stock.
- B. Paying dividends.
- C. Borrowing cash from a bank to acquire a factory.
- D. Paying electricity bills for the month.

34. How many of the following transactions are operating activities?

Borrowed \$50,000 from the bank
Purchased \$12,000 in supplies
Provide services to customers for \$27,000
Paid the utility bill of \$750
Purchased a delivery truck for \$12,000
Received \$25,000 from issuing common stock

- A. One.
- B. Two.
- C. Three.
- D. Four.

35. The costs associated with producing revenues are referred to as:

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

36. Accountants are responsible for measuring various operating, investing and financing activities. Which of the following correctly matches the activity with its type?

- A. Investing - paying utilities for the month.
- B. Investing - purchasing land.
- C. Operating - paying dividends to stockholders.
- D. Financing - selling equipment for cash.

37. Which of the following accounts appears in the statement of stockholders' equity?

- A. Supplies.
- B. Cash.
- C. Salaries Payable.
- D. Retained Earnings.

38. Sooner Company has had a net income of \$8,000, \$5,000, \$12,000, and \$10,000 over the first four years of the company's existence. If the average annual amount of dividends paid over the last four years is \$3,000, what is the ending retained earnings balance?

- A. \$47,000.
- B. \$35,000.
- C. \$23,000.
- D. \$7,000.

39. The equation best describing the income statement is:

- A. Revenues - Expenses = Net Income.
- B. Assets = Revenues - Expenses.
- C. Assets = Liabilities + Stockholders' Equity.
- D. Revenues + Expenses = Net Income.

40. On January 1, 2012, Gucci Brothers Inc. started the year with a \$492,000 balance in Retained Earnings and a \$605,000 balance in Common Stock. During 2012, the company earned net income of \$92,000, paid a dividend of \$15,200, and issued more common stock for \$27,500. What is total stockholders' equity on December 31, 2012?

- A. \$1,231,700.
- B. \$1,097,000.
- C. \$1,201,300.
- D. \$1,588,300.

41. The financial statement that represents activity over the entire life of the company is the:

- A. Income statement.
- B. Statement of financial accounting.
- C. Balance sheet.
- D. Statement of cash flows.

42. Which of the following is the correct order for preparing the financial statements?

- A. Balance sheet, statement of stockholders' equity, and income statement.
- B. Balance sheet, income statement, and statement of stockholders' equity.
- C. Statement of stockholders' equity, income statement, and balance sheet.
- D. Income statement, statement of stockholders' equity, and balance sheet.

43. The financial statement(s) that record activity over an interval of time is (are) the:

- A. Income statement.
- B. Balance sheet.
- C. Balance sheet and income statement.
- D. Income statement and statement of cash flows.

44. Which of the following items would not appear in an income statement?

- A. Salaries expense.
- B. Advertising expense.
- C. Service revenue.
- D. Cash.

45. The two categories of stockholders' equity usually found in the balance sheet of a corporation are:

- A. Common stock and liabilities.
- B. Assets and liabilities.
- C. Common stock and retained earnings.
- D. Revenues and expenses.

46. Which of the following statements regarding financial reports is not correct?

- A. A balance sheet contains assets, liabilities, and stockholders' equity information.
- B. An income statement shows revenues and expenses.
- C. A statement of stockholders' equity reports revenues, net income, and dividends information.
- D. A statement of cash flows shows cash inflows and outflows from operating, investing, and financing activities.

47. Which of the following is not a balance sheet item?

- A. Assets.
- B. Common stock.
- C. Retained earnings.
- D. Revenues.

48. In what order are the following financial statements prepared: (1) balance sheet, (2) income statement, and (3) statement of stockholders' equity?

- A. 1, 2, 3.
- B. 3, 2, 1.
- C. 1, 3, 2.
- D. 2, 3, 1.

49. Nina Corp. had the following net income (loss) the first three years of operation: \$7,100, (\$1,600), and \$3,600. If the Retained Earnings balance at the end of year three is \$1,100, what was the total amount of dividends paid over these three years?

- A. \$500.
- B. \$0.
- C. \$9,100.
- D. \$8,000.

50. Aikman Company has paid dividends of \$2,410, \$0, \$1,570 and \$1,060 over the first four years of the company's existence. If Retained Earnings after year four has an ending balance of \$9,700, what is the average annual amount of net income (loss) over the past four years for Aikman?

- A. \$3,685.
- B. \$14,740.
- C. \$840.
- D. \$1,260.

51. The equation best describing the balance sheet is:

- A. $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$.
- B. $\text{Revenues} - \text{Expenses} = \text{Net Income}$.
- C. $\text{Ending Retained Earnings} + \text{Dividends} = \text{Net Income}$.
- D. $\text{Revenues} + \text{Expenses} = \text{Net Income}$.

52. DW has an ending Retained Earnings balance of \$51,100. If during the year DW paid dividends of \$4,300 and had net income of \$22,500, then what was the beginning Retained Earnings balance?

- A. \$24,300.
- B. \$300.
- C. \$32,900.
- D. \$69,300.

53. The ending Retained Earnings balance of Boomer Inc. decreased by \$1.0 million from the beginning of the year. The company declared a dividend of \$5.4 million during the year. What was the net income earned during the year?

- A. \$7.5 million.
- B. \$6.4 million.
- C. \$4.4 million.
- D. \$1.0 million.

54. Which financial statement is typically prepared first?

- A. Balance sheet.
- B. Income statement.
- C. Statement of stockholders' equity.
- D. Statement of cash flows.

55. Expenses are shown in which of the following statements?

- A. Income statement.
- B. Statement of cash flows.
- C. Balance sheet.
- D. Statement of stockholders' equity.

56. Given the information below about Thomas Corporation, what was the amount of dividends the company paid in the current period?

Beginning retained earnings	\$54,000
Ending retained earnings	\$110,000
Decrease in cash	\$10,000
Net income	\$84,000
Change in stockholders' equity	\$15,000

- A. \$13,000.
- B. \$110,000.
- C. \$28,000.
- D. \$18,000.

57. Retained earnings at the end of the year is calculated using:

- A. Beginning retained earnings, net income, and dividends.
- B. Common stock and dividends.
- C. Stockholders' equity, net income, and dividends.
- D. Net income and dividends.

58. The financial statement that represents the accounting equation is the:

- A. Income statement.
- B. Statement of cash flows.
- C. Balance sheet.
- D. Statement of stockholders' equity.

59. Which of the following is not a major section in the statement of cash flows?

- A. Cash flows from operating activities.
- B. Cash flows from financing activities.
- C. Cash flows from customers.
- D. Cash flows from investing activities.

60. Given the information below about David Corporation, what was the amount of dividends the company paid in the current period?

Beginning retained earnings	\$35,000
Ending retained earnings	\$90,000
Increase in cash	\$25,000
Net income	\$85,000
Change in stockholders' equity	\$20,000

- A. \$140,000.
- B. \$0.
- C. \$30,000.
- D. \$20,000.

61. Liabilities are shown in which of the following statements?

- A. Income statement.
- B. Statement of cash flows.
- C. Balance sheet.
- D. Statement of stockholders' equity.

62. Consider the following account balances of the Shattuck Law Firm as of December 31, 2012:

Accounts Payable	\$ 4,400
Salaries Expense	12,800
Cash	1,700
Common Stock	2,400
Service Revenue	8,300
Supplies	4,300
Retained Earnings	1,100
Utilities Expense	5,000

How many of these accounts would appear in Shattuck's 2012 income statement?

- A. Five.
- B. Four.
- C. Three.
- D. Two.

63. Consider the following account balances of the Shattuck Law Firm as of December 31, 2012:

Accounts Payable	\$ 4,400
Salaries Expense	12,800
Cash	1,700
Common Stock	2,400
Service Revenue	8,300
Supplies	4,300
Retained Earnings	1,100
Utilities Expense	5,000

How many of these accounts would appear in Shattuck's 2012 balance sheet?

- A. Five.
- B. Four.
- C. Three.
- D. Two.

64. If total change in cash = \$44,000, net operating cash flows = \$22,000, and net investing cash flows = (\$13,000); then net financing cash flows =

- A. \$15,000.
- B. \$25,000.
- C. \$35,000.
- D. \$45,000.

65. For the past five years, Mookie Consulting Services reported the following annual net income and dividend amounts:

Year	Net Income	Dividends
1	\$22,000	\$2,000
2	17,000	2,000
3	9,000	1,000
4	14,000	3,000
5	25,000	4,000

If Mookie had Retained Earnings of \$88,000 at the end of year 5, what was the company's Retained Earnings at the beginning of Year 1?

- A. \$13,000.
- B. \$25,000.
- C. \$7,000.
- D. \$1,000.

66. Which of the following items is reported in the statement of stockholders' equity?

- A. Total assets.
- B. Total expenses.
- C. Net income.
- D. Operating cash flows.

67. Which of the following statements is NOT correct about the financial statements?

- A. An income statement reports revenues, expenses, and net income information.
- B. The statement of stockholders' equity presents common stock, dividends, and retained earnings information.
- C. A balance sheet reports assets, liabilities, revenues, and expenses.
- D. The statement of cash flows shows cash inflows and outflows from operating, financing, and investing activities.

68. Which financial accounting number impacts stock prices more than any other single piece of information?

- A. Retained earnings.
- B. Net income.
- C. Common stock.
- D. Total assets.

69. The balance sheet depicts which of the following equations?

- A. $\text{Net income} = \text{revenue} - \text{expenses}.$
- B. $\text{Ending retained earnings} = \text{beginning retained earnings} + \text{net income} - \text{dividends}.$
- C. $\text{Assets} = \text{liabilities} + \text{stockholders' equity}.$
- D. $\text{Net cash flows} = \text{total cash inflows} - \text{total cash outflows}.$

70. Which financial statement reports a company's retained earnings?

- A. Income statement.
- B. Balance sheet.
- C. Statement of cash flows.
- D. All of the above.

71. Net income appears in which two financial statements?

- A. Balance sheet and income statement.
- B. Statement of stockholders' equity and balance sheet.
- C. Income statement and statement of stockholders' equity.
- D. Net income appears in only one financial statement.

72. Which of the following accounts appears in the statement of stockholders' equity?

- A. Accounts Payable
- B. Accounts Receivable
- C. Common Stock
- D. Supplies

73. Which of the following items would not appear in an income statement?

- A. Delivery expense.
- B. Accounts payable.
- C. Service revenue.
- D. Utilities expense.

74. Which of the following is not a balance sheet item?

- A. Assets.
- B. Retained Earnings.
- C. Expenses.
- D. Liabilities.

75. Which accounting amount best represents value created for stockholders during the current period?

- A. Retained earnings.
- B. Total assets.
- C. Net income.
- D. Stockholders' equity.

76. Which accounting number has the single greatest impact on stock prices?

- A. Total dividends.
- B. Total assets.
- C. Total revenues.
- D. Net income.

77. GAAP is an abbreviation for:

- A. Generally authorized accounting procedures.
- B. Generally applied accounting procedures.
- C. Generally accepted auditing practices.
- D. Generally accepted accounting principles.

78. Generally Accepted Accounting Principles (GAAP) are best defined as:

- A. Standards or methods for presenting financial accounting information.
- B. Government-mandated rules that companies must follow.
- C. Rules that best estimate profitability for a company.
- D. The group of individuals that create and enforce all accounting rules.

