

Financial Accounting, 9e (Wild)

Chapter 1 Introducing Financial Statements

- 1) Accounting is an information and measurement system that identifies, records, and communicates relevant, reliable, and comparable information about an organization's business activities.
- 2) Recordkeeping, or bookkeeping, is the recording of transactions and events, either manually or electronically.
- 3) Accounting is an information and measurement system that identifies, records, and communicates information about an organization's business activities.
- 4) Financial accounting serves external users by providing them with general-purpose financial statements.
- 5) External users of accounting information do not directly run the organization and have limited access to its accounting information.
- 6) The primary objective of managerial accounting is to provide general purpose financial statements to help external users analyze and interpret an organization's activities.
- 7) External auditors examine financial statements to verify that they are prepared according to generally accepted accounting principles.
- 8) External users include lenders, shareholders, customers, and regulators.
- 9) Regulators have legal authority over certain activities of organizations.
- 10) Internal users include lenders, shareholders, brokers and nonexecutive employees.
- 11) Opportunities in accounting include auditing, consulting, market research, and tax planning.
- 12) Ethics are beliefs that separate right from wrong.
- 13) The Sarbanes-Oxley Act (SOX) requires each issuer of securities to disclose whether it has adopted a code of ethics for its senior financial officers and the contents of that code.
- 14) The fraud triangle asserts that there are three factors that push a person to commit fraud: opportunity, pressure, and rationalization.
- 15) The Sarbanes-Oxley Act (SOX) requires a business that sells stock to disclose a code of ethics for its executives.
- 16) A partnership is a business owned by two or more people.

- 17) Owners of a corporation are called shareholders or stockholders.
- 18) In the partnership form of business, the owners are called stockholders.
- 19) The balance sheet shows a company's net income or loss due to earnings activities over a period of time.
- 20) The Financial Accounting Standards Board is the governmental agency that sets both broad and specific accounting principles.
- 21) The business entity assumption means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.
- 22) Generally accepted accounting principles are the basic assumptions, concepts, and guidelines for preparing financial statements.
- 23) The business entity assumption means that a business is accounted for separately from other business entities, including its owner or owners.
- 24) The revenue recognition principle requires that revenue be recognized when goods or services are provided to customers, and at the amount expected to be received from the customer.
- 25) The expense recognition principle is also known as the cost principle.
- 26) The measurement principle is also known as the cost principle.
- 27) A sole proprietorship is a business owned by one or more persons.
- 28) Unlimited liability and separate taxation of the business are advantages of a sole proprietorship.
- 29) Understanding generally accepted accounting principles is not necessary to effectively use and interpret financial statements.
- 30) The International Accounting Standards board (IASB) has the authority to impose its standards on companies around the world.
- 31) Objectivity means that financial information is supported by independent, unbiased evidence; it demands more than a person's opinion.
- 32) The idea that a business will continue to operate instead of being closed or sold underlies the going-concern assumption.
- 33) According to the measurement (cost) principle, it is necessary for managers to report an approximation of an asset's market value upon purchase.

- 34) The monetary unit assumption means that all companies doing business in the United States must express transactions and events in US dollars.
- 35) The International Accounting Standards Board (IASB) is the government group that establishes reporting requirements for companies that issue stock to the public.
- 36) A limited liability company offers the limited liability of a partnership or proprietorship and the tax treatment of a corporation.
- 37) A limited liability company offers the limited liability of a corporation and the tax treatment of a partnership or proprietorship.
- 38) The Securities and Exchange Commission (SEC) is a government agency that has legal authority to establish GAAP.
- 39) The four common forms of business ownership include sole proprietorship, partnership, corporation, and non-profit.
- 40) The four common forms of business ownership include sole proprietorship, partnership, corporation, and limited liability company (LLC).
- 41) The three major types of business activities are operating, financing, and investing.
- 42) Planning is a part of each business activity (Operating, investing, and financing), and gives each activity meaning and focus.
- 43) *Financing activities* provide the means organizations use to pay for resources such as land, buildings, and equipment.
- 44) Investing activities are the means an organization uses to pay for resources like land, buildings, and equipment to carry out its plans.
- 45) Investing activities are the acquiring and disposing of resources that an organization uses to acquire and sell its products or services.
- 46) Owner financing refers to resources contributed by creditors or lenders.
- 47) Revenues are increases in equity (via net income) from a company's sales of products and services to customers.
- 48) A net loss occurs when revenues exceed expenses.
- 49) Net income occurs when revenues exceed expenses.
- 50) Liabilities are owner claims on assets.

- 51) Assets are the resources a company owns or controls that are expected to yield future benefits.
- 52) Dividends paid to stockholders are subtracted as expenses in the calculation of net income.
- 53) Equity increases as a result of stockholder investments and business revenues.
- 54) Equity decreases as a result of revenues and expenses.
- 55) Stockholder investments are increases in equity from a company's earnings activities.
- 56) After each business transaction is recorded, the accounting equation remains in balance.
- 57) An external transaction is an exchange within an entity that may or may not affect the accounting equation.
- 58) From an accounting perspective, an event is a happening that affects the accounting equation, but cannot be measured.
- 59) Stockholders' equity is increased when cash is received from customers in payment of previously recorded accounts receivable.
- 60) A stockholder's investment increases equity via net income.
- 61) Return on assets is often stated in ratio form as the amount of average total assets divided by income.
- 62) Return on assets (ROA) is also known as return on investment (ROI).
- 63) Return on assets (ROA) is useful in evaluating management, analyzing and forecasting profits, and planning activities.
- 64) Arrow's net income of \$112 million and average assets of \$1,400 million results in a return on assets of 8%.
- 65) Return on assets reflects a company's ability to generate profit through productive use of its assets.
- 66) Risk is the uncertainty about the return we will earn.
- 67) Generally, the lower the risk, the higher the return that can be expected.
- 68) U.S. Government Treasury bonds provide low return and low risk to investors.
- 69) The four basic financial statements include the balance sheet, income statement, statement of retained earnings, and statement of cash flows.

- 70) An income statement reports on investing and financing activities.
- 71) A balance sheet covers activities over a period of time such as a month or year.
- 72) The income statement describes revenues earned and expenses incurred along with the resulting net income or loss over a specified period of time, due to earnings activities.
- 73) The statement of cash flows shows the net effect of revenues and expenses for a reporting period.
- 74) The income statement shows the financial position of a business on a specific date.
- 75) The first section of the income statement reports cash flows from operating activities.
- 76) The balance sheet is based on the accounting equation.
- 77) Investing activities involve the buying and selling of assets such as land and equipment that are held for long-term use in the business.
- 78) Operating activities include long-term borrowing and repaying cash from lenders, and cash investments by or dividends paid to stockholders.
- 79) The purchase of supplies appears on the statement of cash flows as an investing activity because it involves the purchase of assets.
- 80) The income statement reports on operating activities at a point in time.
- 81) The statement of cash flows identifies cash flows separated into operating, investing, and financing activities over a period of time.
- 82) Ending retained earnings reported on the statement of retained earnings is calculated by adding stockholder investments and net losses and subtracting net income and dividends.
- 83) The materiality constraint looks at both the importance and relative size of an amount.
- 84) The cost-benefit constraint prescribes that only information with benefits of disclosure less than the costs of providing it, need be disclosed.
- 85) The cost-benefit constraint prescribes that only information with benefits of disclosure greater than the costs of providing it need be disclosed.
- 86) Net income is sometimes called earnings or profit.

87) Accounting is an information and measurement system that does all of the following *except*:

- A) Identifies business activities.
- B) Records business activities.
- C) Communicates business activities.
- D) Eliminates the need for interpreting financial data.
- E) Helps people make better decisions.

88) Technology:

- A) Has replaced accounting.
- B) Has not improved the clerical accuracy of accounting.
- C) Reduces the time, effort and cost of recordkeeping.
- D) In accounting has replaced the need for decision makers.
- E) In accounting is only available to large corporations.