79. Today, financial accounting and reporting standards in the United States are established primarily by the:

- A. Securities and Exchange Commission.
- B. International Accounting Standards Board.
- C. Financial Accounting Standards Board.
- D. U.S. Congress.

80. Financial reporting objectives do not include providing information:

- A. Useful to investors and creditors in making decisions.
- B. To determine market values, assess profit potential, and evaluate management.
- C. Helpful to investors in predicting cash flows.
- D. That tells about a company's economic resources and claims to those resources.

81. Of the following, the most important objective for financial reporting is to provide information useful for:

- A. Predicting cash flows.
- B. Determining taxable income.
- C. Providing accountability.
- D. Increasing future profits.

82. The International Accounting Standards Board:

- A. Is governed by the U.S. Securities and Exchange Commission.
- B. Can overrule the FASB when their policies disagree.
- C. Promotes the use of high-quality, understandable global accounting standards.
- D. Is the primary standard-setting body in the United States.

83. Independent auditors express an opinion on the:

- A. Fairness of financial statements.
- B. Amount of income taxes a company owes to the government.
- C. Quality of the company's products.
- D. Quality of a company's workforce.

84. The body of rules and procedures that guide the measurement and communication of financial accounting information is known as:

- A. Standards of Professional Compliance (SPC).
- B. Generally Accepted Accounting Principles (GAAP).
- C. Generally Accepted Auditing Standards (GAAS).
- D. Rules of Financial Reporting (RFR).

85. The independent, private-sector group that is primarily responsible for setting financial reporting standards in the United States is the:

- A. FASB.
- B. IASB.
- C. SEC.
- D. IRS.

86. Which statement below best describes the objectives of financial accounting?

- A. Provide information that helps predict cash flows.
- B. Provide information about the economic resources, claims to resources and changes in resources and claims.
- C. Provide information that is useful in making decisions.
- D. All of the above are correct.

87. The assumption that a business can continue to remain in operation into the future is the:

- A. Monetary unit assumption.
- B. Periodicity assumption.
- C. Economic entity assumption.
- D. Going concern assumption.

88. The qualitative characteristic that says accounting information can influence users' decisions by allowing them to assess past performance is:

- A. Timeliness.
- B. Neutrality.
- C. Confirmatory value.
- D. Predictive value.

89. The major underlying assumptions of accounting include all of the following except:

- A. Economic entity.
- B. Monetary unit.
- C. Legal liability.
- D. Going concern.

90. The assumption that the assets and liabilities of the business are accounted for on the books of the company but not included in the records of the owner is the:

- A. Monetary unit assumption.
- B. Going concern assumption.
- C. Economic entity assumption.
- D. Periodicity assumption.

91. Accounting information that does not provide measurement bias in favor of a particular set of companies has the characteristic of:

- A. Relevance.
- B. Consistency.
- C. Materiality.
- D. Neutrality.

92. If accounting information is considered to have faithful representation, then which of the following is true?

- A. The information represents to users what it claims to represent.
- B. The information follows conservatism principles and is also material.
- C. The information is considered pertinent to or affects decisions.
- D. The information will have predictive value, feedback value, and is timely.

93. For accounting information to be relevant, it must have which of the following characteristics?

- A. Predictive value or confirmatory value.
- B. Large in amount and timely.
- C. Comparability or consistency.
- D. Freedom from material error, neutrality, or completeness.

94. Materiality is based upon which factor(s)?

- A. Timeliness of an item.
- B. Amount and nature of an item.
- C. Consistency of an item.
- D. Relevance of an item.

95. If a company has gone bankrupt, its financial statements likely violate the:

- A. Periodicity assumption.
- B. Monetary unit assumption.
- C. Going concern assumption.
- D. Economic entity assumption.

96. The conceptual framework's qualitative characteristic of relevance includes:

- A. Predictive value.
- B. Verifiability.
- C. Completeness.
- D. Neutrality.

97. The conceptual framework's qualitative characteristic of faithful representation includes:

- A. Predictive value.
- B. Neutrality.
- C. Confirmatory value.
- D. Comparability.

98. Constraints on qualitative characteristics of accounting information include:

- A. Freedom from material error.
- B. Going concern.
- C. Neutrality.
- D. Cost effectiveness.

99. Primary qualitative characteristics of accounting information are:

- A. Relevance and comparability.
- B. Comparability and consistency.
- C. Faithful representation and relevance.
- D. Faithful representation and consistency.

100. Enhancing qualitative characteristics of accounting information include:

- A. Relevance and comparability.
- B. Comparability and consistency.
- C. Faithful representation and relevance.
- D. Cost effectiveness and materiality.

True / False Questions

101. Accounting is a system of maintaining records of a company's operations and communicating this information to decision makers.

True False

102. Accounting information is used by investors to decide whether to invest in a company's stock.

True False

103. Accounting information is used by creditors to decide whether to invest in a company's stock.

True False

104. The primary functions of financial accounting are to measure business activities of a company and to communicate those measurements to internal parties for decision-making purposes.

True False

105. Financing activities are transactions involving external sources of funding.

True False

106. Investing activities include the purchase and sale of (1) long-term resources and (2) any resources not directly related to a company's normal operations.

True False

107. Operating activities include transactions that relate to the primary operations of the company.

True False

108. A corporation is an entity that is legally separate from its owners.

True False

109. Cash, inventory, supplies, and buildings are examples of liabilities.

True False

110. Amounts owed to suppliers, workers, governments, and utility companies are examples of liabilities.

True False

111. If total assets of a company equal \$12,000 and total stockholders' equity equals \$4,000, then total liabilities equal \$8,000.

True False

112. If total liabilities of a company equal \$16,000 and total stockholders' equity equals \$9,000, then total assets equal \$7,000.

True False

113. The accounting equation shows that a company's resources equal creditors' and owners' claims to those resources.

True False

114. The costs of advertising, utilities, and salaries in the current reporting period are examples of liabilities.

True False

115. The difference between revenues and expenses is referred to as net income or net loss.

True False

116. If a company reports revenues of \$17,000 and expenses of \$12,000, then net income equals \$5,000.

True False

117. Expenses are regular cash payments by a corporation to its stockholders.

True False

118. Dividends represent a return of the company's profits to its owners, the stockholders.

True False

119. One of the differences between a partnership and a corporation is that owners of a partnership have limited liability.

True False

120. Limited liability means the stockholders are not held personally responsible for the financial obligations of the corporation.

True False

121. One advantage of the corporate form of business is double taxation.

True False

122. Double taxation refers to a corporation's income being taxed twice—first when the company earns it and pays corporate income taxes on it, and then again when stockholders pay personal income taxes on any amounts the firm distributes to them as dividends.

True False

123. Financial statements are periodic reports published by the company for the purpose of providing information to managers.

True False

124. The balance sheet is a financial statement that reports the company's revenues and expenses over an interval of time.

True False

125. The statement of stockholders' equity is a financial statement that summarizes the changes in stockholders' equity over an interval of time.

True False

126. The two primary components of stockholders' equity include common stock and revenue.

True False

127. Common stock represents an external source of stockholders' equity, whereas retained earnings represents an internal source.

True False

128. Retained earnings represents the cumulative amount of net income earned over the life of the company that has not been distributed to stockholders as dividends.

True False

129. Dividends are considered an expense in running the business and reported in the income statement.

True False

130. All cash transactions reported in the statement of cash flows are classified as either (1) operating activities, (2) investing activities, or (3) financing activities.

True False

131. Investing cash flows generally include cash receipts and cash payments for transactions involving revenues and expenses.

True False

132. Operating cash flows generally include cash transactions for the purchase and sale of investments and productive long-term assets.

True False

133. Financing cash flows include cash transactions with lenders, such as borrowing money and repaying debt, and with stockholders, such as issuing stock and paying dividends.

True False

134. Any transaction that affects the income statement ultimately affects the balance sheet through the balance of retained earnings.

True False

135. Financial accounting has an impact on everyday business decisions as well as wide-ranging economic consequences.

True False

136. Investors and creditors rely heavily on financial accounting information in making investment and lending decisions.

True False

137. In general, if a company's net income is increasing, so will its stock price.

True False

138. The rules of financial accounting are called Generally Accepted Accounting Principles (GAAP).

True False

139. Today, financial accounting and reporting standards in the United States are established primarily by the Financial Accounting Standards Board (FASB).

True False

140. The 1933 Securities Act and the 1934 Securities Exchange Act were designed to restore investor confidence in financial accounting following the stock market crash in 1929.

True False

141. The 1934 act gives the Securities and Exchange Commission (SEC) the power to require companies with publicly traded securities to prepare periodic financial statements for distribution to investors and creditors.

True False

142. The role of auditors is to help ensure that management has in fact appropriately applied Generally Accepted Accounting Principles (GAAP) in preparing the company's financial statements.

True False

143. Auditors are trained individuals hired by a company as an independent party to express a professional opinion of the accuracy of that company's financial statements.

True False

144. The primary objective of financial reporting is to provide useful information to managers in making decisions.

True False

145. Public accounting firms are professional service firms that traditionally have focused on three areas: auditing, tax preparation/planning, and business consulting.

True False

146. The Financial Accounting Standards Board's conceptual framework does not prescribe Generally Accepted Accounting Principles. It provides an underlying foundation for the development of accounting standards and interpretation of accounting information.

True False

Matching Questions

147. Match each account classification with its example.

- | | | |
|-------------------------|---|-------|
| 1. Assets | Land owned by a company. | _____ |
| 2. Liabilities | Amounts owned to the bank. | _____ |
| 3. Revenues | Common stock issued to investors. | _____ |
| 4. Dividends | Payments made to stockholders. | _____ |
| 5. Expenses | Cleaning services provided to customers. | _____ |
| 6. Stockholders' equity | Workers' salaries for the current period. | _____ |

148. Match each business activity with its example.

- | | | |
|--------------|--|-------|
| 1. Financing | Receive investments from stockholders. | _____ |
| 2. Investing | Purchase office building. | _____ |
| 3. Operating | Pay utilities. | _____ |

149. Match each financial statement with the accounts reported in it.

- | | | |
|--------------------------------------|-------------------------|-------|
| 1. Income statement | Revenues and expenses. | _____ |
| 2. Balance sheet | Dividends. | _____ |
| 3. Statement of stockholders' equity | Assets and liabilities. | _____ |

150. Match each qualitative characteristic with its definition.

- | | | |
|-----------------------|---|-------|
| 1. Completeness | Information provides feedback on past activities. | _____ |
| 2. Neutrality | All information necessary to describe an item is reported. | _____ |
| 3. Verifiability | Information is presented in time to make useful decisions. | _____ |
| 4. Confirmatory value | Measurements that independent parties would agree upon. | _____ |
| 5. Timeliness | Information that does not bias the decision maker. | _____ |
| 6. Predictive value | Information is useful in helping to forecast future outcomes. | _____ |

Essay Questions

The following answers point out the key phrases that should appear in students' answers. They are not intended to be examples of complete student responses. It might be helpful to provide detailed instructions to students on how brief or in-depth you want their answers to be.

151. Define accounting. Describe the two primary functions of financial accounting and its role in our society.

152. Indicate whether a company would classify the transaction as financing, investing, or operating.

Transactions

1. Receive cash from investors.
2. Pay rent for the current period.
3. Purchase office equipment.
4. Pay cash to stockholders.
5. Provide services to customers.

153. Below are typical transactions for a company. Indicate whether each transaction is classified as a financing, investing, or operating activity.

Type of Business Activity	Transactions
1. _____	Purchase office building
2. _____	Pay building maintenance fees
3. _____	Pay sales taxes to the local government
4. _____	Provide services to customers
5. _____	Borrow from the bank
6. _____	Pay workers' salaries
7. _____	Sell equipment used in operations
8. _____	Sell common stock to investors

154. Below are typical transactions for a company. Indicate whether each transaction is classified as a financing, investing, or operating activity.

Type of Business Activity	Related Transactions
1. _____	Sell common stock to investors.
2. _____	Receive cash from customers.
3. _____	Incur amounts owed to employees.
4. _____	Sell services to customers.
5. _____	Incur cost of utilities.
6. _____	Purchase rent one year in advance.
7. _____	Pay for cost of advertising.
8. _____	Purchase factory for operations.
9. _____	Purchase supplies on credit.
10. _____	Distribute cash to stockholders.

155. For each transaction, indicate whether a company would classify the related account as an asset, liability, stockholders' equity, dividend, revenue, or expense.

Transactions	Related Accounts
1. Receive cash from investors.	Common Stock
2. Pay rent for the current period.	Rent Expense
3. Purchase office equipment.	Supplies
4. Pay cash to stockholders.	Dividends
5. Provide services to customers.	Service Revenue

156. Account classifications include assets, liabilities, stockholders' equity, dividends, revenues, and expenses. Indicate the account classification for each account name.

Account Classifications	Accounts	Related Transactions
1. _____	Common Stock	Sell common stock to investors.
2. _____	Cash	Receive cash from customers.
3. _____	Salaries Payable	Incur amounts owed to employees.
4. _____	Service Revenue	Sell services to customers.
5. _____	Utilities Expense	Incur cost of utilities.
6. _____	Supplies	Purchase of office supplies.
7. _____	Advertising Expense	Pay for cost of advertising.
8. _____	Buildings	Purchase factory for operations.
9. _____	Accounts Payable	Purchase supplies on credit.
10. _____	Dividends	Distribute cash to stockholders.

157. At the end of the current period, Maltese, Inc. reports the following amounts: Assets = \$50,000; Liabilities = \$28,000; Dividends = \$4,000; Revenues = \$22,000; Expenses = \$16,000. Calculate net income and stockholders' equity at the end of the period.

158. At the end of the current period, Rogers Company reports the following amounts: Assets = \$25,000; Liabilities = \$15,000; Dividends = \$3,000; Revenues = \$20,000; Expenses = \$13,000. Calculate net income and stockholders' equity at the end of the period.

159. Describe the three fundamental business activities that accountants measure. What account classifications are typically associated with each type of business activity?

160. Below are the account balances for Huffman Corporation at the end of December. Use only the appropriate accounts to prepare an income statement.

Accounts	Balances
Cash	\$ 5,200
Salaries expense	2,300
Retained earnings	2,500
Advertising expense	1,200
Equipment	12,400
Service revenue	9,400
Common stock	8,000
Accounts payable	2,200

161. At the beginning of the year (January 1), Maurice and Sons has \$12,000 of common stock outstanding and retained earnings of \$4,200. During the year, the company reports net income of \$3,200 and pays dividends of \$1,200. In addition, the company issues additional common stock for \$5,000. Prepare the statement of stockholders' equity at the end of the year (December 31).

162. Klein Interiors has the following account balances at the end of the year. Use only the appropriate accounts to prepare a balance sheet.

	Accounts	Balances	
	Equipment	\$78,000	
	Accounts Payable	12,000	
	Common Stock	20,000	
	Service Revenue	62,000	
	Cash	8,000	
	Retained Earnings	?	
	Salaries Expense	38,000	
	Notes Payable	25,000	

163. Thomason Financial has the following cash transactions for the year. Assume cash at the beginning of the period is \$6,000. Prepare a statement of cash flows.

Accounts	Amounts
Cash received for sale of services to customers	\$42,000
Cash received from issuance of common stock	33,000
Cash paid to purchase office equipment	(49,000)
Cash paid to building maintenance	(7,000)
Cash paid for advertisement	(8,000)
Cash paid to workers	(18,000)
Cash paid for dividends to stockholders	(3,000)
Cash received from sale of land	7,000
Cash received from borrowing	14,000

164. Each of the following independent situations represents amounts shown on the four basic financial statements. Fill in the missing blanks using your knowledge of amounts that appear on the financial statements.

1. Revenues = \$27,000; Expenses = \$18,000; Net income = ____.
2. Increase in stockholders' equity = \$20,000; Issuance of common stock = \$12,000; Dividends = \$5,000; Net income = ____.
3. Assets = \$25,000; Liabilities = \$13,000; Stockholders' equity = ____.
4. Total change in cash = +\$28,000; Net operating cash flows = +\$30,000; Net financing cash flows = +\$18,000; Net investing cash flows = ____.

165. During its first five years of operations, Della Manufacturing reports net income and pays dividends as follows. Calculate the balance of retained earnings at the end of each year. Note that retained earnings will always equal \$0 at the beginning of year 1.

Year	Net Income	Dividends	Retained Earnings
1	\$1,700	\$1,000	_____
2	2,700	1,000	_____
3	3,200	2,000	_____
4	5,400	2,000	_____
5	7,600	3,000	_____

166. Below is information related to retained earnings for five independent situations. Calculate the answer to each.

1. A company reports an increase in retained earnings of \$3,200 and net income of \$4,800. What is the amount of dividends?
2. A company reports beginning retained earnings of \$1,800, net income of \$1,200, and \$200 dividends. What is the amount of ending retained earnings?
3. A company reports an increase in retained earnings of \$2,500 and dividends of \$1,500. What is the amount of net income?
4. A company reports ending retained earnings of \$2,700, net income of \$900, and dividends of \$500. What is the amount of beginning retained earnings?
5. A company reports an increase in retained earnings of \$500 and net income of \$1,200. What is the amount of dividends?

167. Below is balance sheet information for five independent situations. Calculate the answer to each.

1. A company reports total assets of \$2,000 and total liabilities of \$900. What is the amount of stockholders' equity?
2. A company reports total liabilities of \$2,400 and stockholders' equity of \$1,100. What is the amount of total assets?
3. A company reports total assets of \$2,700 and total stockholders' equity of \$700. What is the amount of total liabilities?
4. A company reports an increase in assets of \$1,700 and an increase in liabilities of \$400. What is the amount of the change in stockholders' equity?
5. A company reports an increase in liabilities of \$300 and a decrease in stockholders' equity of \$800. What is the amount of the change in total assets?

168. Below is cash flow information for five independent situations. Calculate the answer to each.

1. A company reports operating cash flows of \$3,200, investing cash flows of \$700, and financing cash flows of -\$400. What is the amount of the change in total cash?
2. A company reports operating cash flows of \$1,800, investing cash flows of -\$400, and financing cash flows of -\$1,100. If the beginning cash amount is \$500, what is the ending cash amount?
3. A company reports operating cash flows of \$700, investing cash flows of \$300, and a change in total cash of \$100. What is the amount of cash flows from financing activities?
4. A company reports operating cash flows of \$600, financing cash flows of \$400, and a change in total cash of \$100. What is the amount of cash flows from investing activities?
5. A company reports investing cash flows of -\$1,400, financing cash flows of \$900, and a change in total cash of \$200. What is the amount of cash flows from operating activities?

169. Riley Incorporated reports the following amounts at the end of the year:

Cash	\$ 3,200	Service Revenue	\$ 92,500
Buildings	60,000	Salaries Expense	72,800
Accounts Payable	8,500	Equipment	72,000
Interest Expense	4,000	Supplies	6,400
Advertising Expense	11,300	Notes payable	40,000

In addition, the company had common stock of \$65,000 at the beginning of the year and issued an additional \$5,000 during the year. The company also had retained earnings of \$20,700 at the beginning of the year and paid dividends of \$2,000 during the year. Prepare the income statement, statement of stockholders' equity, and balance sheet.

170. Below are incomplete financial statements for Beasley, Incorporated. Calculate the missing amounts.

Income Statement		Statement of Stockholders' Equity		
			Common Stock	Retained Earnings
<u>Revenues</u>	\$ (a)	Beginning	\$25,000	\$12,000
<u>Expenses:</u>		Issuances	(c)	
Salaries	8,000	Net income		5,000
Delivery	7,000	Dividends		(d)
Utilities	5,000			
Net income	(b)	Ending	\$30,000	\$15,000

Balance Sheet			
<u>Assets:</u>		<u>Liabilities:</u>	
Cash	\$15,000	Accounts payable	15,000
Supplies	7,000	<u>Stockholders' Equity:</u>	
Prepaid rent	(e)	Common stock	(g)
Equipment	35,000	Retained earnings	(h)
Total assets	(f)	Total liabilities and stockholders' equity	(i)

171. Use the following information available at the end of 2012 to prepare an income statement and balance sheet on December 31, 2012, for Goldie Company.

Fees for services performed during the year, \$120,000
Accounts payable, \$18,500
Accounts receivable, \$17,300
Miscellaneous costs for the year, \$8,700
Supplies on hand, \$2,700
Notes payable outstanding, \$30,000
Interest cost on the note for the year, \$3,000
Equipment, \$84,400
Cash on hand, \$11,200
Salaries cost for the year, \$71,500
Supplies cost for the year, \$9,400
Rent cost for the year, \$12,000
Common stock that has been issued, \$60,000
Retained earnings at the end of the year, \$7,100

172. List and describe the four financial statements most frequently provided to external users.

173. How does the value of an audit affect financial statements?

174. Define the four basic assumptions underlying Generally Accepted Accounting Principles:

(a) economic entity, (b) going concern, (c) periodicity, (d) monetary unit.

Chapter 01 Accounting Information and Decision Making **Answer Key**

Multiple Choice Questions

1. The primary focus for financial accounting information is to provide information useful for:

	Investing decisions	Credit decisions
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

- A.** Option a
B. Option b
C. Option c
D. Option d

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-01 Describe the two primary functions of financial accounting.

2. What is the primary purpose of financial accounting?

- A. Determine the amount of tax liability owed to the government.
B. Communicate business transactions to internal management.
C. Measure business transactions and communicate those measures to external users to make decisions.
D. Measure the profitability of the company in order to assist employees with making decisions.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-01 Describe the two primary functions of financial accounting.

3. Financial accounting does not deal with which of the following?

- A. Measuring a company's economic activity.
- B. Preparing financial reports.
- C. Making business decisions.**
- D. Communicating financial results to investors.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-01 Describe the two primary functions of financial accounting.

4. Which of the following groups is not among the external users for whom financial statements are prepared?

- A. Creditors.
- B. Regulators.
- C. Investors.
- D. Managers.**

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-01 Describe the two primary functions of financial accounting.

5. Financial accounting:

- A. Provides information primarily for external decision makers.**
- B. Provides information primarily for a company's employees.
- C. Provides information primarily for the use of managers of the company.
- D. Is primarily used to compute a company's tax obligation.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-01 Describe the two primary functions of financial accounting.