89) The primary objective of financial accounting is to:

- A) Serve the decision-making needs of internal users.
- B) Provide accounting information that serves external users.
- C) Monitor and control company activities.
- D) Provide information on both the costs and benefits of looking after products and services.
- E) Know what, when, and how much product to produce.

90) The area of accounting aimed at serving the decision making needs of internal users is:

- A) Financial accounting.
- B) Managerial accounting.
- C) External auditing.
- D) SEC reporting.
- E) Bookkeeping.

91) External users of accounting information include all of the following *except*:

- A) Shareholders.
- B) Customers.
- C) Purchasing managers.
- D) Government regulators.
- E) Creditors.

92) All of the following regarding a Certified Public Accountant are true *except*:

- A) Must meet education and experience requirements.
- B) Must pass an examination.
- C) Must exhibit ethical character.
- D) May also be a Certified Management Accountant.
- E) Cannot hold any certificate other than a CPA.

93) Ethical behavior requires that:

- A) Auditors' pay not depend on the success of the client's business.
- B) Auditors invest in businesses they audit.
- C) Analysts report information favorable to their companies.
- D) Managers use accounting information to benefit themselves.
- E) Auditors' pay depends on the success of the client's business.

94) The Financial Accounting Standards Board (FASB) conceptual framework consists broadly of all of the following *except*:

- A) Objectives
- B) Qualitative characteristics
- C) Uniformity
- D) Elements
- E) Recognition and measurement

95) All of the following are true regarding ethics *except*:

- A) Ethics are beliefs that distinguish right from wrong.
- B) Ethics rules are often set for CPAs.
- C) Ethics do not affect the operations or outcome of a company.
- D) Are critical in accounting.
- E) Ethics can be difficult to apply.

96) The accounting concept that requires financial statement information to be supported by independent, unbiased evidence is:

- A) Business entity assumption.
- B) Revenue recognition principle.
- C) Going-concern assumption.
- D) Time-period assumption.
- E) Objectivity principle

97) A corporation is:

- A) A business legally separate from its owners.
- B) Controlled by the FASB.
- C) Not responsible for its own acts and own debts.
- D) The same as a limited liability partnership.
- E) Not subject to double taxation.

98) The independent group consisting of individuals from many countries and identifies preferred accounting practices for all countries is the:

- A) AICPA.
- B) IASB.
- C) CAP.
- D) SEC.
- E) FASB.

99) The private-sector group that currently has the authority to establish generally accepted accounting principles in the United States is the:

- A) APB.
- B) FASB.
- C) AAA.
- D) AICPA.
- E) SEC.

100) The accounting concept that requires every business to be accounted for separately from other business entities, including its owner or owners is known as the:

- A) Time-period assumption.
- B) Business entity assumption.
- C) Going-concern assumption.
- D) Revenue recognition principle.
- E) Measurement (Cost) principle.

101) The rule that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue, is the:

- A) Going-concern assumption.
- B) Business entity assumption.
- C) Objectivity principle.
- D) Measurement (Cost) Principle.
- E) Monetary unit assumption.

102) If a company is considering the purchase of a parcel of land that was acquired by the seller for \$85,000, is offered for sale at \$150,000, is assessed for tax purposes at \$95,000, is recognized by the purchaser as easily being worth \$140,000, and is purchased for \$137,000, the land should be recorded in the purchaser's books at:

- A) \$95,000.
- B) \$137,000.
- C) \$138,500.
- D) \$140,000.
- E) \$150,000.

103) To include the personal assets and transactions of a business's stockholders in the records and reports of the business would be in conflict with the:

- A) Objectivity principle.
- B) Monetary unit assumption.
- C) Business entity assumption.
- D) Going-concern assumption.
- E) Revenue recognition principle.

104) The accounting principle that requires accounting information to be based on actual cost and requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange, is the:

- A) Accounting equation.
- B) Measurement (Cost) principle.
- C) Going-concern assumption.
- D) Realization principle.
- E) Business entity assumption.

105) The rule that (1) requires revenue to be recognized when goods or services are provided to the customer and (2) at the amount expected to be received from the customer is called the:

- A) Going-concern assumption.
- B) Measurement (Cost) principle.
- C) Revenue recognition principle.
- D) Objectivity principle.
- E) Business entity assumption.

106) The question of when revenue should be recognized on the income statement according to GAAP is addressed by the:

- A) Revenue recognition principle.
- B) Going-concern assumption.
- C) Objectivity principle.
- D) Business entity assumption.
- E) Measurement (Cost) principle.

107) The International Accounting Standards Board (IASB):

- A) Identifies globally preferred accounting practices to increase comparability among financial statements.
- B) Is the government group that establishes reporting requirements for companies that issue stock to the investing public.
- C) Has the authority to impose its standards on companies around the world.
- D) Is the only source of generally accepted accounting principles (GAAP).
- E) Only applies to companies that are members of the European Union.

108) The Superior Company acquired a building for \$500,000. The building was appraised at a value of \$575,000. The seller had paid \$300,000 for the building 6 years ago. Which accounting principle would require Superior to record the building on its records at \$500,000?

- A) Monetary unit assumption.
- B) Going-concern assumption.
- C) Measurement (Cost) principle.
- D) Business entity assumption.
- E) Revenue recognition principle.

109) On December 15 of the current year, Conrad Accounting Services signed a \$40,000 contract with a client to provide bookkeeping services to the client in the following year. The client paid the entire \$40,000 on the date the contract was signed. Which accounting principle would require Conrad Accounting Services to record the bookkeeping revenue in the following year and not the year the cash was received?

- A) Monetary unit assumption.
- B) Going-concern assumption.
- C) Measurement (Cost) principle.
- D) Business entity assumption.
- E) Revenue recognition principle.

110) Marsha Bogswell is the sole stockholder of Bogswell Legal Services. Which accounting principle requires Marsha to keep her personal financial information separate from the financial information of Bogswell Legal Services?

- A) Monetary unit assumption.
- B) Going-concern assumption.
- C) Measurement (Cost) principle.
- D) Business entity assumption.
- E) Expense recognition (Matching) principle.

111) A limited liability company:

- A) Has one or more owners, called members.
- B) Is subject to double taxation.
- C) Has owners called stockholders.
- D) Is the same as a corporation.
- E) May only have two partners.

112) A partnership:

- A) Is also called a sole proprietorship.
- B) Has unlimited liability for its partners.
- C) Is legally required to have a written agreement.
- D) Is a legal organization separate from its owners.
- E) Has owners called shareholders.

113) Which of the following accounting principles require that all goods and services purchased be recorded at actual cost?

- A) Going-concern assumption.
- B) Expense recognition (Matching) principle.
- C) Measurement (Cost) principle.
- D) Business entity assumption.
- E) Consideration assumption.

114) Which of the following accounting principles prescribes that a company record its expenses incurred to generate the revenue reported?

- A) Going-concern assumption.
- B) Expense recognition (Matching) principle.
- C) Measurement (Cost) principle.
- D) Business entity assumption.
- E) Consideration assumption.

115) Revenue is properly recognized:

- A) When the customer makes an order.
- B) Only if the transaction creates an account receivable.
- C) At the end of the accounting period.
- D) Upon completion of the sale or when services have been performed.
- E) When cash from a sale is received.

116) Which of the following purposes would financial statements serve for external users?

- A) To find information about projected costs and revenues of proposed products.
- B) To assess employee performance and compensation.
- C) To assist in monitoring consumer needs and price concerns.
- D) To fulfill regulatory requirements for companies whose stock is sold to the public.
- E) To determine purchasing needs.

117) In a business decision where there are ethical concerns, the preferred course of action should be one that:

- A) Is agreed upon by the most managers.
- B) Maximizes the company's profits.
- C) Results in maintaining operations at the current level.
- D) Costs the least to implement.
- E) Avoids casting doubt on the decision maker and upholds trust.

118) If a company uses \$1,300 of its cash to purchase supplies, the effect on the accounting equation would be:

- A) Assets increase \$1,300 and liabilities decrease \$1,300.
- B) One asset increases \$1,300 and another asset decreases \$1,300, causing no effect.
- C) Assets decrease \$1,300 and equity decreases \$1,300.
- D) Assets decrease \$1,300 and equity increases \$1,300.
- E) Assets increase \$1,300 and liabilities increase \$1,300.