6. The primary purpose(s) of financial accounting is (are) to:

- A. Measure and record business transactions.
- B. Prepare federal and state tax returns.
- C. Communicate financial results to investors and creditors.
- D.** a and c

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-01 Describe the two primary functions of financial accounting.

7. Which definition below best describes financial accounting?

- A. Process of measuring income taxes owed to the government.
- B. System of maintaining communication with a company's customers and suppliers.
- C. Procedures designed to enhance the company's image to potential investors.
- D.** Measuring business activities and communicating them to external parties.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-01 Describe the two primary functions of financial accounting.

8. The accounting equation is defined as:

- A.** Assets = Liabilities + Stockholders' Equity.
- B. Assets = Liabilities - Stockholders' Equity.
- C. Net Income = Revenues - Expenses.
- D. Liabilities + Revenues = Assets.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

9. Which statement below best describes the accounting equation?

- A. The change in retained earnings equals net income less dividends.
- B. Equality of revenue and expense transactions over time.
- C. Resources of the company equal creditors' and owners' claims to those resources.
- D. Financing activities equal investing and operating activities.

Assets = Liabilities + Stockholders' Equity.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Hard

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

10. If a company has stockholders' equity of \$60,000 at the end of the year, which of the following statements must be true?

- A. The company's assets exceed liabilities by \$60,000.
- B. The company has issued \$60,000 of common stock.
- C. Net income for the year equals \$60,000.
- D. Total revenues earned during the year equal \$60,000.

Assets - Liabilities = Stockholders' Equity.

AACSB: Analytic

AICPA: Reporting

Bloom's: Application

Difficulty: Hard

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

11. Emmitt had the following final balances after the first year of operations: assets, \$55,000; stockholders' equity, \$25,000; dividends, \$3,000; and net income, \$10,000. What is the amount of Emmitt's liabilities?

- A. \$55,000.
- B. \$30,000.**
- C. \$13,000.
- D. \$7,000.

Assets (\$55,000) = Liabilities + Stockholders' Equity (\$25,000).

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

12. Transactions of a company involving external sources of funding are referred to as:

- A. Investing activities.
- B. Financing activities.**
- C. External activities.
- D. Operating activities.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

13. Transactions of a company that include the purchase and sale of long-term productive assets are referred to as:

- A. Investing activities.**
- B. Financing activities.
- C. Expenditure activities.
- D. Operating activities.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

14. McGill purchases additional office equipment to better serves its customers. This purchase is classified as what type of activity?

- A. Company activity.
- B. Financing activity.
- C. Investing activity.**
- D. Operating activity.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

15. Transactions related to the primary business activities of the company, such as selling goods and services to customers, are referred to as:

- A. Investing activities.
- B. Management activities.
- C. Operating activities.**
- D. Financing activities.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

16. Stimpleton Company engages in the following cash payments:

Purchase equipment	\$2,000
Pay rent	500
Repay loan to the bank	5,000
Pay workers' salaries	1,000

What is the total amount of cash paid for operating activities?

- A. \$6,000.
- B. \$2,000.
- C. \$7,000.
- D.** \$1,500.

$$\$500 + \$1,000 = \$1,500.$$

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

17. The form of business organization that is legally separate from its owners is a:

- A. Partnership.
- B. Sole proprietorship.
- C.** Corporation.
- D. Separation entity.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

18. Which business form has the advantage of limited liability?

- A. Corporation.
- B. Sole proprietorship.
- C. Partnership.
- D. All business forms share equal limited liability.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

19. Limited liability means:

- A. Stockholders of a corporation are not obligated to pay the corporation's debts out of their own pocket.
- B. Liabilities of a company cannot exceed its assets.
- C. Companies are not allowed to borrow unless they are profitable.
- D. Companies are less likely to be sued if they are formed as a corporation.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

20. One disadvantage of the corporate form of business is:

- A. Limited liability.
- B. Access to more capital.
- C. Smaller in size.
- D. Double taxation.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

21. The costs of providing goods and services to customers are referred to as:

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

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

22. The accounts which represent the resources of the company are called:

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

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

23. An alternative form of the accounting equation is:

- A. $\text{Net Income} = \text{Revenues} - \text{Expenses}.$
- B. $\text{Stockholders' Equity} = \text{Assets} + \text{Liabilities}.$
- C. $\text{Assets} = \text{Liabilities} - \text{Stockholders' Equity}.$
- D. $\text{Assets} - \text{Liabilities} = \text{Stockholders' Equity}.$**

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

24. The owners' interest in a corporation is called:

- A. Dividends.
- B. Assets.
- C. Liabilities.
- D.** Stockholders' equity.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

25. Creditors' claims to a corporation's resources are referred to as:

- A. Dividends.
- B. Assets.
- C.** Liabilities.
- D. Stockholders' equity.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

26. Net income can best be described as:

- A. Net cash received by a company during the year.
- B.** Revenues minus expenses.
- C. The amount of profits retained in a company for the year.
- D. Resources owned by a company.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

27. Use the following appropriate amounts to calculate net income: Revenues, \$12,000; Liabilities, \$5,000; Expenses, \$4,000; Assets, \$19,000; Dividends, \$4,000.

- A. \$6,000.
- B. \$8,000.**
- C. \$4,000.
- D. \$14,000.

Revenues (\$12,000) - Expenses (\$4,000) = Net Income.

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

28. Liabilities are best defined as:

- A. Amounts the company expects to collect in the future from customers.
- B. Debts or obligations the company owes resulting from past transactions.**
- C. The amounts that owners have invested in the business.
- D. Payments to stockholders.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

29. Which of the following best describes a revenue?

- A. Resources owned.
- B. Cash received from a customer.
- C. Amounts earned from providing goods and services to a customer.**
- D. Dividends paid to stockholders.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

30. The account type that represents payments to stockholders is called:

- A. Liabilities.
- B. Assets.
- C. Stockholders' equity.
- D.** Dividends.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

31. The accounts that represent resources owed to creditors are called:

- A. Assets.
- B.** Liabilities.
- C. Dividends.
- D. Stockholders' equity.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

32. Using the information below from the accounting records of Thomas Corporation, owners' claims to the company's resources amount to:

Assets	\$1,200,000
Liabilities	\$800,000
Net income	\$100,000
Retained earnings	\$250,000

- A. \$1,200,000.
- B. \$800,000.
- C. \$250,000.
- D.** \$400,000.

Owners' claims (Stockholders' Equity) = Assets (\$1,200,000) - Liabilities (\$800,000)

AACSB: Analytic

AICPA: Measurement

Bloom's: Analysis

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

33. Which of the following is an operating activity?

- A. Issuing common stock.
- B. Paying dividends.
- C. Borrowing cash from a bank to acquire a factory.
- D.** Paying electricity bills for the month.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

34. How many of the following transactions are operating activities?

Borrowed \$50,000 from the bank

Purchased \$12,000 in supplies

Provide services to customers for \$27,000

Paid the utility bill of \$750

Purchased a delivery truck for \$12,000

Received \$25,000 from issuing common stock

- A. One.
- B. Two.
- C.** Three.
- D. Four.

(1) Purchased supplies, (2) Provided services to customers, and (3) Paid utility bill.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Application

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

35. The costs associated with producing revenues are referred to as:

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

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

36. Accountants are responsible for measuring various operating, investing and financing activities. Which of the following correctly matches the activity with its type?

- A. Investing - paying utilities for the month.
- B.** Investing - purchasing land.
- C. Operating - paying dividends to stockholders.
- D. Financing - selling equipment for cash.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

37. Which of the following accounts appears in the statement of stockholders' equity?

- A. Supplies.
- B. Cash.
- C. Salaries Payable.
- D.** Retained Earnings.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

38. Sooner Company has had a net income of \$8,000, \$5,000, \$12,000, and \$10,000 over the first four years of the company's existence. If the average annual amount of dividends paid over the last four years is \$3,000, what is the ending retained earnings balance?

- A. \$47,000.
- B. \$35,000.
- C. \$23,000.
- D. \$7,000.

Beginning Retained Earnings (\$0) + Net Income (\$8,000 + \$5,000 + \$12,000 + \$10,000) - Dividends (\$3,000 * 4) = Ending Retained Earnings.

AACSB: Analytic

AICPA: Measurement

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

39. The equation best describing the income statement is:

- A. Revenues - Expenses = Net Income.
- B. Assets = Revenues - Expenses.
- C. Assets = Liabilities + Stockholders' Equity.
- D. Revenues + Expenses = Net Income.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

40. On January 1, 2012, Gucci Brothers Inc. started the year with a \$492,000 balance in Retained Earnings and a \$605,000 balance in Common Stock. During 2012, the company earned net income of \$92,000, paid a dividend of \$15,200, and issued more common stock for \$27,500. What is total stockholders' equity on December 31, 2012?

- A. \$1,231,700.
- B. \$1,097,000.
- C. \$1,201,300.**
- D. \$1,588,300.

Stockholders Equity = Common Stock (\$605,000 + \$27,500) + Retained Earnings (\$492,000 + \$92,000 - \$15,200).

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

41. The financial statement that represents activity over the entire life of the company is the:

- A. Income statement.
- B. Statement of financial accounting.
- C. Balance sheet.**
- D. Statement of cash flows.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

42. Which of the following is the correct order for preparing the financial statements?

- A. Balance sheet, statement of stockholders' equity, and income statement.
- B. Balance sheet, income statement, and statement of stockholders' equity.
- C. Statement of stockholders' equity, income statement, and balance sheet.
- D. Income statement, statement of stockholders' equity, and balance sheet.**

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

43. The financial statement(s) that record activity over an interval of time is (are) the:

- A. Income statement.
- B. Balance sheet.
- C. Balance sheet and income statement.
- D.** Income statement and statement of cash flows.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

44. Which of the following items would not appear in an income statement?

- A. Salaries expense.
- B. Advertising expense.
- C. Service revenue.
- D.** Cash.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

45. The two categories of stockholders' equity usually found in the balance sheet of a corporation are:

- A. Common stock and liabilities.
- B. Assets and liabilities.
- C.** Common stock and retained earnings.
- D. Revenues and expenses.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

46. Which of the following statements regarding financial reports is not correct?

- A. A balance sheet contains assets, liabilities, and stockholders' equity information.
- B. An income statement shows revenues and expenses.
- C.** A statement of stockholders' equity reports revenues, net income, and dividends information.
- D. A statement of cash flows shows cash inflows and outflows from operating, investing, and financing activities.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

47. Which of the following is not a balance sheet item?

- A. Assets.
- B. Common stock.
- C. Retained earnings.
- D.** Revenues.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

48. In what order are the following financial statements prepared: (1) balance sheet, (2) income statement, and (3) statement of stockholders' equity?

- A. 1, 2, 3.
- B. 3, 2, 1.
- C. 1, 3, 2.
- D.** 2, 3, 1.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

49. Nina Corp. had the following net income (loss) the first three years of operation: \$7,100, (\$1,600), and \$3,600. If the Retained Earnings balance at the end of year three is \$1,100, what was the total amount of dividends paid over these three years?

- A. \$500.
- B. \$0.
- C. \$9,100.
- D.** \$8,000.

Beginning Retained Earnings (\$0) + Net Income (\$7,100 - \$1,600 + \$3,600) - Dividends = Ending Retained Earnings (\$1,100).