119) If a company receives \$12,000 from its sole stockholder to establish a corporation, the effect on the accounting equation would be:

- A) Assets decrease \$12,000 and equity decreases \$12,000.
- B) Assets increase \$12,000 and liabilities decrease \$12,000.
- C) Assets increase \$12,000 and liabilities increase \$12,000.
- D) Liabilities increase \$12,000 and equity decreases \$12,000.
- E) Assets increase \$12,000 and equity increases \$12,000.

120) If a company purchases equipment costing \$4,500 on credit, the effect on the accounting equation would be:

- A) Assets increase \$4,500 and liabilities decrease \$4,500.
- B) Equity decreases \$4,500 and liabilities increase \$4,500.
- C) Liabilities decrease \$4,500 and assets increase \$4,500.
- D) Assets increase \$4,500 and liabilities increase \$4,500.
- E) Equity increases \$4,500 and liabilities decrease \$4,500.

121) An example of a financing activity is:

- A) Buying office supplies.
- B) Obtaining a long-term loan.
- C) Buying office equipment.
- D) Selling inventory.
- E) Buying land.

122) An example of an operating activity is:

- A) Paying wages.
- B) Purchasing office equipment.
- C) Borrowing money from a bank.
- D) Selling stock.
- E) Paying off a loan.

123) Operating activities:

- A) Are the means organizations use to pay for resources like land, buildings and equipment.
- B) Involve using resources to research, develop, purchase, produce, distribute and market products and services.
- C) Involve acquiring and disposing of resources that a business uses to acquire and sell its products or services.
- D) Are also called asset management.
- E) Are also called strategic management.

124) An example of an investing activity is:

- A) Paying wages of employees.
- B) Dividends paid to stockholders.
- C) Purchase of land.
- D) Selling inventory.
- E) Investments by stockholders in exchange for common stock.

125) Net Income:

- A) Decreases equity.
- B) Represents the amount of assets stockholders put into a business.
- C) Equals assets minus liabilities.
- D) Is the excess of revenues over expenses.
- E) Represents stockholders' claims against assets.

126) If equity is \$300,000 and liabilities are \$192,000, then assets equal:

- A) \$108,000.
- B) \$192,000.
- C) \$300,000.
- D) \$492,000.
- E) \$792,000.

127) If assets are \$300,000 and liabilities are \$192,000, then equity equals:

- A) \$108,000.
- B) \$192,000.
- C) \$300,000.
- D) \$492,000.
- E) \$792,000.

128) Resources a company owns or controls that are expected to yield future benefits are:

- A) Assets.
- B) Revenues.
- C) Liabilities.
- D) Stockholders' Equity.
- E) Expenses.

129) Increases in equity from a company's sales of products or services are:

- A) Assets.
- B) Revenues.
- C) Liabilities.
- D) Stockholders' Equity.
- E) Expenses.

130) The difference between a company's assets and its liabilities, or net assets is:

- A) Net income.
- B) Expense.
- C) Equity.
- D) Revenue.
- E) Net loss.

131) Creditors' claims on the assets of a company are called:

- A) Net losses.
- B) Expenses.
- C) Revenues.
- D) Equity.
- E) Liabilities.

132) Decreases in equity that represent costs of providing products or services to customers, used to earn revenues are called:

- A) Liabilities.
- B) Equity.
- C) Dividends.
- D) Expenses.
- E) Common Stock.

133) The description of the relation between a company's assets, liabilities, and equity, which is expressed as $\text{Assets} = \text{Liabilities} + \text{Equity}$, is known as the:

- A) Income statement equation.
- B) Accounting equation.
- C) Business equation.
- D) Return on equity ratio.
- E) Net income.

134) Revenues are:

- A) The same as net income.
- B) The excess of expenses over assets.
- C) Resources owned or controlled by a company
- D) The increase in equity from a company's sales of products and services.
- E) The costs of assets or services used.

135) If assets are \$99,000 and liabilities are \$32,000, then equity equals:

- A) \$32,000.
- B) \$67,000.
- C) \$99,000.
- D) \$131,000.
- E) \$198,000.

136) Another name for equity is:

- A) Net income.
- B) Expenses.
- C) Net assets.
- D) Revenue.
- E) Net loss.

137) When expenses exceed revenues, the resulting change in equity is called:

- A) Net assets.
- B) Negative equity.
- C) Net loss.
- D) Net income.
- E) A liability.

138) Cash (or other assets) stockholders receive from the company are called a(n):

- A) Liability.
- B) Dividend.
- C) Expense.
- D) Common Stock.
- E) Investment.

139) Distributions of cash or other assets by a business to its stockholders are called:

- A) Dividends.
- B) Expenses.
- C) Assets.
- D) Retained earnings.
- E) Net Income.

140) The assets of a company total \$700,000; the liabilities, \$200,000. What are the net assets?

- A) \$900,000.
- B) \$700,000.
- C) \$500,000.
- D) \$200,000.
- E) It is impossible to determine unless the amount of stockholder investments is known.

141) On May 31 of the current year, the assets and liabilities of Riser, Inc. are as follows: Cash \$20,500; Accounts Receivable, \$7,250; Supplies, \$650; Equipment, \$12,000; Accounts Payable, \$9,300. What is the amount of equity as of May 31 of the current year?

- A) \$49,700.
- B) \$13,050.
- C) \$20,500.
- D) \$31,100.
- E) \$40,400.

142) On August 31 of the current year, the assets and liabilities of Gladstone, Inc. are as follows: Cash \$30,000; Supplies, \$600; Equipment, \$10,000; Accounts Payable, \$8,500. What is the amount of equity as of August 31 of the current year?

- A) \$49,100.
- B) \$32,100.
- C) \$12,100.
- D) \$10,900.
- E) \$30,900.

143) Assets created by selling goods and services on credit are:

- A) Accounts payable.
- B) Accounts receivable.
- C) Liabilities.
- D) Expenses.
- E) Equity.

144) An exchange of value between two entities that yields a change in the accounting equation is called:

- A) The accounting equation.
- B) Recordkeeping or bookkeeping.
- C) An external transaction.
- D) An asset.
- E) Net Income.

145) Saddleback Company paid off \$30,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?

- A) Assets, \$30,000 increase; equity, \$30,000 increase.
- B) Assets, \$30,000 decrease; liabilities, \$30,000 decrease.
- C) Assets, \$30,000 decrease; liabilities, \$30,000 increase.
- D) Liabilities, \$30,000 decrease; equity, \$30,000 increase.
- E) Assets, \$30,000 decrease; equity \$30,000 decrease.

146) If Houston Company billed a client for \$10,000 of consulting work completed, the accounts receivable asset increases by \$10,000 and:

- A) Accounts payable decreases \$10,000.
- B) Accounts payable increases \$10,000.
- C) Cash increases \$10,000.
- D) Revenue increases \$10,000.
- E) Revenue decreases \$10,000

147) Alpha Company has assets of \$600,000, liabilities of \$250,000, and equity of \$350,000. It buys office equipment on credit for \$75,000. What would be the effects of this transaction on the accounting equation?

- A) Assets increase by \$75,000 and expenses increase by \$75,000.
- B) Assets increase by \$75,000 and expenses decrease by \$75,000.
- C) Liabilities increase by \$75,000 and expenses decrease by \$75,000.
- D) Assets decrease by \$75,000 and expenses decrease by \$75,000.
- E) Assets increase by \$75,000 and liabilities increase by \$75,000.

148) Contessa Company collected \$42,000 cash on its accounts receivable. The effects of this transaction as reflected in the accounting equation are:

- A) Total assets decrease and equity increases.
- B) Both total assets and total liabilities decrease.
- C) Total assets, total liabilities, and total equity are unchanged.
- D) Both total assets and equity are unchanged and liabilities increase.
- E) Total assets increase and equity decreases.