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

50. Aikman Company has paid dividends of \$2,410, \$0, \$1,570 and \$1,060 over the first four years of the company's existence. If Retained Earnings after year four has an ending balance of \$9,700, what is the average annual amount of net income (loss) over the past four years for Aikman?

- A.** \$3,685.
- B. \$14,740.
- C. \$840.
- D. \$1,260.

Beginning Retained Earnings (\$0) + Net Income - Dividends (\$2,410 + \$0 + \$1,570 + \$1,060) = Ending Retained Earnings (\$9,700). Divide net income amount by 4 to get average.

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

51. The equation best describing the balance sheet is:

- A. Assets = Liabilities + Stockholders' Equity.
- B. Revenues - Expenses = Net Income.
- C. Ending Retained Earnings + Dividends = Net Income.
- D. Revenues + Expenses = Net Income.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

52. DW has an ending Retained Earnings balance of \$51,100. If during the year DW paid dividends of \$4,300 and had net income of \$22,500, then what was the beginning Retained Earnings balance?

- A. \$24,300.
- B. \$300.
- C. \$32,900.
- D. \$69,300.

Beginning Retained Earnings + Net Income (\$22,500) - Dividends (\$4,300) = Ending Retained Earnings (\$51,100).

AACSB: Analytic

AICPA: Measurement

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

53. The ending Retained Earnings balance of Boomer Inc. decreased by \$1.0 million from the beginning of the year. The company declared a dividend of \$5.4 million during the year. What was the net income earned during the year?

- A. \$7.5 million.
- B. \$6.4 million.
- C. \$4.4 million.**
- D. \$1.0 million.

Beginning Retained Earnings (\$0) + Net Income - Dividends (\$5.4) = Ending Retained Earnings (-\$1.0).

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

54. Which financial statement is typically prepared first?

- A. Balance sheet.
- B. Income statement.**
- C. Statement of stockholders' equity.
- D. Statement of cash flows.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

55. Expenses are shown in which of the following statements?

- A. Income statement.**
- B. Statement of cash flows.
- C. Balance sheet.
- D. Statement of stockholders' equity.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

56. Given the information below about Thomas Corporation, what was the amount of dividends the company paid in the current period?

Beginning retained earnings	\$54,000
Ending retained earnings	\$110,000
Decrease in cash	\$10,000
Net income	\$84,000
Change in stockholders' equity	\$15,000

- A. \$13,000.
- B. \$110,000.
- C. \$28,000.**
- D. \$18,000.

Beginning Retained Earnings (\$54,000) + Net Income (\$84,000) - Dividends = Ending Retained Earnings (\$110,000).

AACSB: Analytic

AICPA: Measurement

Bloom's: Analysis

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

57. Retained earnings at the end of the year is calculated using:

- A. Beginning retained earnings, net income, and dividends.**
- B. Common stock and dividends.
- C. Stockholders' equity, net income, and dividends.
- D. Net income and dividends.

AACSB: Reflective Thinking

AICPA: Measurement

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

58. The financial statement that represents the accounting equation is the:

- A. Income statement.
- B. Statement of cash flows.
- C. Balance sheet.
- D. Statement of stockholders' equity.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

59. Which of the following is not a major section in the statement of cash flows?

- A. Cash flows from operating activities.
- B. Cash flows from financing activities.
- C. Cash flows from customers.
- D. Cash flows from investing activities.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

60. Given the information below about David Corporation, what was the amount of dividends the company paid in the current period?

Beginning retained earnings	\$35,000
Ending retained earnings	\$90,000
Increase in cash	\$25,000
Net income	\$85,000
Change in stockholders' equity	\$20,000

- A. \$140,000.
- B. \$0.
- C. \$30,000.
- D. \$20,000.

Beginning Retained Earnings (\$35,000) + Net Income (\$85,000) - Dividends = Ending Retained Earnings (\$90,000).

AACSB: Analytic

AICPA: Measurement

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

61. Liabilities are shown in which of the following statements?

- A. Income statement.
- B. Statement of cash flows.
- C. Balance sheet.
- D. Statement of stockholders' equity.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

62. Consider the following account balances of the Shattuck Law Firm as of December 31, 2012:

Accounts Payable	\$ 4,400
Salaries Expense	12,800
Cash	1,700
Common Stock	2,400
Service Revenue	8,300
Supplies	4,300
Retained Earnings	1,100
Utilities Expense	5,000

How many of these accounts would appear in Shattuck's 2012 income statement?

- A. Five.
- B. Four.
- C. Three.
- D. Two.

Salaries Expense, Service Revenue, and Utilities Expense.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Application

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

63. Consider the following account balances of the Shattuck Law Firm as of December 31, 2012:

Accounts Payable	\$ 4,400
Salaries Expense	12,800
Cash	1,700
Common Stock	2,400
Service Revenue	8,300
Supplies	4,300
Retained Earnings	1,100
Utilities Expense	5,000

How many of these accounts would appear in Shattuck's 2012 balance sheet?

- A. Five.
- B. Four.
- C. Three.
- D. Two.

Accounts Payable, Cash, Common Stock, Supplies, and Retained Earnings.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Application

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

64. If total change in cash = \$44,000, net operating cash flows = \$22,000, and net investing cash flows = (\$13,000); then net financing cash flows =

- A. \$15,000.
- B. \$25,000.
- C. \$35,000.
- D. \$45,000.

Total change in cash = net operating cash flows + net investing cash flows + net financing cash flows.

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

65. For the past five years, Mookie Consulting Services reported the following annual net income and dividend amounts:

Year	Net Income	Dividends
1	\$22,000	\$2,000
2	17,000	2,000
3	9,000	1,000
4	14,000	3,000
5	25,000	4,000

If Mookie had Retained Earnings of \$88,000 at the end of year 5, what was the company's Retained Earnings at the beginning of Year 1?

- A. \$13,000.
- B. \$25,000.
- C. \$7,000.
- D. \$1,000.

Beginning retained earnings = ending retained earnings (\$88,000) - total net income (\$87,000) + total dividends (\$12,000).

AACSB: Analytic

AICPA: Measurement

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

66. Which of the following items is reported in the statement of stockholders' equity?

- A. Total assets.
- B. Total expenses.
- C. Net income.
- D. Operating cash flows.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

67. Which of the following statements is NOT correct about the financial statements?

- A. An income statement reports revenues, expenses, and net income information.
- B. The statement of stockholders' equity presents common stock, dividends, and retained earnings information.
- C. A balance sheet reports assets, liabilities, revenues, and expenses.**
- D. The statement of cash flows shows cash inflows and outflows from operating, financing, and investing activities.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

68. Which financial accounting number impacts stock prices more than any other single piece of information?

- A. Retained earnings.
- B. Net income.**
- C. Common stock.
- D. Total assets.

AACSB: Reflective Thinking

AICPA: Decision Making

Bloom's: Synthesis

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

69. The balance sheet depicts which of the following equations?

- A. $\text{Net income} = \text{revenue} - \text{expenses}.$
- B. $\text{Ending retained earnings} = \text{beginning retained earnings} + \text{net income} - \text{dividends}.$
- C. $\text{Assets} = \text{liabilities} + \text{stockholders' equity}.$**
- D. $\text{Net cash flows} = \text{total cash inflows} - \text{total cash outflows}.$

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

70. Which financial statement reports a company's retained earnings?

- A. Income statement.
- B. Balance sheet.**
- C. Statement of cash flows.
- D. All of the above.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

71. Net income appears in which two financial statements?

- A. Balance sheet and income statement.
- B. Statement of stockholders' equity and balance sheet.
- C. Income statement and statement of stockholders' equity.**
- D. Net income appears in only one financial statement.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

72. Which of the following accounts appears in the statement of stockholders' equity?

- A. Accounts Payable
- B. Accounts Receivable
- C. Common Stock**
- D. Supplies

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

73. Which of the following items would not appear in an income statement?

- A. Delivery expense.
- B.** Accounts payable.
- C. Service revenue.
- D. Utilities expense.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

74. Which of the following is not a balance sheet item?

- A. Assets.
- B. Retained Earnings.
- C.** Expenses.
- D. Liabilities.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

75. Which accounting amount best represents value created for stockholders during the current period?

- A. Retained earnings.
- B. Total assets.
- C.** Net income.
- D. Stockholders' equity.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-04 Describe the role that financial accounting plays in the efficient distribution of society's resources.

76. Which accounting number has the single greatest impact on stock prices?

- A. Total dividends.
- B. Total assets.
- C. Total revenues.
- D.** Net income.

AACSB: Reflective Thinking

AICPA: Decision Making

Bloom's: Synthesis

Difficulty: Medium

Learning Objective: 01-04 Describe the role that financial accounting plays in the efficient distribution of society's resources.

77. GAAP is an abbreviation for:

- A. Generally authorized accounting procedures.
- B. Generally applied accounting procedures.
- C. Generally accepted auditing practices.
- D.** Generally accepted accounting principles.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

78. Generally Accepted Accounting Principles (GAAP) are best defined as:

- A.** Standards or methods for presenting financial accounting information.
- B. Government-mandated rules that companies must follow.
- C. Rules that best estimate profitability for a company.
- D. The group of individuals that create and enforce all accounting rules.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

79. Today, financial accounting and reporting standards in the United States are established primarily by the:

- A. Securities and Exchange Commission.
- B. International Accounting Standards Board.
- C. Financial Accounting Standards Board.**
- D. U.S. Congress.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

80. Financial reporting objectives do not include providing information:

- A. Useful to investors and creditors in making decisions.
- B. To determine market values, assess profit potential, and evaluate management.**
- C. Helpful to investors in predicting cash flows.
- D. That tells about a company's economic resources and claims to those resources.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Hard

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

81. Of the following, the most important objective for financial reporting is to provide information useful for:

- A. Predicting cash flows.**
- B. Determining taxable income.
- C. Providing accountability.
- D. Increasing future profits.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

82. The International Accounting Standards Board:

- A. Is governed by the U.S. Securities and Exchange Commission.
- B. Can overrule the FASB when their policies disagree.
- C. Promotes the use of high-quality, understandable global accounting standards.**
- D. Is the primary standard-setting body in the United States.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

83. Independent auditors express an opinion on the:

- A. Fairness of financial statements.**
- B. Amount of income taxes a company owes to the government.
- C. Quality of the company's products.
- D. Quality of a company's workforce.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

84. The body of rules and procedures that guide the measurement and communication of financial accounting information is known as:

- A. Standards of Professional Compliance (SPC).
- B. Generally Accepted Accounting Principles (GAAP).**
- C. Generally Accepted Auditing Standards (GAAS).
- D. Rules of Financial Reporting (RFR).