149) If the liabilities of a business increased \$75,000 during a period of time and the equity in the business decreased \$30,000 during the same period, the assets of the business must have:

- A) Decreased \$105,000.
- B) Decreased \$45,000.
- C) Increased \$30,000.
- D) Increased \$45,000.
- E) Increased \$105,000.

150) If the assets of a business increased \$89,000 during a period of time and its liabilities increased \$67,000 during the same period, equity in the business must have:

- A) Increased \$22,000.
- B) Decreased \$22,000.
- C) Increased \$89,000.
- D) Decreased \$156,000.
- E) Increased \$156,000.

151) If the liabilities of a company increased \$74,000 during a period of time and equity in the company decreased \$19,000 during the same period, what was the effect on the assets?

- A) Assets would have increased \$55,000.
- B) Assets would have decreased \$55,000.
- C) Assets would have increased \$19,000.
- D) Assets would have decreased \$19,000.
- E) None of the choices are correct.

152) If a company paid \$38,000 of its accounts payable in cash, what was the effect on the accounting equation?

- A) Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would decrease \$38,000.
- B) Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would increase \$38,000.
- C) Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity remains unchanged.
- D) There would be no effect on the accounts because the accounts are affected by the same amount.
- E) Assets would increase \$38,000 and liabilities would decrease \$38,000.

153) If assets are \$365,000 and equity is \$120,000, then liabilities are:

- A) \$120,000.
- B) \$245,000.
- C) \$365,000.
- D) \$485,000.
- E) \$610,000.

154) Rushing had income of \$144 million and average invested assets of \$1,800 million. Its return on assets is:

- A) 8.0%.
- B) 80%.
- C) 12%.
- D) 120%.
- E) 16.7%.

155) Cage Company had income of \$35 million and average invested assets of \$200 million. Its return on assets (ROA) is:

- A) 1.8%.
- B) 35%.
- C) 17.5%.
- D) 5.7%.
- E) 3.5%.

156) Speedy has net income of \$18,955, and assets at the beginning of the year of \$200,000. Assets at the end of the year total \$246,000. Compute its return on assets.

- A) 7.7%.
- B) 8.5%.
- C) 9.5%.
- D) 11.8%.
- E) 13.0%.

157) Chou Co. has a net income of \$43,000, assets at the beginning of the year are \$250,000 and assets at the end of the year are \$300,000. Compute its return on assets.

- A) 8.4%.
- B) 17.2%.
- C) 14.3%.
- D) 15.6%.
- E) 1.5%.

158) U. S. government bonds are:

- A) High-risk and high-return investments.
- B) Low-risk and low-return investments.
- C) High-risk and low-return investments.
- D) Low-risk and high-return investments.
- E) High risk and no-return investments.

159) Risk is:

- A) Net income divided by average total assets.
- B) The reward for investment.
- C) The uncertainty about the return expected to be earned.
- D) Unrelated to return expected.
- E) Derived from the idea of getting something back from an investment.

160) The statement of cash flows reports all of the following *except*:

- A) Cash flows from operating activities.
- B) Cash flows from investing activities.
- C) Cash flows from financing activities.
- D) The net increase or decrease in assets for the period reported.
- E) The net increase or decrease in cash for the period reported.

161) The basic financial statements include all of the following except:

- A) Balance Sheet.
- B) Income Statement.
- C) Statement of Retained Earnings.
- D) Statement of Cash Flows.
- E) Statement of Changes in Assets.

162) The statement of cash flows:

- A) Reports how equity changes at a point in time.
- B) Reports how equity changes over a period of time.
- C) Reports on cash flows for operating, financing, and investing activities over a period of time.
- D) Reports on cash flows for operating, financing, and investing activities at a point in time.
- E) Reports on amounts for assets, liabilities, and equity at a point in time.

163) The financial statement that reports whether the business earned a profit and also lists the revenues and expenses is called the:

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

164) A balance sheet lists:

- A) The types and amounts of the revenues and expenses of a business.
- B) Only the information about what happened to equity during a time period.
- C) The types and amounts of assets, liabilities, and equity of a business as of a specific date.
- D) The inflows and outflows of cash during the period.
- E) The assets and liabilities of a company but not the stockholders' equity.

165) A financial statement providing information that helps users understand a company's financial status, and which lists the types and amounts of assets, liabilities, and equity as of a specific date, is called a(n):

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

166) The financial statement that identifies a company's cash receipts and cash payments over a period of time is the:

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

167) The financial statement that shows the beginning balance of retained earnings; the changes in equity that resulted from net income (or net loss); dividends; and the ending retained earnings balance, is the:

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

168) Cash investments by stockholders are listed on which of the following statement(s)?

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

169) Accounts payable appear on which of the following statements?

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

170) The income statement reports all of the following except:

- A) Revenues earned by a business.
- B) Expenses incurred by a business.
- C) Assets owned by a business.
- D) Net income or loss earned by a business.
- E) The time period over which the earnings occurred.

171) Use the following information as of December 31 to determine equity.

Cash	\$ 57,000
Buildings	175,000
Equipment	206,000
Liabilities	141,000

- A) \$57,000.
- B) \$141,000.
- C) \$297,000.
- D) \$438,000.
- E) \$579,000.

172) Use the following information for Meeker Corp to determine the amount of equity to report.

Cash	\$ 70,000
Buildings	125,000
Land	205,000
Liabilities	130,000

- A) \$390,000.
- B) \$140,000.
- C) \$20,000.
- D) \$530,000.
- E) \$270,000.

173) Determine the net income of a company for which the following information is available for the month of July.

Employee salaries expense	\$ 180,000
Interest expense	10,000
Rent expense	20,000
Consulting revenue	400,000

- A) \$190,000.
- B) \$210,000.
- C) \$230,000.
- D) \$400,000.
- E) \$610,000.

174) Determine the net income of a company for which the following information is available for the month of September.

Service revenue	\$ 300,000
Rent expense	48,000
Utilities expense	3,200
Salaries expense	81,000

- A) \$263,800.
- B) \$432,200.
- C) \$171,000.
- D) \$167,800.
- E) \$252,000.

175) A company acquires equipment for \$75,000 cash. This represents a(n):

- A) Operating activity.
- B) Investing activity.
- C) Financing activity.
- D) Revenue activity.
- E) Expense activity.

176) A company borrows \$125,000 from the Northern Bank and receives the loan proceeds in cash. This represents a(n):

- A) Revenue activity.
- B) Operating activity.
- C) Expense activity.
- D) Investing activity.
- E) Financing activity.

177) Zippy had cash inflows from operations \$60,500; cash outflows from investing activities of \$47,000; and cash inflows from financing of \$25,000. The net change in cash was:

- A) \$38,500 increase.
- B) \$38,500 decrease.
- C) \$132,500 decrease.
- D) \$132,000 increase.
- E) \$11,500 decrease.

178) Zapper has beginning equity of \$257,000, net income of \$51,000, dividends of \$40,000 and stockholder investments of \$6,000. Its ending equity is:

- A) \$223,000.
- B) \$240,000.
- C) \$268,000.
- D) \$274,000.
- E) \$208,000.

179) Cragmont has beginning equity of \$277,000, net income of \$63,000, dividends of \$25,000 and no additional investments by stockholders during the period. Its ending equity is:

- A) \$365,000.
- B) \$239,000.
- C) \$189,000.
- D) \$315,000.
- E) \$277,000.

180) Rent expense appears on which of the following statements?

- A) Balance sheet.
- B) Income statement.
- C) Statement of retained earnings.
- D) Statement of periodic expenses.
- E) Statement of cash flows only.

181) A company's balance sheet shows: cash \$22,000, accounts receivable \$16,000, office equipment \$50,000, and accounts payable \$17,000. What is the amount of stockholders' equity?

- A) \$17,000.
- B) \$29,000.
- C) \$71,000.
- D) \$88,000.
- E) \$105,000.

182) A company reported total equity of \$145,000 at the beginning of the year. The company reported \$210,000 in revenues and \$165,000 in expenses for the year. There were no stockholder investments or dividends during the year. Liabilities at the end of the year totaled \$92,000. What are the total assets of the company at the end of the year?

- A) \$45,000.
- B) \$92,000.
- C) \$98,000.
- D) \$210,000.
- E) \$282,000.

183) Flitter reported net income of \$17,500 for the past year. At the beginning of the year the company had \$200,000 in assets and \$50,000 in liabilities. By the end of the year, assets had increased to \$300,000 and liabilities were \$75,000. Calculate its return on assets:

- A) 8.8%.
- B) 7.0%.
- C) 5.8%.
- D) 35.0%.
- E) 23.3%.

184) Dawson Electronic Services had revenues of \$80,000 and expenses of \$50,000 for the year. Its assets at the beginning of the year were \$400,000. At the end of the year assets were worth \$450,000. Calculate its return on assets.

- A) 7.1%.
- B) 7.5%.
- C) 6.7%.
- D) 20.0%.
- E) 18.8%

185) Rico's Taqueria had cash inflows from operating activities of \$27,000; cash outflows from investing activities of \$22,000, and cash outflows from financing activities of \$12,000. Calculate the net increase or decrease in cash.

- A) \$61,000 increase.
- B) \$37,000 increase.
- C) \$7,000 decrease.
- D) \$7,000 increase.
- E) \$34,000 decrease.

186) Charlie's Chocolates' stockholders made investments of \$50,000 and received dividends of \$20,000. The company has revenues of \$83,000 and expenses of \$64,000. Calculate its net income.

- A) \$30,000.
- B) \$83,000.
- C) \$64,000.
- D) \$19,000.
- E) \$49,000.

187) Savvy Sightseeing had beginning equity of \$72,000; revenues of \$90,000, expenses of \$65,000, and dividends to stockholders of \$9,000. There were no stockholder investments during the year. Calculate ending equity.

- A) \$88,000.
- B) \$25,000.
- C) \$97,000.
- D) \$38,000.
- E) \$47,000.

188) Doc's Ribhouse had beginning equity of \$52,000; net income of \$35,000, and dividends of \$12,000. There were no stockholder investments during the year. Calculate the ending equity.

- A) \$(5,000).
- B) \$29,000.
- C) \$5,000.
- D) \$99,000.
- E) \$75,000.

189) A company's balance sheet shows: cash \$24,000, accounts receivable \$30,000, equipment \$50,000, and equity \$72,000. What is the amount of liabilities?

- A) \$104,000.
- B) \$76,000.
- C) \$32,000.
- D) \$68,000.
- E) \$176,000.

190) If a company has excess space in its building that it rents to another company for \$700, what is the effect on the accounting equation during the first month?

- A) Assets would decrease \$700 and liabilities would decrease \$700.
- B) Assets would decrease \$700 and equity would increase \$700.
- C) Assets would increase \$700 and equity would decrease \$700.
- D) Assets would increase \$700 and equity would increase \$700.
- E) Liabilities would decrease \$700 and equity would increase \$700.

191) All of the following are classified as assets *except*:

- A) Accounts Receivable.
- B) Supplies.
- C) Equipment.
- D) Accounts Payable.
- E) Land.

192) Which of the following accounts is not included in the calculation of a company's ending equity?

- A) Revenues.
- B) Expenses.
- C) Dividends.
- D) Stockholder investments.
- E) Cash.

193) All of the following are classified as liabilities *except*:

- A) Accounts Receivable.
- B) Notes Payable.
- C) Wages Payable.
- D) Accounts Payable.
- E) Taxes Payable.

194) Billington Corp borrows \$80,000 cash from Second National Bank. How does this transaction affect the accounting equation for Billington?

- A) Assets would decrease \$80,000 and liabilities would decrease \$80,000.
- B) Assets would decrease \$80,000 and equity would increase \$80,000.
- C) Assets would increase \$80,000 and equity would decrease \$80,000.
- D) Assets would increase \$80,000 and liabilities would increase \$80,000.
- E) Liabilities would decrease \$80,000 and equity would increase \$80,000.

195) If the assets of a company increase by \$55,000 during the year and its liabilities increase by \$25,000 during the same year, then the change in equity of the company during the year must have been:

- A) An increase of \$80,000.
- B) A decrease of \$80,000.
- C) An increase of \$30,000.
- D) A decrease of \$30,000.
- E) An increase of \$25,000.

196) All of the following are classified as assets *except*:

- A) Accounts Payable.
- B) Accounts Receivable.
- C) Cash.
- D) Supplies.
- E) Prepaid Insurance.

197) Grandmark Printing pays \$2,000 rent to the landlord of the building where its facilities are located. How does this transaction affect the accounting equation for Grandmark?

- A) Assets would decrease \$2,000 and liabilities would decrease \$2,000.
- B) Assets would decrease \$2,000 and equity would decrease \$2,000.
- C) Assets would increase \$2,000 and equity would increase \$2,000.
- D) Assets would increase \$2,000 and liabilities would increase \$2,000.
- E) Liabilities would decrease \$2,000 and equity would increase \$2,000.

198) Atkins Company collected \$1,750 as payment for the amount owed by a customer from services provided the prior month on credit. How does this transaction affect the accounting equation for Atkins?

- A) Assets would decrease \$1,750 and liabilities would decrease \$1,750.
- B) One asset would increase \$1,750 and a different asset would decrease \$1,750, causing no net change in the accounting equation.
- C) Assets would increase \$1,750 and equity would increase \$1,750.
- D) Assets would increase \$1,750 and liabilities would increase \$1,750.
- E) Liabilities would decrease \$1,750 and equity would increase \$1,750.

199) The accounting equation for Ying Company shows a decrease in its assets and a decrease in its equity. Which of the following transactions could have caused that effect?

- A) Cash was received from providing services to a customer.
- B) The company paid an amount due on credit.
- C) Equipment was purchased for cash.
- D) A utility bill was received for the current month, to be paid in the following month.
- E) Advertising expense for the month was paid in cash.

200) The accounting equation for Long Company shows an increase in its assets and an increase in its liabilities. Which of the following transactions could have caused that effect?

- A) Cash was received from providing services to a customer.
- B) Cash was received as a stockholder investment.
- C) Equipment was purchased on credit.
- D) Supplies were purchased for cash.
- E) Advertising expense for the month was paid in cash.

201) The expense recognition principle, also called the matching principle:

- A) Prescribes that accounting information is based on actual cost.
- B) Provides guidance on when a company must recognize revenue.
- C) Prescribes that a company report the details behind financial statements that would impact users' decisions.
- D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
- E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

202) The measurement principle, also called the cost principle:

- A) Prescribes that accounting information is based on actual cost.
- B) Provides guidance on when a company must recognize revenue.
- C) Prescribes that a company report the details behind financial statements that would impact users' decisions.
- D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
- E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

203) The revenue recognition principle:

- A) Prescribes that accounting information is based on actual cost.
- B) Provides guidance on when a company must recognize revenue.
- C) Prescribes that a company report the details behind financial statements that would impact users' decisions.
- D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
- E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

204) The full disclosure principle:

- A) Prescribes that accounting information is based on actual cost.
- B) Provides guidance on when a company must recognize revenue.
- C) Prescribes that a company report the details behind financial statements that would impact users' decisions.
- D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
- E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

205) The materiality constraint:

- A) Prescribes that accounting information is based on actual cost.
- B) Provides guidance on when a company must recognize revenue.
- C) Prescribes that only information that would influence the decisions of a reasonable person need be disclosed.
- D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
- E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

206) The going concern assumption:

- A) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.
- B) Means that we can express transactions and events in monetary, or money, units.
- C) Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
- D) Means that a business is accounted for separately from other business entities, including its owners.
- E) Prescribes that a company record the expenses it incurred to generate the revenue reported.

207) The monetary assumption:

- A) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.
- B) Means that we can express transactions and events in monetary, or money, units.
- C) Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
- D) Means that a business is accounted for separately from other business entities, including its owners.
- E) Prescribes that a company record the expenses it incurred to generate the revenue reported.