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

85. The independent, private-sector group that is primarily responsible for setting financial reporting standards in the United States is the:

- A. FASB.
- B. IASB.
- C. SEC.
- D. IRS.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

86. Which statement below best describes the objectives of financial accounting?

- A. Provide information that helps predict cash flows.
- B. Provide information about the economic resources, claims to resources and changes in resources and claims.
- C. Provide information that is useful in making decisions.
- D. All of the above are correct.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Hard

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

87. The assumption that a business can continue to remain in operation into the future is the:

- A. Monetary unit assumption.
- B. Periodicity assumption.
- C. Economic entity assumption.
- D. Going concern assumption.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

88. The qualitative characteristic that says accounting information can influence users' decisions by allowing them to assess past performance is:

- A. Timeliness.
- B. Neutrality.
- C. Confirmatory value.
- D. Predictive value.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

89. The major underlying assumptions of accounting include all of the following except:

- A. Economic entity.
- B. Monetary unit.
- C. Legal liability.
- D. Going concern.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

90. The assumption that the assets and liabilities of the business are accounted for on the books of the company but not included in the records of the owner is the:

- A. Monetary unit assumption.
- B. Going concern assumption.
- C. Economic entity assumption.
- D. Periodicity assumption.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

91. Accounting information that does not provide measurement bias in favor of a particular set of companies has the characteristic of:

- A. Relevance.
- B. Consistency.
- C. Materiality.
- D.** Neutrality.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

92. If accounting information is considered to have faithful representation, then which of the following is true?

- A.** The information represents to users what it claims to represent.
- B. The information follows conservatism principles and is also material.
- C. The information is considered pertinent to or affects decisions.
- D. The information will have predictive value, feedback value, and is timely.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

93. For accounting information to be relevant, it must have which of the following characteristics?

- A.** Predictive value or confirmatory value.
- B. Large in amount and timely.
- C. Comparability or consistency.
- D. Freedom from material error, neutrality, or completeness.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

94. Materiality is based upon which factor(s)?

- A. Timeliness of an item.
- B.** Amount and nature of an item.
- C. Consistency of an item.
- D. Relevance of an item.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Hard

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

95. If a company has gone bankrupt, its financial statements likely violate the:

- A. Periodicity assumption.
- B. Monetary unit assumption.
- C.** Going concern assumption.
- D. Economic entity assumption.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

96. The conceptual framework's qualitative characteristic of relevance includes:

- A.** Predictive value.
- B. Verifiability.
- C. Completeness.
- D. Neutrality.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

97. The conceptual framework's qualitative characteristic of faithful representation includes:

- A. Predictive value.
- B.** Neutrality.
- C. Confirmatory value.
- D. Comparability.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

98. Constraints on qualitative characteristics of accounting information include:

- A. Freedom from material error.
- B. Going concern.
- C. Neutrality.
- D.** Cost effectiveness.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

99. Primary qualitative characteristics of accounting information are:

- A. Relevance and comparability.
- B. Comparability and consistency.
- C.** Faithful representation and relevance.
- D. Faithful representation and consistency.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

100. Enhancing qualitative characteristics of accounting information include:

- A. Relevance and comparability.
- B.** Comparability and consistency.
- C. Faithful representation and relevance.
- D. Cost effectiveness and materiality.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

True / False Questions

101. Accounting is a system of maintaining records of a company's operations and communicating this information to decision makers.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-01 Describe the two primary functions of financial accounting.

102. Accounting information is used by investors to decide whether to invest in a company's stock.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-01 Describe the two primary functions of financial accounting.

103. Accounting information is used by creditors to decide whether to invest in a company's stock.

FALSE

Creditors lend money to a company.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-01 Describe the two primary functions of financial accounting.

104. The primary functions of financial accounting are to measure business activities of a company and to communicate those measurements to internal parties for decision-making purposes.

FALSE

Financial accounting primarily serves to provide information to external parties.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-01 Describe the two primary functions of financial accounting.

105. Financing activities are transactions involving external sources of funding.

TRUE

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

106. Investing activities include the purchase and sale of (1) long-term resources and (2) any resources not directly related to a company's normal operations.

TRUE

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

107. Operating activities include transactions that relate to the primary operations of the company.

TRUE

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

108. A corporation is an entity that is legally separate from its owners.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

109. Cash, inventory, supplies, and buildings are examples of liabilities.

FALSE

These are examples of assets.

AACSB: Reflective Thinking

AICPA: Measurement

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

110. Amounts owed to suppliers, workers, governments, and utility companies are examples of liabilities.

TRUE

AACSB: Reflective Thinking

AICPA: Measurement

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

111. If total assets of a company equal \$12,000 and total stockholders' equity equals \$4,000, then total liabilities equal \$8,000.

TRUE

AACSB: Analytic

AICPA: Reporting

Bloom's: Application

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

112. If total liabilities of a company equal \$16,000 and total stockholders' equity equals \$9,000, then total assets equal \$7,000.

FALSE

Total assets = Total liabilities (\$16,000) + Total stockholders' equity (\$9,000) = \$25,000.

AACSB: Analytic

AICPA: Reporting

Bloom's: Application

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

113. The accounting equation shows that a company's resources equal creditors' and owners' claims to those resources.

TRUE

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

114. The costs of advertising, utilities, and salaries in the current reporting period are examples of liabilities.

FALSE

These are examples of expenses.

AACSB: Reflective Thinking

AICPA: Measurement

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

115. The difference between revenues and expenses is referred to as net income or net loss.

TRUE

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

116. If a company reports revenues of \$17,000 and expenses of \$12,000, then net income equals \$5,000.

TRUE

AACSB: Analytic

AICPA: Reporting

Bloom's: Application

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

117. Expenses are regular cash payments by a corporation to its stockholders.

FALSE

Dividends are payments to stockholders.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

118. Dividends represent a return of the company's profits to its owners, the stockholders.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

119. One of the differences between a partnership and a corporation is that owners of a partnership have limited liability.

FALSE

Stockholders of a corporation have limited liability.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

120. Limited liability means the stockholders are not held personally responsible for the financial obligations of the corporation.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

121. One advantage of the corporate form of business is double taxation.

FALSE

Double taxation is a disadvantage of the corporate form of business.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

122. Double taxation refers to a corporation's income being taxed twice—first when the company earns it and pays corporate income taxes on it, and then again when stockholders pay personal income taxes on any amounts the firm distributes to them as dividends.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

123. Financial statements are periodic reports published by the company for the purpose of providing information to managers.

FALSE

Financial statements are designed to provide information to external users.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

124. The balance sheet is a financial statement that reports the company's revenues and expenses over an interval of time.

FALSE

The income statement reports revenues and expenses.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

125. The statement of stockholders' equity is a financial statement that summarizes the changes in stockholders' equity over an interval of time.

TRUE

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

126. The two primary components of stockholders' equity include common stock and revenue.

FALSE

The two components of stockholders' equity include common stock and retained earnings.

AACSB: Reflective Thinking

AICPA: Measurement

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

127. Common stock represents an external source of stockholders' equity, whereas retained earnings represents an internal source.

TRUE

AACSB: Reflective Thinking

AICPA: Measurement

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

128. Retained earnings represents the cumulative amount of net income earned over the life of the company that has not been distributed to stockholders as dividends.

TRUE

AACSB: Reflective Thinking

AICPA: Measurement

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

129. Dividends are considered an expense in running the business and reported in the income statement.

FALSE

Dividends are a distribution of resources to owners and not considered a cost in running the business to produce revenues. Dividends are reported in the statement of stockholders' equity.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

130. All cash transactions reported in the statement of cash flows are classified as either (1) operating activities, (2) investing activities, or (3) financing activities.

TRUE

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

131. Investing cash flows generally include cash receipts and cash payments for transactions involving revenues and expenses.

FALSE

These are operating activities.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

132. Operating cash flows generally include cash transactions for the purchase and sale of investments and productive long-term assets.

FALSE

These are investing activities.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

133. Financing cash flows include cash transactions with lenders, such as borrowing money and repaying debt, and with stockholders, such as issuing stock and paying dividends.

TRUE

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

134. Any transaction that affects the income statement ultimately affects the balance sheet through the balance of retained earnings.

TRUE

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

135. Financial accounting has an impact on everyday business decisions as well as wide-ranging economic consequences.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-04 Describe the role that financial accounting plays in the efficient distribution of society's resources.

136. Investors and creditors rely heavily on financial accounting information in making investment and lending decisions.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-04 Describe the role that financial accounting plays in the efficient distribution of society's resources.

137. In general, if a company's net income is increasing, so will its stock price.

TRUE

AACSB: Reflective Thinking

AICPA: Decision Making

Bloom's: Synthesis

Difficulty: Easy

Learning Objective: 01-04 Describe the role that financial accounting plays in the efficient distribution of society's resources.

138. The rules of financial accounting are called Generally Accepted Accounting Principles (GAAP).

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

139. Today, financial accounting and reporting standards in the United States are established primarily by the Financial Accounting Standards Board (FASB).

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

140. The 1933 Securities Act and the 1934 Securities Exchange Act were designed to restore investor confidence in financial accounting following the stock market crash in 1929.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

141. The 1934 act gives the Securities and Exchange Commission (SEC) the power to require companies with publicly traded securities to prepare periodic financial statements for distribution to investors and creditors.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

142. The role of auditors is to help ensure that management has in fact appropriately applied Generally Accepted Accounting Principles (GAAP) in preparing the company's financial statements.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

143. Auditors are trained individuals hired by a company as an independent party to express a professional opinion of the accuracy of that company's financial statements.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

144. The primary objective of financial reporting is to provide useful information to managers in making decisions.

FALSE

Financial reporting is intended primarily to provide information to investors and creditors.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

145. Public accounting firms are professional service firms that traditionally have focused on three areas: auditing, tax preparation/planning, and business consulting.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-06 Identify career opportunities in accounting.

146. The Financial Accounting Standards Board's conceptual framework does not prescribe Generally Accepted Accounting Principles. It provides an underlying foundation for the development of accounting standards and interpretation of accounting information.

TRUE

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

Matching Questions

147. Match each account classification with its example.

1. Assets	Land owned by a company.	<u>1</u>
2. Liabilities	Amounts owned to the bank.	<u>2</u>
3. Revenues	Common stock issued to investors.	<u>6</u>
4. Dividends	Payments made to stockholders.	<u>4</u>
5. Expenses	Cleaning services provided to customers.	<u>3</u>
6. Stockholders' equity	Workers' salaries for the current period.	<u>5</u>

AACSB: Reflective Thinking

AICPA: Measurement

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

148. Match each business activity with its example.

1. Financing	Receive investments from stockholders.	<u>1</u>
2. Investing	Purchase office building.	<u>2</u>
3. Operating	Pay utilities.	<u>3</u>

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

149. Match each financial statement with the accounts reported in it.

1. Income statement	Revenues and expenses.	<u>1</u>
2. Balance sheet	Dividends.	<u>3</u>
3. Statement of stockholders' equity	Assets and liabilities.	<u>2</u>

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

150. Match each qualitative characteristic with its definition.

1. Completeness	Information provides feedback on past activities.	<u>4</u>
	All information necessary to describe an item is reported.	<u>1</u>
2. Neutrality	Information is presented in time to make useful decisions.	<u>5</u>
3. Verifiability	Measurements that independent parties would agree upon.	<u>3</u>
4. Confirmatory value	Information that does not bias the decision maker.	<u>2</u>
5. Timeliness	Information is useful in helping to forecast future outcomes.	<u>6</u>
6. Predictive value		

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.

Essay Questions

The following answers point out the key phrases that should appear in students' answers. They are not intended to be examples of complete student responses. It might be helpful to provide detailed instructions to students on how brief or in-depth you want their answers to be.

151. Define accounting. Describe the two primary functions of financial accounting and its role in our society.

Accounting is "the language of business." The functions of financial accounting are to measure the business activities of a company and to communicate those measurements to external parties for decision-making purposes. A large number of people, including investors and creditors, rely on financial accounting information to make informed, and presumably, better decisions about companies.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Easy

Learning Objective: 01-01 Describe the two primary functions of financial accounting.