208) The time period assumption:

- A) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.
- B) Means that we can express transactions and events in monetary, or money, units.
- C) Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
- D) Means that a business is accounted for separately from other business entities, including its owners.
- E) Prescribes that a company record the expenses it incurred to generate the revenue reported.

209) The business entity assumption:

- A) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.
- B) Means that we can express transactions and events in monetary, or money, units.
- C) Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
- D) Means that a business is accounted for separately from other business entities, including its owners.
- E) Prescribes that a company record the expenses it incurred to generate the revenue reported.

210) Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (or Dodd-Frank) to:

- A) Promote accountability and transparency in the financial system.
- B) Put an end to the notion of "too big to fail."
- C) Protect the taxpayer by ending bailouts.
- D) Protect consumers from abusive financial services.
- E) All of the choices are correct.

211) Which of the following accounts is not included in the asset section of the balance sheet?

- A) Cash.
- B) Accounts receivable.
- C) Supplies.
- D) Land.
- E) Services revenue.

212) Which of the following accounts is not included in the asset section of the balance sheet?

- A) Buildings.
- B) Wages expense.
- C) Supplies.
- D) Land.
- E) Furniture

213) Which of the following accounts is not included in the liability section of the balance sheet?

- A) Accounts receivable.
- B) Wages payable.
- C) Accounts payable.
- D) Notes payable.
- E) Taxes payable.

214) Which of the following accounts is not included in the calculation of net income?

- A) Services revenue.
- B) Wages expense.
- C) Rent expense.
- D) Cash.
- E) Rent revenue.

215) Which of the following combinations results in a net loss reported on the income statement?

- A) Total revenues of \$80,000 and total expenses of \$74,000.
- B) Total revenues of \$70,000 and total expenses of \$74,000.
- C) Total revenues of \$60,000 and total expenses of \$52,000.
- D) Total revenues of \$20,000 and total expenses of \$16,000.
- E) Total revenues of \$40,000 and total expenses of \$31,000.

216) Which of the following combinations does not result in the same amount of net income reported on the income statement?

- A) Total revenues of \$80,000 and total expenses of \$60,000.
- B) Total revenues of \$170,000 and total expenses of \$150,000.
- C) Total revenues of \$60,000 and total expenses of \$40,000.
- D) Total revenues of \$70,000 and total expenses of \$60,000.
- E) Total revenues of \$40,000 and total expenses of \$20,000.

Match the following terms with the appropriate definition.

- A) Recordkeeping
- B) Managerial accounting
- C) Accounting
- D) Financial accounting
- E) Certified Public Accountant (CPA)
- F) Ethics
- G) External users
- H) Fraud triangle
- I) Internal users

217) An information and measurement system that identifies, records and communicates relevant reliable and comparable information about an organization's business activities.

218) The part of accounting that involves recording transactions and events, either electronically or manually.

219) Persons using accounting information who are not directly involved in running the organization.

220) Persons using accounting information who are directly involved in managing and operating the organization.

221) The area of accounting that serves the decision-making needs of internal users.

222) The area of accounting aimed at serving external users by providing them with general-purpose financial statements.

223) Accounting specialists that have met educational and experience requirements, passed an examination and exhibit ethical characteristics to achieve a professional certification.

224) Beliefs that distinguish right from wrong, considered accepted standards of good and bad behavior.

225) A model that asserts the factors that must exist for a person to commit fraud.

Match each of the following terms with the most appropriate definition.

- A) Liabilities
- B) Return on assets
- C) Common stock
- D) Risk
- E) Accounting equation
- F) Dividends
- G) Assets
- H) Expenses

226) The uncertainty about the return to be earned.

227) Evidence of inflows of resources such as cash and other assets from stockholders.

228) A financial ratio stated as income divided by assets invested.

229) Creditor's claims on a company's assets.

230) Decreases in equity from costs of providing products or services to customers.

231) Reflects outflows of resources such as cash and other assets to stockholders.

232) Resources a company owns or controls that are expected to yield future benefit.

233) Expresses the relation of assets, liabilities and equity in a company, comparing the resources the company owns to the sources of funds to acquire the resources.

The following is a list of selected users of accounting information. Match the appropriate user to the following decisions they make with accounting information.

- A) Suppliers
- B) Shareholders
- C) Purchasing Managers
- D) Lenders
- E) Regulators

234) Know what, when, and how much to purchase.

235) Judge the soundness of a customer before making sales on credit.

236) Assess whether a company has paid all required taxes and complied with securities rules.

237) Assess whether an organization is likely to repay its loans with interest.

238) Decide whether to buy, hold, or sell a company's stock.

Answers: 234) C 235) A 236) E 237) D 238) B

Match the following definitions with the appropriate terms.

- A) Presumes that the life of a company can be divided into periods for reporting purposes.
- B) A principle that requires the information in financial statements to be supported by independent unbiased evidence.
- C) The governmental agency that has the legal authority to establish accounting rules.
- D) A report that describes a company's financial position at a point in time.
- E) The concepts and rules that govern financial accounting.
- F) Prescribes that a company report the details behind financial statements that would impact user decisions.
- G) A financial statement that reports the changes in equity over the reporting period; including increases from net income and decreases from dividends or net losses.
- H) A report that identifies cash receipts and cash payments over a period of time.
- I) An independent group consisting of individuals from many countries that identify preferred accounting practices.
- J) Prescribes that assets and services to be recorded initially on a cash or equal-to-cash basis.

239) Generally accepted accounting principles

240) Time period assumption

241) Statement of retained earnings.

242) Balance sheet

243) Objectivity principle

244) Measurement (Cost) principle

245) Securities and Exchange Commission

246) IASB

247) Full disclosure principle

248) Statement of cash flows

Match the following definitions with the appropriate terms.

- A) Creditor's claims on assets.
- B) The relation between a company's assets, liabilities, and equity.
- C) Happenings, such as changes in market value, that effect the accounting equation and are reliably measured.
- D) Describes a company's revenues and expenses along with the resulting net income or loss over a period of time.
- E) The principle that assumes transactions and events can be expressed in money units.
- F) The cost of assets or services used to earn revenue.
- G) A financial statement that lists cash inflows (receipts) and cash outflows (payments); the cash flows are arranged by operating, investing, and financing activities.
- H) The principle that requires a business to be accounted for separately from its owners.
- I) The principle that revenue is recorded when earned through providing goods or services.

249) Statement of cash flows

250) Events

251) Monetary unit principle

252) Business entity principle

253) Revenue recognition principle

254) Accounting equation

255) Income statement

256) Expenses

257) Liabilities

Identify each of the following business activities into the appropriate category: Operating, Investing, or Financing.

- A) Financing
- B) Investing
- C) Operating

258) Paid utilities expenses.

259) Dividends to stockholders.

260) Purchase of land.

261) Sale of used equipment.

262) Borrowed money from a bank on a long-term note.

263) Paid employee wages.

264) Received investment from stockholder.

265) Paid an amount due on a long-term bank loan.

Match each of the following items with the financial statement in which each item would most likely appear. An item may appear on more than one statement.

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

266) Assets.

267) Dividends.

268) Revenues.

269) Cash from investing activities.

270) Expenses.

271) Liabilities.

272) Cash from operating activities.

273) Cash from financing activities.

Classify the following activities according to the appropriate section of the statement of cash flows.

- A) Operating activity
- B) Investing activity
- C) Financing activity

274) Cash received from a one-time sale of used office equipment.

275) Cash dividends paid to stockholders.

276) Cash received from customers.

277) Cash received from stockholders in exchange for common stock.

278) Cash paid for utilities.

279) Cash paid for a delivery van to be used in the business.

- 280) Explain the role of accounting in the information age.
- 281) What is the balance sheet? What is its purpose?
- 282) Identify the users and uses of accounting information.
- 283) Identify several opportunities in accounting and distinguish between private accounting and public accounting.
- 284) Explain why ethics are an integral part of accounting.
- 285) Describe the three important guidelines for revenue recognition.
- 286) Identify the three basic forms of business organizations and their key attributes.
- 287) How does the objectivity principle support ethical behavior?
- 288) Identify and describe the two main groups involved in establishing generally accepted accounting principles.
- 289) How does the going-concern principle affect reporting asset values of a business?
- 290) Describe the income statement and the relation between revenues, expenses, and net income or loss.
- 291) Explain the accounting equation and define its terms.
- 292) What distinguishes liabilities from equity?
- 293) What is the purpose of return on assets as an analytical tool?
- 294) Define risk and return and discuss the relation between them.
- 295) Describe the three types of activities reported on the statement of cash flows.
- 296) Identify and describe the four basic financial statements:

297) The characteristics below apply to at least one of the forms of business organization.

- a. Is a separate legal entity.
- b. Is allowed to be owned by one person only.
- c. Owner or owners are personally liable for debts of the business.
- d. Is a separately taxable entity.
- e. Is a business entity.
- f. May have a contract specifying the division of profits among the owners.
- g. Has an unlimited life

Use the following format to indicate (with a "yes" or "no") whether or not a characteristic applies to each type of business organization.

	<u>Proprietorship</u>	<u>Partnership</u>	<u>Corporation</u>
a.			
b.			
c.			
d.			
e.			
f.			
g.			

298) A parcel of land is offered for sale at \$600,000, is assessed for tax purposes at \$500,000, is recognized by its purchasers as easily being worth \$575,000, and is sold for \$570,000. At what amount should the land be recorded in the purchaser's books? What accounting principle supports your answer?

299) You are reviewing the accounting records of Buddy's Foreign Automotive, owned by Bruce Jones, its sole stockholder. You have uncovered the following situations. List the appropriate accounting principle related to each independent scenario and suggest a correct action for each.

1. In August, a check for \$500 was written to Community Sports. This amount represents soccer camp for his daughter Cassie.
2. Bruce plans a Going Out of Business Sale for June, since he will be closing the business for a month-long vacation in July. He plans to reopen August 1 and will continue operating Buddy's Foreign Automotive indefinitely.
3. Buddy received a shipment of tools from Ontario, Canada. The invoice was stated in Canadian dollars.
4. Sandy Lane paid \$1,500 for a major repair services. The amount was recorded as revenue. The parts for the repair must be ordered from overseas and the service won't be complete until the following month.

300) At the beginning of the year, a company had \$120,000 worth of liabilities. During the year, assets increased by \$160,000 and at year-end they equaled \$360,000. Liabilities decreased \$20,000 during the year. Calculate the beginning and ending values of equity.

Feedback: Beginning Assets = Beginning Liabilities + Beginning Equity
 $\$200,000 = \$120,000 + \$80,000$

Ending Assets = Ending Liabilities + Ending Equity
 $\$360,000 = \$100,000 + \$260,000$

301) At the beginning of the period, a company had \$350,000 worth of assets, \$110,000 worth of liabilities, and \$240,000 worth of equity. Assume the only change during the period was a \$30,000 purchase of equipment by issuing a note payable. Show the accounting equation with the appropriate amounts at the end of the period.

Feedback: Ending assets = \$350,000 + \$30,000

Ending liabilities = \$110,000 + \$30,000

Ending equity = \$240,000 (no change)

302) The accounts of Odie Company with the increases or decreases that occurred during the past year are as follows:

Account	Increase	Decrease
Cash	\$25,000	
Accounts receivable		\$(5,000)
Accounts payable		(11,000)
Notes payable	16,000	

Except for net income, an investment of \$3,000 by its sole stockholder in exchange for common stock, and a dividend of \$11,000 to its stockholder, no other items affected equity. Using the balance sheet equation, compute net income for the past year.

Feedback: Assets = Liabilities + Equity

Assets Increased by \$20,000; Liabilities Increased by \$5,000; Therefore, Equity needs to Increase by \$15,000.

Change in Equity = Stockholder Investments + Net Income – Dividends

Increase of \$15,000 = \$3,000 + Net Income – \$11,000

$\$15,000 = \text{Net Income} - \$8,000$

Net Income = \$23,000

303) The accounts of Mason Company at the end of the past year report the following amounts:

Accounts	Amount
Dividends.....	\$15,500
Revenues.....	\$97,000
Expenses.....	\$43,800
Stock issuances.....	2,000

If the beginning equity for the year was \$173,000, calculate the ending equity for Mason Company.

Feedback: Beginning Equity + Stock Issuances – Dividends + Revenues – Expenses = Ending Equity

$$\$173,000 + \$2,000 - \$15,500 + \$97,000 - \$43,800 = \$212,700$$

304) Cornelia's Closet has the following account balances for the dates given:

	<u>October 1</u>	<u>October 31</u>
Cash	\$40,000	60,000
Accounts Receivable	40,000	38,000
Accounts payable	6,000	?

Also, its net income, for October 1 through October 31 was \$20,000 and there were no dividends or stock issuances. Determine the equity at both October 1 and October 31.

Feedback: Total assets:

	<u>October 1</u>	<u>October 31</u>
Cash	\$40,000	60,000
Accounts Receivable	<u>40,000</u>	<u>38,000</u>
Total assets	<u>\$80,000</u>	<u>\$98,000</u>

At October 1:

Assets = Liabilities + Equity

$$\$80,000 = \$6,000 + \text{Equity}$$

$$\text{Equity} = \$74,000$$

At October 31:

Equity, September 1 \$74,000

Plus September net income 20,000

Equity, September 30 \$94,000

or:

October 1 Equity + Net Income + October 31 Equity

$$\$74,000 + \$20,000 = \$94,000$$

305) If the liabilities of a company increased \$92,000 during a period of time and equity in the business decreased \$30,000 during the same period, did the assets of the company increase or decrease? By what amount?

Feedback: Assets = Liabilities + Equity

$$\$62,000 = \$92,000 - \$30,000$$

306) Soo Lin began an Internet Consulting practice and completed these transactions during April of the current year:

- April. 1 Invested \$100,000 of her personal savings into a checking account opened in the name of the business in exchange for common stock.
- 2 Rented office space and paid \$1,200 cash for the month of September.
- 3 Purchased office equipment for \$30,000, paying \$8,000 cash and agreeing to pay the balance in one year.
- 4 Purchased office supplies for \$750 cash.
- 8 Completed work for a client and immediately collected \$2,700 cash for the services.
- 15 Completed \$3,600 services for a client on credit.
- 20 Received \$3,600 from a client for the work completed on September 15.
- 30 Paid the office secretary's monthly salary, \$3,000 cash.
- 30 The company paid Lin \$2,000 as a dividend.

Show the effects of the above transactions on the accounting equation of Soo Lin, Consultant.

Use the following format for your answers. The first item is shown as an example.

Increase = I Decrease = D No effect = N

Date	Assets	Liabilities	Equity
Example:			
April 1	I	N	I

309) The accountant of Action Adventure Games prepared a balance sheet after every 10 day period. The only resources invested by its sole stockholder were at the start of the company on June 1. During June, the first month of operation, the following balance sheets were prepared:

ACTION ADVENTURE GAMES

Balance Sheet

June 10

Assets		Equity	
Cash.....	<u>\$60,000</u>	Common stock.....	<u>\$60,000</u>
Total assets.....	<u>\$60,000</u>	Total liabilities and equity.....	<u>\$60,000</u>

ACTION ADVENTURE GAMES

Balance Sheet

June 20

Assets		Liabilities	
Cash.....	\$48,000	Notes payable.....	\$18,000
Land.....	10,000	Equity	
Building.....	<u>20,000</u>	Common stock.....	60,000
Total assets.....	<u>\$78,000</u>	Total liabilities and equity.....	<u>\$78,000</u>

ACTION ADVENTURE GAMES

Balance Sheet

June 30

Assets		Liabilities	
Cash.....	\$51,000	Accounts payable....	\$2,000
Office supplies.....	2,000	Notes payable.....	18,000
Land.....	10,000	Equity	
Building.....	<u>20,000</u>	Common stock.....	<u>60,000</u>
Total assets.....	<u>\$83,000</u>	Retained earnings	<u>3,000</u>
		Total liabilities and equity.....	<u>\$83,000</u>

Required: Describe the nature of each of the four transactions that took place between the balance sheet dates shown. Assume only one transaction affected each account.