152. Indicate whether a company would classify the transaction as financing, investing, or operating.

Transactions
1. Receive cash from investors.
2. Pay rent for the current period.
3. Purchase office equipment.
4. Pay cash to stockholders.
5. Provide services to customers.

1. Financing; 2. Operating; 3. Investing; 4. Financing; 5. Operating.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

153. Below are typical transactions for a company. Indicate whether each transaction is classified as a financing, investing, or operating activity.

Type of Business Activity	Transactions
1. _____	Purchase office building
2. _____	Pay building maintenance fees
3. _____	Pay sales taxes to the local government
4. _____	Provide services to customers
5. _____	Borrow from the bank
6. _____	Pay workers' salaries
7. _____	Sell equipment used in operations
8. _____	Sell common stock to investors

1. Investing; 2. Operating; 3. Operating; 4. Operating; 5. Financing; 6. Operating; 7. Investing; 8. Financing.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

154. Below are typical transactions for a company. Indicate whether each transaction is classified as a financing, investing, or operating activity.

Type of Business Activity	Related Transactions
1. _____	Sell common stock to investors.
2. _____	Receive cash from customers.
3. _____	Incur amounts owed to employees.
4. _____	Sell services to customers.
5. _____	Incur cost of utilities.
6. _____	Purchase rent one year in advance.
7. _____	Pay for cost of advertising.
8. _____	Purchase factory for operations.
9. _____	Purchase supplies on credit.
10. _____	Distribute cash to stockholders.

1. Financing; 2. Operating; 3. Operating; 4. Operating; 5. Operating; 6. Operating; 7. Operating; 8. Investing; 9. Operating; 10. Financing.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

155. For each transaction, indicate whether a company would classify the related account as an asset, liability, stockholders' equity, dividend, revenue, or expense.

Transactions	Related Accounts
1. Receive cash from investors.	Common Stock
2. Pay rent for the current period.	Rent Expense
3. Purchase office equipment.	Supplies
4. Pay cash to stockholders.	Dividends
5. Provide services to customers.	Service Revenue

1. Stockholders' equity; 2. Expense; 3. Asset; 4. Dividend; 5. Revenue.

AACSB: Reflective Thinking

AICPA: Measurement

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

156. Account classifications include assets, liabilities, stockholders' equity, dividends, revenues, and expenses. Indicate the account classification for each account name.

Account Classifications	Accounts	Related Transactions
1. _____	Common Stock	Sell common stock to investors.
2. _____	Cash	Receive cash from customers.
3. _____	Salaries Payable	Incur amounts owed to employees.
4. _____	Service Revenue	Sell services to customers.
5. _____	Utilities Expense	Incur cost of utilities.
6. _____	Supplies	Purchase of office supplies.
7. _____	Advertising Expense	Pay for cost of advertising.
8. _____	Buildings	Purchase factory for operations.
9. _____	Accounts Payable	Purchase supplies on credit.
10. _____	Dividends	Distribute cash to stockholders.

1. Stockholders' equity; 2. Asset; 3. Liability; 4. Revenue; 5. Expense; 6. Asset; 7. Expense; 8. Asset; 9. Liability; 10. Dividends.

AACSB: Reflective Thinking

AICPA: Measurement

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

157. At the end of the current period, Maltese, Inc. reports the following amounts: Assets = \$50,000; Liabilities = \$28,000; Dividends = \$4,000; Revenues = \$22,000; Expenses = \$16,000. Calculate net income and stockholders' equity at the end of the period.

Revenues	–	Expenses	=	Net Income
\$22,000	–	\$16,000	=	\$6,000

Assets	=	Liabilities	+	Stockholders' equity
\$50,000	=	\$28,000	+	\$X
\$50,000	–	\$28,000	=	\$22,000

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

158. At the end of the current period, Rogers Company reports the following amounts: Assets = \$25,000; Liabilities = \$15,000; Dividends = \$3,000; Revenues = \$20,000; Expenses = \$13,000. Calculate net income and stockholders' equity at the end of the period.

Revenues	–	Expenses	=	Net Income
\$20,000	–	\$13,000	=	\$7,000

Assets	=	Liabilities	+	Stockholders' equity
\$25,000	=	\$15,000	+	\$X
\$25,000	–	\$15,000	=	\$10,000

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Easy

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

159. Describe the three fundamental business activities that accountants measure. What account classifications are typically associated with each type of business activity?

Financing activities are transactions involving external sources of funding. There are two basic sources of this external funding—the owners of the company who invest their own funds in the business, and creditors who lend money to the company. Investing activities include the purchase and sale of (1) long-term resources such as land, buildings, equipment, and machinery; and (2) any resources not directly related to a company's normal operations. Operating activities include transactions that relate to the primary operations of the company, such as providing products and services to customers and the associated costs of doing so, like utilities, taxes, advertising, wages, rent, and maintenance. In general, financing activities are associated with long-term liabilities and stockholders' equity (including dividends), investing activities are associated with long-term assets, and operating activities are associated with revenues and expenses.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Medium

Learning Objective: 01-02 Identify the three fundamental business activities that financial accounting measures.

160. Below are the account balances for Huffman Corporation at the end of December. Use only the appropriate accounts to prepare an income statement.

Accounts	Balances
Cash	\$ 5,200
Salaries expense	2,300
Retained earnings	2,500
Advertising expense	1,200
Equipment	12,400
Service revenue	9,400
Common stock	8,000
Accounts payable	2,200

Huffman Corporation

Income Statement

For the year ended December 31

Service revenue		\$9,400
Expenses:		
Salaries	\$2,300	
Advertising	1,200	
Total expenses		3,500
Net income		<u>\$5,900</u>

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

161. At the beginning of the year (January 1), Maurice and Sons has \$12,000 of common stock outstanding and retained earnings of \$4,200. During the year, the company reports net income of \$3,200 and pays dividends of \$1,200. In addition, the company issues additional common stock for \$5,000. Prepare the statement of stockholders' equity at the end of the year (December 31).

Maurice and Sons
Statement of Stockholders' Equity
For the year ended December 31

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance at January 1	\$12,000	\$ 4,200	\$16,200
Issuance of common stock	5,000		5,000
Add: Net income for January		3,200	3,200
Less: Dividends		(1,200)	(1,200)
Balance at December 31	<u>\$17,000</u>	<u>\$6,200</u>	<u>\$23,200</u>

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

162. Klein Interiors has the following account balances at the end of the year. Use only the appropriate accounts to prepare a balance sheet.

Accounts	Balances
Equipment	\$78,000
Accounts Payable	12,000
Common Stock	20,000
Service Revenue	62,000
Cash	8,000
Retained Earnings	?
Salaries Expense	38,000
Notes Payable	25,000

Klein Interiors Balance Sheet December 31					
<u>Assets</u>			<u>Liabilities</u>		
Cash	\$ 8,000		Accounts payable	\$12,000	
Equipment	78,000		Notes payable	25,000	
			Total liabilities	37,000	
			<u>Stockholders' Equity</u>		
			Common stock	20,000	
			Retained earnings	29,000	*
			Total stockholders' equity	49,000	
			Total liabilities and stockholders' equity	\$86,000	
Total assets	\$86,000				
*	Assets	=	Liabilities	+	Stockholders' equity
	\$86,000	=	\$37,000	+	(\$20,000 + Retained earnings)
	\$86,000	–	\$37,000	–	\$20,000 = Retained earnings
					\$29,000 = Retained earnings

Chapter 01 - Accounting Information and Decision Making

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

163. Thomason Financial has the following cash transactions for the year. Assume cash at the beginning of the period is \$6,000. Prepare a statement of cash flows.

Accounts	Amounts
Cash received for sale of services to customers	\$42,000
Cash received from issuance of common stock	33,000
Cash paid to purchase office equipment	(49,000)
Cash paid to building maintenance	(7,000)
Cash paid for advertisement	(8,000)
Cash paid to workers	(18,000)
Cash paid for dividends to stockholders	(3,000)
Cash received from sale of land	7,000
Cash received from borrowing	14,000

Thomason Financial
Statement of Cash Flows
For the year ended December 31

Cash Flows from Operating Activities		
Cash inflows:		
From sale of services to customers	\$42,000	
Cash outflows:		
For building maintenance	(7,000)	
For advertisement	(8,000)	
For workers	(18,000)	
Net cash flows from operating activities		\$ 9,000
Cash Flows from Investing Activities		
Purchase office equipment	(49,000)	
Sale of land	7,000	
Net cash flows from investing activities		(42,000)
Cash Flows from Financing Activities		
Issue common stock	33,000	
Borrow from bank	14,000	
Pay dividends	(3,000)	
Net cash flows from financing activities		44,000
Net increase in cash		11,000
Cash at the beginning of the year		6,000
Cash at the end of the year		<u>\$17,000</u>

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

164. Each of the following independent situations represents amounts shown on the four basic financial statements. Fill in the missing blanks using your knowledge of amounts that appear on the financial statements.

1. Revenues = \$27,000; Expenses = \$18,000; Net income = ____.
2. Increase in stockholders' equity = \$20,000; Issuance of common stock = \$12,000; Dividends = \$5,000; Net income = ____.
3. Assets = \$25,000; Liabilities = \$13,000; Stockholders' equity = ____.
4. Total change in cash = +\$28,000; Net operating cash flows = +\$30,000; Net financing cash flows = +\$18,000; Net investing cash flows = ____.

1.	Revenues	–	Expenses	=	Net Income	
	\$27,000	–	\$18,000	=	\$9,000	

2.	Change in stockholders' equity	=	Issue common stock	–	Dividends	+	Net Income
	\$20,000	=	\$12,000	–	\$5,000	+	\$X
	\$20,000	–	\$12,000	+	\$5,000	=	\$13,000

3.	Assets	=	Liabilities	+	Stockholders' equity	
	\$25,000	=	\$13,000	+	\$X	
	\$25,000	–	\$13,000	=	\$12,000	

4.	Total change in cash	=	Operating cash flows	+	Financing cash flows	+	Investing cash flows
	\$28,000	=	\$30,000	+	\$18,000	+	\$X
	\$28,000	–	\$30,000	–	\$18,000	=	(\$20,000)

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

165. During its first five years of operations, Della Manufacturing reports net income and pays dividends as follows. Calculate the balance of retained earnings at the end of each year. Note that retained earnings will always equal \$0 at the beginning of year 1.

Year	Net Income	Dividends	Retained Earnings
1	\$1,700	\$1,000	_____
2	2,700	1,000	_____
3	3,200	2,000	_____
4	5,400	2,000	_____
5	7,600	3,000	_____

Year	Net Income	Dividends	Retained Earnings*
1	\$1,700	\$1,000	<u>\$ 700</u>
2	2,700	1,000	<u>2,400</u>
3	3,200	2,000	<u>3,600</u>
4	5,400	2,000	<u>7,000</u>
5	7,600	3,000	<u>11,600</u>

* Retained earnings = beginning retained earnings + net income - dividends

AACSB: Analytic

AICPA: Measurement

Bloom's: Analysis

Difficulty: Medium

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

166. Below is information related to retained earnings for five independent situations. Calculate the answer to each.

1. A company reports an increase in retained earnings of \$3,200 and net income of \$4,800. What is the amount of dividends?
2. A company reports beginning retained earnings of \$1,800, net income of \$1,200, and \$200 dividends. What is the amount of ending retained earnings?
3. A company reports an increase in retained earnings of \$2,500 and dividends of \$1,500. What is the amount of net income?
4. A company reports ending retained earnings of \$2,700, net income of \$900, and dividends of \$500. What is the amount of beginning retained earnings?
5. A company reports an increase in retained earnings of \$500 and net income of \$1,200. What is the amount of dividends?