June 10
20
30

310) Identify the risk and the return in each of the following examples.

- a. Investing \$500 in a certificate of deposit at 4.5% interest.
- b. Placing a \$100 bet on an NBA game.
- c. Investing \$10,000 in Microsoft stock.
- d. Borrowing \$20,000 in student loans.

311) Prepare a April 30 balance sheet in proper form for Two Rivers Vending Service from the following alphabetical list of the accounts at April 30:

Accounts receivable.....	\$10,000
Accounts payable.....	18,000
Building.....	28,000
Cash.....	10,000
Notes payable.....	47,000
Office equipment.....	12,000
Stockholders' equity.....	?
Trucks.....	55,000

312) Prepare a December 31 balance sheet in proper form for Smokey River Supplies from the following list of the accounts:

Cash.....	\$10,000
Accounts receivable.....	8,000
Supplies.....	12,000
Equipment.....	35,000
Land.....	18,000
Accounts payable.....	13,000
Notes payable.....	41,000
Common stock.....	20,000
Retained earnings	9,000

313) Prepare a December 31 balance sheet in proper form for Cane Property Management using the following accounts and amounts:

Commissions earned.....	\$40,000
Accounts payable.....	3,500
Accounts receivable.....	5,000
Common stock.....	100,000
Retained earnings	4,500
Office equipment.....	10,000
Advertising expense.....	3,200
Cash.....	7,500
Land.....	35,000
Note payable.....	50,000
Office supplies.....	1,500
Salaries expense.....	12,000
Salaries payable.....	1,000
Building.....	100,000

314) From the information given below, prepare a November income statement, a November statement of retained earnings, and a November 30 balance sheet. On November 1 of the current year, Victoria Garza, the sole stockholder, began Garza Décor with an initial investment of \$50,000 cash in exchange for common stock. On November 30, her records showed the following items and amounts.

Accounts payable	\$12,000	Office Furnishings	\$40,000
Accounts receivable	19,000	Rent expense	9,600
Cash	21,200	Salaries expense	4,200
Dividends	6,000	Telephone expense	250
Fees earned	34,000	Common stock	50,000
Notes payable	4,250		

315) Data for Kennedy Realty are as follows:

Total assets at January 1	\$100,000
Total liabilities at January 1	35,000
Common stock at January 1	50,000
Total revenues for the year	79,000
Total expenses for the year	47,000

Cash dividends of \$30,000 were paid to its sole stockholder, Finn Kennedy, during the year. No stock was issued during the year. Using the above data, prepare Kennedy Realty's Statement of Retained Earnings for the year ended December 31.

316) Jet Styling has the following beginning cash balance and cash transactions for the month of January. Using this information prepare a statement of cash flows.

a.	Beginning cash balance.....	\$ 3,200
b.	Cash received from stock issuance.	15,000
c.	Cash payment toward long-term loan	1,000
d.	Cash payment of rent.....	1,800
e.	Purchased equipment for cash.....	7,500
f.	Purchased store supplies for cash...	1,500
g.	Cash collected from customers.....	7,750
h.	Cash dividends paid.....	2,000
i.	Cash payment of wages.....	4,000

317) The records of Roadmaster Auto Rentals show the following information as of December 31. The sole stockholder, Rob Fletcher received dividends of \$52,000 during the year. Prepare a December income statement, a December statement of retained earnings, and a December 31 balance sheet.

Accounts payable	\$36,000	Wages expense	\$75,000
Insurance expense	2,000	Advertising expense	22,000
Accounts receivable	24,000	Cash	11,000
Common stock	60,000	Office Furniture	15,000
Airplanes	150,000	Maintenance expense	39,000
Notes payable	47,000	Revenues	217,000
Hangar	60,000	Retained earnings, January 1	90,000

318) Verity Siding Company, whose sole stockholder is S. Verity, began operations in May and completed the following transactions during that first month of operations. Show the effects of the transactions on the accounts of the accounting equation by recording increases and decreases in the appropriate columns in the table below. Do not determine new account balances after each transaction. Determine the final total for each account and verify that the equation is in balance.

May	1	S. Verity invested \$90,000 cash in the company in exchange for common stock.
	2	The company purchased \$25,000 in office equipment. It paid \$10,000 in cash and signed a note payable promising to pay the \$15,000 over the next three years.
	2	The company rented office space and paid \$3,000 for the May rent.
	6	The company installed new vinyl siding for a customer and immediately collected \$5,000.
	7	The company paid a supplier \$2,000 for siding materials used on the May 6 job.
	8	The company purchased a \$2,500 copy machine for office use on credit.
	9	The company completed work for additional customers on credit in the amount of \$16,000.
	15	The company paid its employees' salaries \$2,300 for the first half of the month.
	17	The company installed new siding for a customer and immediately collected \$2,400.
	20	The company received \$10,000 in payments from the customers billed on May 9.
	28	The company paid \$1,500 on the copy machine purchased on May 8. It will pay the remaining balance in June.
	31	The company paid its employees' salaries \$2,400 for the second half of the month.
	31	The company paid a supplier \$5,300 for siding materials used on the remaining jobs completed during May.
	31	The company paid \$450 for this month's utility bill.

VERITY SIDING CO.

	Assets			=	Liabilities			+	Equity		
Date	Cash	Accounts Receivable	Equipment		Accounts Payable	Notes Payable	Common Stock		Dividends	Revenues	Expenses
May 1											
2											
2											
6											
7											
8											
9											
15											
17											
20											
28											
31											
31											
31											
	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -		\$ -	\$ -	\$ -

- 319) _____ is an information and measurement system that identifies, records and communicates relevant, reliable and comparable information about an organization's economic activities.
- 320) A _____ is a business that is owned by only one person.
- 321) _____ users of accounting information are not directly involved in running the organization.
- 322) _____ is the area of accounting aimed at serving external users by providing them with general-purpose financial statements.
- 323) Congress passed the _____ to help curb financial abuses at companies that issue their stock to the public.
- 324) _____ are beliefs that separate right from wrong and are considered accepted standards of good and bad behavior.
- 325) The assumption that requires that a business be accounted for separately from its owners is the _____ assumption.
- 326) The _____ principle requires that financial information is supported by independent, unbiased evidence.

327) The _____ assumption assumes that a business will continue operating indefinitely instead of being closed or sold.

328) The _____ assumption states that transactions and events are expressed in money units.

329) In accounting, the rule that requires that assets, services, and liabilities be recorded initially at the cash or cash-equivalent value of what was given up or of the item received is called the _____.

330) A disadvantage of a sole proprietorship is the fact that the owner has _____.

331) There are at least three types of partnerships that limit the partners' liability. They are 1) _____, 2) _____, and 3) _____.

332) There are three major types of business activities. _____ activities are the means organizations use to pay for resources such as land, building, and equipment to carry out plans.

333) There are three major types of business activities. _____ activities involve the acquisition and disposal of resources that an organization uses to acquire and sell its products or services.

334) There are three major types of business activities. _____ activities involve using resources to research, develop, purchase, produce, distribute, and market products and services and receiving amounts from selling products and services.

335) Resources such as cash distributed to the owners of a corporation are called _____.

336) _____ are the increases in equity from a company's sales of products and services to customers.

337) A common characteristic of _____ is their ability to yield expected future benefits to a business.

338) Creditors' claims on assets that reflect company obligations to provide assets, products, or services to others are called _____.

339) Owner claims on assets, also known as net assets, is called _____.

340) The accounting equation is _____.

341) The term _____ refers to a liability that promises a future outflow of resources.

342) Using the accounting equation, equity is equal to _____.

343) _____, which is one part of accounting, is the recording of transactions and events, either manually or electronically.

344) _____ is net income divided by average total assets.

345) Risk is the _____ about the return an investor expects to earn.

346) _____ explains changes in the stockholders' claim on the business's assets from net income or loss, and dividends over a period of time.

347) The _____ describes a company's revenues and expenses along with the resulting net income or net loss over a period of time due to earnings activities.