	Change in retained earnings	=	Net Income	–	Dividends
1.	Change in retained earnings	=	Net Income	–	Dividends
	\$3,200	=	\$4,800	–	\$X
	\$3,200	=	\$4,800	–	\$1,600
2.	Change in retained earnings	=	Net Income	–	Dividends
	[\$X – (\$1,800)]	=	\$1,200	–	\$200
	\$X = \$2,800				
3.	Change in retained earnings	=	Net Income	–	Dividends
	\$2,500	=	\$X	–	\$1,500
	\$2,500	=	\$4,000	–	\$1,500
4.	Change in retained earnings	=	Net Income	–	Dividends
	[\$2,700 – \$X]	=	\$900	–	\$500
	\$X = \$2,300				
5.	Change in retained earnings	=	Net Income	–	Dividends
	\$ 500	=	\$1,200	–	\$X
	\$ 500	=	\$1,200	–	\$700

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

167. Below is balance sheet information for five independent situations. Calculate the answer to each.

1. A company reports total assets of \$2,000 and total liabilities of \$900. What is the amount of stockholders' equity?
2. A company reports total liabilities of \$2,400 and stockholders' equity of \$1,100. What is the amount of total assets?
3. A company reports total assets of \$2,700 and total stockholders' equity of \$700. What is the amount of total liabilities?
4. A company reports an increase in assets of \$1,700 and an increase in liabilities of \$400. What is the amount of the change in stockholders' equity?
5. A company reports an increase in liabilities of \$300 and a decrease in stockholders' equity of \$800. What is the amount of the change in total assets?

	Assets	=	Liabilities	+	Stockholders' equity
1.	Assets	=	Liabilities	+	Stockholders' equity
	\$2,000	=	\$900	+	\$X
	\$2,000	=	\$900	+	\$1,100
2.	Assets	=	Liabilities	+	Stockholders' equity
	\$X	=	\$2,400	+	\$1,100
	\$3,500	=	\$2,400	+	\$1,100
3.	Assets	=	Liabilities	+	Stockholders' equity
	\$2,700	=	\$X	+	\$700
	\$2,700	=	\$2,000	+	\$700
4.	Change in Assets	=	Change in liabilities	+	Change in stockholders' equity
	\$1,700	=	\$400	+	\$X
	\$1,700	=	\$400	+	\$1,300
5.	Change in Assets	=	Change in liabilities	+	Change in stockholders' equity
	\$X	=	\$300	+	(\$800)
	(\$500)	=	\$300	+	(\$800)

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

168. Below is cash flow information for five independent situations. Calculate the answer to each.

1. A company reports operating cash flows of \$3,200, investing cash flows of \$700, and financing cash flows of -\$400. What is the amount of the change in total cash?
2. A company reports operating cash flows of \$1,800, investing cash flows of -\$400, and financing cash flows of -\$1,100. If the beginning cash amount is \$500, what is the ending cash amount?
3. A company reports operating cash flows of \$700, investing cash flows of \$300, and a change in total cash of \$100. What is the amount of cash flows from financing activities?
4. A company reports operating cash flows of \$600, financing cash flows of \$400, and a change in total cash of \$100. What is the amount of cash flows from investing activities?
5. A company reports investing cash flows of -\$1,400, financing cash flows of \$900, and a change in total cash of \$200. What is the amount of cash flows from operating activities?

	Total change in cash	=	Operating cash flows	+	Investing cash flows	+	Financing cash flows
1.	Total change in cash \$3,500	=	Operating cash flows \$3,200	+	Investing cash flows \$700	+	Financing cash flows (\$400)
2.	Total change in cash (\$X - \$500) \$X = \$800	=	Operating cash flows \$1,800	+	Investing cash flows (\$400)	+	Financing cash flows (\$1,100)
3.	Total change in cash \$100	=	Operating cash flows \$700	+	Investing cash flows \$300	+	Financing cash flows (\$900)
4.	Total change in cash \$100	=	Operating cash flows \$600	+	Investing cash flows (\$900)	+	Financing cash flows \$400
5.	Total change in cash \$200	=	Operating cash flows \$700	+	Investing cash flows (\$1,400)	+	Financing cash flows \$900

Chapter 01 - Accounting Information and Decision Making

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

169. Riley Incorporated reports the following amounts at the end of the year:

Cash	\$ 3,200	Service Revenue	\$ 92,500
Buildings	60,000	Salaries Expense	72,800
Accounts Payable	8,500	Equipment	72,000
Interest Expense	4,000	Supplies	6,400
Advertising Expense	11,300	Notes payable	40,000

In addition, the company had common stock of \$65,000 at the beginning of the year and issued an additional \$5,000 during the year. The company also had retained earnings of \$20,700 at the beginning of the year and paid dividends of \$2,000 during the year. Prepare the income statement, statement of stockholders' equity, and balance sheet.

Riley Incorporated**Income Statement****For the year ended December 31**

Service revenue		\$92,500
Expenses:		
Salaries	\$72,800	
Advertising	11,300	
Interest	4,000	
Total expenses		88,100
Net income		<u>\$ 4,400</u>

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance at beginning of the year	\$65,000	\$20,700	\$85,700
Issuance of common stock	5,000		5,000
Add: Net income for the year		4,400	4,400
Less: Dividends		(2,000)	(2,000)
Balance at end of the year	<u>\$70,000</u>	<u>\$23,100</u>	<u>\$93,100</u>

Riley Incorporated					
Balance Sheet					
December 31					
<u>Assets</u>			<u>Liabilities</u>		
Cash	\$ 3,200		Accounts payable	\$ 8,500	
Supplies	6,400		Notes payable	40,000	
Equipment	72,000		Total liabilities	48,500	
Building	60,000				
			<u>Stockholders' Equity</u>		
			Common stock	70,000	
			Retained earnings	23,100	
			Total stockholders' equity	93,100	
			Total liabilities and stockholders' equity	\$141,600	
Total assets	\$141,600				

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

170. Below are incomplete financial statements for Beasley, Incorporated. Calculate the missing amounts.

Income Statement		Statement of Stockholders' Equity		
			Common Stock	Retained Earnings
<u>Revenues</u>	\$ (a)	Beginning	\$25,000	\$12,000
<u>Expenses:</u>		Issuances	(c)	
Salaries	8,000	Net income		5,000
Delivery	7,000	Dividends		(d)
Utilities	5,000			
Net income	(b)	Ending	\$30,000	\$15,000

Balance Sheet			
<u>Assets:</u>		<u>Liabilities:</u>	
Cash	\$15,000	Accounts payable	15,000
Supplies	7,000	<u>Stockholders' Equity:</u>	
Prepaid rent	(e)	Common stock	(g)
Equipment	35,000	Retained earnings	(h)
Total assets	(f)	Total liabilities and stockholders' equity	(i)

In the statement of stockholders' equity, $\$25,000 + (c) = \$30,000$
 $(c) = \$5,000$

In the statement of stockholders' equity, $\$12,000 + 5,000 - (d) = \$15,000$
 $(d) = \$2,000$

In the income statement, $(b) = \$5,000$ (in the statement of stockholders' equity)

In the income statement, $(a) - \$20,000 = \$5,000$
 $(a) = \$25,000$

In the balance sheet, $(g) = \$30,000$ and $(h) = \$15,000$ (in the statement of stockholders' equity)

$(i) = \$15,000 + \$30,000 (g) + \$15,000 (h)$
 $(i) = \$60,000$

$(f) = \$60,000 (i)$

$(e) = \$60,000 (f) - \$15,000 - \$7,000 - \$35,000$
 $(e) = \$3,000$

Chapter 01 - Accounting Information and Decision Making

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

171. Use the following information available at the end of 2012 to prepare an income statement and balance sheet on December 31, 2012, for Goldie Company.

Fees for services performed during the year, \$120,000

Accounts payable, \$18,500

Accounts receivable, \$17,300

Miscellaneous costs for the year, \$8,700

Supplies on hand, \$2,700

Notes payable outstanding, \$30,000

Interest cost on the note for the year, \$3,000

Equipment, \$84,400

Cash on hand, \$11,200

Salaries cost for the year, \$71,500

Supplies cost for the year, \$9,400

Rent cost for the year, \$12,000

Common stock that has been issued, \$60,000

Retained earnings at the end of the year, \$7,100

Goldie Company		
Income Statement		
For the year ended December 31, 2010		
Service revenues		\$120,000
Expenses:		
Miscellaneous	\$ 8,700	
Interest	3,000	
Salaries	71,500	
Supplies	9,400	
Rent	12,000	
Total expenses		104,600
Net income		<u>\$ 15,400</u>

Goldie Company			
Balance Sheet			
December 31, 2010			
<u>Assets</u>		<u>Liabilities</u>	
Cash	\$ 11,200	Accounts payable	\$ 18,500
Accounts receivable	17,300	Notes payable	<u>30,000</u>
Supplies	2,700	Total liabilities	48,500
Equipment	84,400		
		<u>Stockholders' Equity</u>	
		Common stock	60,000
		Retained earnings	<u>7,100</u>
		Total stockholders' equity	67,100
Total assets	<u>\$115,600</u>	Total liabilities and stockholders' equity	<u>\$115,600</u>

AACSB: Analytic

AICPA: Reporting

Bloom's: Analysis

Difficulty: Hard

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

172. List and describe the four financial statements most frequently provided to external users.

The income statement presents revenues and expenses over an interval of time. The statement of shareholders' equity summarizes the changes in stockholders' equity (common stock and retained earnings) over an interval of time. The balance sheet presents the assets, liabilities, and stockholders' equity at a point in time. The statement of cash flows presents the cash flows over an interval of time for operating, investing, & financing activities.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Easy

Learning Objective: 01-03 Discuss how financial accounting information is communicated through financial statements.

173. How does the value of an audit affect financial statements?

Outside auditors add credibility to financial statements, increasing the confidence of capital market participants who rely on financial statements in making investment and credit decisions and recommendations.

AACSB: Reflective Thinking

AICPA: Reporting

Bloom's: Comprehension

Difficulty: Hard

Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting.

Chapter 01 - Accounting Information and Decision Making

174. Define the four basic assumptions underlying Generally Accepted Accounting

Principles:

(a) economic entity, (b) going concern, (c) periodicity, (d) monetary unit.

Economic entity - All economic events can be identified with a particular economic entity.

Going concern - In the absence of information to the contrary, it is anticipated that a business entity will continue to operate indefinitely. Periodicity - The life of a company can be divided

into artificial time periods to provide timely information to external users. Monetary unit - In the U.S., financial statement elements should be measured in terms of the U.S. dollar. It

assumes that the value of a dollar is stable over time.

AACSB: Reflective Thinking

AICPA: Critical Thinking

Bloom's: Knowledge

Difficulty: Medium

Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles.