

## Chapter 01

### Accounting in Business

#### True / False Questions

1. Accounting is an information and measurement system that identifies, records, and communicates relevant, reliable, and comparable information about an organization's business activities.

True False

2. Bookkeeping is the recording of transactions and events and is only part of accounting.

True False

3. An accounting information system communicates data to help users make better decisions.

True False

4. Financial accounting is the area of accounting that provides internal reports to assist the decision making needs of internal users.

True False

5. Internal operating activities include research and development, distribution, and human resources.

True False

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.

True False

7. External auditors examine financial statements to verify that they are prepared according to generally accepted accounting principles.

True False

8. External users include lenders, shareholders, customers, and regulators.

True False

9. Regulators often have legal authority over certain activities of organizations.

True False

10. Internal users include lenders, shareholders, brokers and managers.

True False

11. Opportunities in accounting include auditing, consulting, market research, and tax planning.

True False

12. Identifying the proper ethical path is usually easy.

True False

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.

True False

14. The fraud triangle asserts that the three factors that must exist for a person to commit fraud are opportunity, pressure, and rationalization.

True False

15. The Sarbanes-Oxley Act (SOX) does not require public companies to apply both accounting oversight and stringent internal controls.

True False

16. A partnership is a business owned by two or more people.

True False

17. Owners of a corporation are called shareholders or stockholders.

True False

18. In the partnership form of business, the owners are called stockholders.

True False

19. The balance sheet shows a company's net income or loss due to earnings activities over a period of time.

True False

20. The Financial Accounting Standards Board is the governmental agency that sets both broad and specific accounting principles.

True False

21. The business entity principle means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

True False

22. Generally accepted accounting principles are the basic assumptions, concepts, and guidelines for preparing financial statements.

True False

23. The business entity assumption means that a business is accounted for separately from other business entities, including its owner or owners.

True False

24. As a general rule, revenues should not be recognized in the accounting records when earned, but rather when cash is received.

True False

25. Specific accounting principles are basic assumptions, concepts, and guidelines for preparing financial statements and arise out of long-used accounting practice.

True False

26. General accounting principles arise from long-used accounting practices.

True False

27. A sole proprietorship is a business owned by one or more persons.

True False

28. Unlimited liability and separate taxation of the business are advantages of a sole proprietorship.

True False

29. Understanding generally accepted accounting principles is not necessary to effectively use and interpret financial statements.

True False

30. The International Accounting Standards board (IASB) has the authority to impose its standards on companies around the world.

True False

31. Objectivity means that financial information is supported by independent, unbiased evidence.

True False

32. The idea that a business will continue to operate instead of being closed or sold underlies the going-concern assumption.

True False

33. According to the cost principle, it is necessary for managers to report an approximation of an asset's market value upon purchase.

True False

34. The monetary unit assumption means that all companies doing business in the United States must express transactions and events in U.S. dollars.

True False

35. The International Accounting Standards Board (IASB) is the government group that establishes reporting requirements for companies that issue stock to the public.

True False

36. A limited liability company offers the limited liability of a partnership or proprietorship and the tax treatment of a corporation.

True False

37. The Securities and Exchange Commission (SEC) is a government agency that has legal authority to establish GAAP.

True False

38. The three common forms of business ownership include sole proprietorship, partnership, and non-profit.

True False

39. The three major types of business activities are operating, financing, and investing.

True False

40. Planning involves defining an organization's ideas, goals, and actions.

True False

41. Strategic management is the process of determining the right mix of operating activities for the type of organization, its plans, and its market.

True False

42. Investing activities are the means an organization uses to pay for resources like land, buildings, and equipment to carry out its plans.

True False

43. Investing activities are the acquiring and disposing of resources that an organization uses to acquire and sell its products or services.

True False

44. Owner financing refers to resources contributed by creditors or lenders.

True False

45. Revenues are increases in equity from a company's sales of products and services to customers.

True False

46. A net loss occurs when revenues exceed expenses.

True False

47. Net income occurs when revenues exceed expenses.

True False

48. Liabilities are the owner's claim on assets.

True False

49. Assets are the resources a company owns or controls that are expected to yield future benefits.

True False

50. Dividends are expenses.

True False

51. The accounting equation can be restated as:  $\text{Assets} - \text{Equity} = \text{Liabilities}$ .

True False

52. The accounting equation implies that:  $\text{Assets} + \text{Liabilities} = \text{Equity}$ .

True False

53. Common stock is an increase in equity from a company's earnings activities.

True False

54. Every business transaction leaves the accounting equation in balance.

True False

55. An external transaction is an exchange within an entity that may or may not affect the accounting equation.

True False

56. From an accounting perspective, an event is a happening that affects the accounting equation, but cannot be measured.

True False

57. Stockholders' equity is increased when cash is received from customers in payment of previously recorded accounts receivable.

True False

58. A stockholder's investment in a business normally creates an asset (cash), a liability (note payable), and stockholders' equity (investment.)

True False

59. Return on assets is often stated in ratio form as the amount of average total assets divided by income.

True False

60. Return on assets is also known as return on investment.

True False

61. Return on assets is useful to decision makers for evaluating management, analyzing and forecasting profits, and in planning activities.

True False

62. Arrow's net income of \$117 million and average assets of \$1,400 million results in a return on assets of 8.36%.

True False

63. Return on assets reflects a company's ability to generate profit through productive use of its assets.

True False

64. Risk is the uncertainty about the return we will earn.

True False

65. Generally the lower the risk, the higher the return that can be expected.

True False

66. U.S. Government Treasury bonds provide low return and low risk to investors.

True False

67. The four basic financial statements include the balance sheet, income statement, statement of retained earnings, and statement of cash flows.

True False

68. An income statement reports on investing and financing activities.

True False

69. A balance sheet covers activities over a period of time such as a month or year.

True False

70. The income statement describes revenues earned and expenses incurred over a specified period of time due to earnings activities.

True False

71. The statement of cash flows shows the net effect of revenues and expenses for a reporting period.

True False

72. The income statement shows the financial position of a business on a specific date.

True False

73. The first section of the income statement reports cash flows from operating activities.

True False

74. The balance sheet is based on the accounting equation.

True False

75. Investing activities involve the buying and selling of assets such as land and equipment that are held for long-term use in the business.

True False

76. Operating activities include long-term borrowing and repaying cash from lenders, and cash investments or dividends to stockholders.

True False

77. The purchase of supplies appears on the statement of cash flows as an investing activity because it involves the purchase of assets.

True False

78. The income statement reports on operating activities at a point in time.

True False

79. The statement of cash flows identifies cash flows separated into operating, investing, and financing activities over a period of time.

True False

80. Ending retained earnings on the statement of retained earnings is calculated by adding stockholder investments and net losses and subtracting net income and dividends.

True False

### Multiple Choice Questions

81. 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.

82. 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.

83. 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.

84. 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.

85. External users of accounting information include all of the following *except*:

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

86. 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.

87. 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.

88. The conceptual framework that the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are attempting to converge and enhance includes the following broad areas to guide standard setting *except*.

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

89. All of the following are true regarding ethics *except*.

- A. Ethics are beliefs that separate 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.

90. 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.

91. 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.

92. The independent group that is attempting to harmonize accounting practices of different countries is the:

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

93. 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.

94. 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. Cost principle.

95. 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. Cost Principle.
  - E. Monetary unit assumption.
96. 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.
97. 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.

98. 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. Cost principle.
- C. Going-concern assumption.
- D. Realization principle.
- E. Business entity assumption.

99. The rule that (1) requires revenue to be recognized at the time it is earned, (2) allows the inflow of assets associated with revenue to be in a form other than cash, and (3) measures the amount of revenue as the cash plus the cash equivalent value of any noncash assets received from customers in exchange for goods or services, is called the:

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

100. 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. Cost principle.

101. The International Accounting Standards Board (IASB):

- A. Hopes to create harmony among accounting practices of different countries to improve comparability.
- 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.

102. 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. Cost principle.
- D. Business entity assumption.
- E. Revenue recognition principle.

103. 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. 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. Cost principle.
- D. Business entity assumption.
- E. Revenue recognition principle.

104. Marsha Bogswell is the owner of Bogswell Legal Services, Inc. Which accounting principle requires Marsha to keep her personal financial information separate from the financial information of Bogswell Legal Services, Inc.?

- A. Monetary unit assumption.
- B. Going-concern assumption.
- C. Cost principle.
- D. Business entity assumption.
- E. Matching principle.

105. A limited partnership:

- A. Includes a general partner with unlimited liability.
- B. Is subject to double taxation.
- C. Has owners called stockholders.
- D. Is the same as a corporation.
- E. May only have two partners.

106. A partnership:

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

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

- A. Going-concern assumption.
- B. Matching principle.
- C. Cost principle.
- D. Business entity assumption.
- E. Consideration assumption.

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

- A. Going-concern assumption.
- B. Matching principle.
- C. Cost principle.
- D. Business entity assumption.
- E. Consideration assumption.

109. 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 and the business obtains the right to collect the sales price.
- E. When cash from a sale is received.

110. 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.

111. 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.

112. 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.

113.If a company receives \$12,000 from the stockholders 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.

114.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.

115.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.

116. 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.

117. 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.

118. An example of an investing activity is:

- A. Paying wages of employees.
- B. Dividends paid by the company.
- C. Purchase of land.
- D. Selling inventory.
- E. Contributions from stockholders.

119. 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.

120. 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.

121. 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.

122. 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.

123. Increases in equity from a company's sales of products or services are:

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

124. 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.

125. Creditors' claims on the assets of a company are called:

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

126. 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.

127. 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.

128. 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.

129. 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.

130. Another name for equity is:

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

131. When expenses exceed revenues, the resulting change in equity is:

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

132. A resource that the stockholder receives from the company is called a(n):

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

133. Distributions of cash or other resources by a business to its stockholders are called:

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

134. 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 the common stock is known.

135. 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 stockholders' equity as of May 31 of the current year?

- A. \$8,300
- B. \$13,050
- C. \$20,500
- D. \$31,100
- E. \$40,400

136. 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 stockholders' equity as of August 31 of the current year?

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

137. Assets created by selling goods and services on credit are:

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

138. 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.

139. 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.

140. 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.

141. 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.

142. 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. Neither assets, total liabilities, nor equity are changed.
- D. Both total assets and equity are unchanged and liabilities increase.
- E. Total assets increase and equity decreases.

143. If the liabilities of a business increased \$75,000 during a period of time and the stockholders' 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.

144. 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.

145. 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 these.

146. 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 and liabilities would decrease \$38,000.
- 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.

147. 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.

148. Rushing had income of \$150 million and average invested assets of \$1,800 million. Its return on assets is:

- A. 8.3%.
- B. 83.3%.
- C. 12%.
- D. 120%.
- E. 16.7%.

149. Cage Company had income of \$350 million and average invested assets of \$2,000 million. Its return on assets (ROA) is:

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

150. 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%.

151. 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%

152. 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.

153. 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.

154. 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.

155. 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.

156. The statement of retained earnings:

- A. Reports how retained earnings changes at a point in time.
- B. Reports how retained earnings 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.

157. 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.

158. 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 retained earnings.

159. 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.

160. 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 changes in stockholders' equity.

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

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

162. Cash investments by stockholders are listed on which of the following statements?

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

163. 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.

164. 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.

165. 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.

166. 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.

167. Determine the net income of a company for which of 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.

168. Determine the net income of a company for which of 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.

169. 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.

170. 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.

171. 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.

172. Zapper has beginning equity of \$257,000, net income of \$51,000, dividends of \$40,000 and investments by stockholders of \$6,000. Its ending equity is:

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

173. 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.

174. 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.

175. 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.

176. 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. 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.

177. 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%

178. 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%

179. 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.

180. Charlie's Chocolates Inc.'s stockholders made investments of \$50,000 and 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.

181. Savvy Sightseeing had beginning equity of \$72,000; revenues of \$90,000, expenses of \$65,000, and dividends to stockholders of \$9,000. Calculate the ending equity.

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

182. Doc's Ribhouse had beginning equity of \$52,000; net income of \$35,000, and Dividends by the company of \$12,000. Calculate the ending equity.

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

183. 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.

184. 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 when the first rent payment is collected?

- 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.

185. All of the following are classified as assets *except*.

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

186. Which of the following accounts is not included in the calculation of a company's ending stockholders' equity?

- A. Revenues.
- B. Expenses.
- C. Dividends.
- D. Common stock.
- E. Cash.

187. All of the following are classified as liabilities *except*.

- A. Supplies.
- B. Bonds Payable.
- C. Wages Payable.
- D. Accounts Payable.
- E. Interest Payable.

188. 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.

189. 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.

190. All of the following are classified as liabilities *except*.

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

191. 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.

192. 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 effect.
- 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.

193. 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.

194. 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 in exchange for common stock.
- C. Equipment was purchased on credit.
- D. Supplies were purchased for cash.
- E. Advertising expense for the month was paid in cash.

## Matching Questions

195. Match the following terms with the appropriate definitions.

- |   |                                   |     |
|---|-----------------------------------|-----|
| 1. The area of accounting aimed at serving external users by providing them with general-purpose financial statements.  | Accounting                        | ___ |
| 2. The part of accounting that involves recording transactions and events, either electronically or manually.   | Recordkeeping                     | ___ |
| 3. Persons using accounting information who are directly involved in managing and operating the organization.   | External users                    | ___ |
| 4. Accounting specialists that have met educational and experience requirements, passed an examination and exhibit ethical characteristics to achieve a professional certification. | Internal users                    | ___ |
| 5. Beliefs that distinguish right from wrong, considered accepted standards of good and bad behavior.   | Managerial accounting             | ___ |
| 6. Persons using accounting information who are not directly involved in running the organization.  | Financial accounting              | ___ |
| 7. An information and measurement system that identifies, records and communicates relevant reliable and comparable information about an organization's business activities.        | Certified Public Accountant (CPA) | ___ |
| 8. A model that asserts the factors that must exist for a person to commit fraud.   | Ethics                            | ___ |
| 9. The area of accounting that serves the decision-making needs of internal users.  | Fraud triangle                    | ___ |

196. Match the following terms with the appropriate definitions.

- |  |                     |       |
|--|---------------------|-------|
| 1. Decreases in equity from costs of providing products or services to customers.  | Risk                | _____ |
| 2. 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. | Common stock        | _____ |
| 3. Creditor's claims on a company's assets.  | Return on assets    | _____ |
| 4. A financial ratio stated as income divided by assets invested.  | Liabilities         | _____ |
| 5. Resources a company owns or controls that are expected to yield future benefit.   | Expenses            | _____ |
| 6. Resources such as cash that a stockholder puts into the company.  | Dividends           | _____ |
| 7. The uncertainty about the return to be earned.  | Assets              | _____ |
| 8. Resources such as cash that a stockholder receives from the company for personal use.   | Accounting equation | _____ |

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

- |   |                     |       |
|---|---------------------|-------|
| 1. Judge the soundness of a customer before making sales on credit.                         | Purchasing Managers | _____ |
| 2. Decide whether to buy, hold, or sell a company's stock.                                  | Suppliers           | _____ |
| 3. Assess whether an organization is likely to repay its loans with interest.               | Regulators          | _____ |
| 4. Assess whether a company has paid all required taxes and complied with securities rules. | Lenders             | _____ |
| 5. Know what, when, and how much to purchase.   | Shareholders        | _____ |

198. Match the following terms with the appropriate definitions.

- |   |  |       |
|---|--|-------|
| 1. Presumes that the life of a company can be divided into periods for reporting purposes.  | Cost principle                           | _____ |
| 2. A financial statement that reports the changes in retained earnings over the reporting period; including increases such as net income and for decreases such as dividends or net loss. | Objectivity principle                    | _____ |
| 3. A principle that requires the information in financial statements to be supported by independent unbiased evidence.  | IASB                                     | _____ |
| 4. A report that describes a company's financial position at a point in time.   | Time period assumption                   | _____ |
| 5. The concepts and rules that govern financial accounting.   | Generally accepted accounting principles | _____ |
| 6. The governmental agency that has the legal authority to establish accounting rules.  | Statement of retained earnings           | _____ |
| 7. An independent group consisting of individuals from many countries that identify preferred accounting practices.   | Statement of cash flows                  | _____ |
| 8. A report that identifies cash receipts and cash payments over a period of time.  | Full disclosure principle                | _____ |
| 9. Prescribes that a company report the details behind financial statements that would impact user decisions.   | Securities and Exchange Commission       | _____ |
| 10. Prescribes that assets and services to be recorded initially on a cash or equal-to-cash basis.  | Balance sheet                            | _____ |

199. Match the following terms with the appropriate definitions.

- |  |                                     |
|--|-------------------------------------|
| 1. The principle that assumes transactions and events can be expressed in money units.   | Accounting equation _____           |
| 2. A financial statement that lists cash inflows (receipts) and cash outflows (payments); the cash flows are arranged by operating, investing, and financing activities. | Events _____                        |
| 3. Creditor's claims on assets.  | Monetary unit principle _____       |
| 4. The relation between a company's assets, liabilities, and equity.   | Income statement _____              |
| 5. Wages paid to earn revenues.  | Statement of cash flows _____       |
| 6. The principle that requires a business to be accounted for separately from its owners.  | Liabilities _____                   |
| 7. The principle that revenue is recorded when earned through providing goods or services.   | Expenses _____                      |
| 8. Happenings, such as changes in market value, that effect the accounting equation and are reliably measured.   | Business entity principle _____     |
| 9. Describes a company's revenues and expenses along with the resulting net income or loss over a period of time.  | Revenue recognition principle _____ |

### Short Answer Questions

200. Identify each of the following business activities 1 through 6 into the appropriate category a, b, and c.

a. Operating

b. Investing

c. Financing

- \_\_\_ 1. Paid utilities expenses.
- \_\_\_ 2. Withdrawal of funds by stockholders.
- \_\_\_ 3. Purchase of land.
- \_\_\_ 4. Sale of used equipment.
- \_\_\_ 5. Borrowed money from a bank on a long-term note.
- \_\_\_ 6. Paid employee wages.
- \_\_\_ 7. Received investment from owner.
- \_\_\_ 8. Paid an amount due on a long-term bank loan.

201. Match each of the following items 1 through 8 with the financial statement a through d 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. Balance sheet
- d. Statement of cash flows

- \_\_\_\_\_ 1. Assets.
- \_\_\_\_\_ 2. Dividends.
- \_\_\_\_\_ 3. Revenues.
- \_\_\_\_\_ 4. Cash from investing activities.
- \_\_\_\_\_ 5. Expenses.
- \_\_\_\_\_ 6. Liabilities.
- \_\_\_\_\_ 7. Cash from operating activities.
- \_\_\_\_\_ 8. Cash from financing activities.

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

- a. Operating activity
- b. Investing activity
- c. Financing activity

- \_\_\_ 1. Cash received from a one-time sale of used office equipment.
- \_\_\_ 2. Cash paid for dividends to stockholders.
- \_\_\_ 3. Cash received from customers.
- \_\_\_ 4. Cash received from owner contributions.
- \_\_\_ 5. Cash paid for utilities.
- \_\_\_ 6. Cash paid for a delivery van to be used in the business.

203. Explain the role of accounting in the information age.

204. What is the balance sheet? What is its purpose?

205. Identify the users and uses of accounting information.

206. Identify several opportunities in accounting and distinguish between private accounting and public accounting.

207.Explain why ethics are an integral part of accounting.

208.Describe the three important guidelines for revenue recognition.

209.Identify the three basic forms of business organizations and their key attributes.

210. How does the objectivity principle support ethical behavior?

211. Identify and describe the two main groups involved in establishing generally accepted accounting principles.

212. How does the going-concern principle affect reporting asset values of a business?

213. Describe the income statement and the relation between revenues, expenses, and net income or loss.

214. Explain the accounting equation and define its terms.

215. What distinguishes liabilities from equity?

216. What is the purpose of return on assets as an analytical tool?

217. Define risk and return and discuss the relation between them.

218. Describe the three types of activities reported on the statement of cash flows.

219. Identify and describe the four basic financial statements.

### **Essay Questions**

220. 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. Partners or sole proprietors 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 partners.
- 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.

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

221. 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?

222. You are reviewing the accounting records of Buddy's Foreign Automotive, Inc., owned by Bruce Jones. 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.

223. 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.

224. 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.

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

<b>Account</b>	<b>Increase</b>	<b>Decrease</b>
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 the stockholder, and a dividend of \$11,000 by the stockholder, no other items affected the stockholders' equity balance. Using the balance sheet equation, compute net income for the past year.

226. The accounts of Mason Company at the end of the past year report the following amounts:

<b>Accounts</b>	<b>Amount</b>
Dividends	\$15,500
Revenues	\$97,000
Expenses	\$43,800
Common stock	2,000

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

227. Cornelia's Closet has the following account balances for the dates given:

	<b>October 1</b>	<b>October 31</b>
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 investments or withdrawals by the owner. Determine the equity at both October 1 and October 31.

228. 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?

229. Soo Lin, the sole stockholder, began an Internet Consulting practice organized as a corporation 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.
	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 corporation paid a \$2,000 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
<b>Example:</b>			
April 1	I	N	I

230. For each of the following transactions, identify the effects as reflected in the accounting equation. Use "+" to indicate an increase and "-" to indicate a decrease. Use "A", "L", and "E" to indicate assets, liabilities, and equity, respectively. Part A has been completed as an example.

		+A	+E
a.	L. Chester invested \$100,000 in a corporation.		
	Land was purchased for \$50,000.		
b.	A down payment of \$15,000 cash was made and a note was signed for the balance.	_____	_____
c.	Services were rendered to customers for cash.	_____	_____
d.	A building was purchased for cash.	_____	_____
e.	Supplies were purchased for cash.	_____	_____
f.	Paid the office secretary's salary.	_____	_____
g.	The amount owed on the land from Part (b) was paid.	_____	_____

231. The following schedule reflects shows the first month's transactions of the Green Construction Company Inc.:

	<b>Cash</b>	+	<b>Accounts Receivable</b>	+	<b>Supplies</b>	+	<b>Equipment</b>	=	<b>Accounts Payable</b>	+	<b>Stockholders' Equity</b>
1.	+20,000										+20,000
2.	-5,000						+5,000				
3.					+\$1,500				+1,500		
4.	+3,000										+3,000
5.	+1,000		+1,500								+2,500
6.	-750								-750		
7.	+500		-500								
8.					-400						-400
9.	-2,000										-2,000

Provide descriptions for each transaction.

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

<b>ACTION ADVENTURE GAMES, Inc.</b>			
<b>Balance Sheet</b>			
<b>June 10</b>			
<b>Assets</b>		<b>Stockholders' Equity</b>	
Cash	<u>\$60,000</u>	Common stock + Retained earnings	<u>\$60,000</u>
Total assets	<u>\$60,000</u>	Total liabilities and equity	<u>\$60,000</u>

<b>ACTION ADVENTURE GAMES, Inc.</b>			
<b>Balance Sheet</b>			
<b>June 20</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$48,000	Notes payable	\$18,000
Land	10,000	Stockholders' Equity	
Building	<u>20,000</u>	Common stock + Retained earnings	<u>60,000</u>
Total assets	<u>\$78,000</u>	Total liabilities and equity	<u>\$78,000</u>

<b>ACTION ADVENTURE GAMES, Inc.</b>			
<b>Balance Sheet</b>			
<b>June 30</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$51,000	Accounts payable	\$2,000
Office supplies	2,000	Notes payable	18,000
Land	10,000	Stockholders' Equity	
Building	<u>20,000</u>	Common stock + Retained earnings	<u>63,000</u>
Total assets	<u>\$83,000</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	

233. 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.

234. Prepare a April 30 balance sheet in proper form for Two Rivers Vending Service, Inc. 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

235. Prepare a December 31 balance sheet in proper form for Smokey River Supplies, Inc. 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
Stockholders' equity	29,000

236. Prepare a December 31 balance sheet in proper form for Cane Property Management, Inc. using the following accounts and amounts:

Commissions earned	\$40,000
Accounts payable	3,500
Accounts receivable	5,000
Stockholders' equity	104,500
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

237. 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 began Garza Décor, Inc. with an initial investment of \$50,000 cash. On November 30, her records showed the following (alphabetically arranged) items and amounts.

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

238.Data for Kennedy Realty are as follows:

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

The owner, Finn Kennedy, received a dividend of \$30,000 during the year. Using the above data, prepare Kennedy Realty's Statement of Retained Earnings for the year ended December 31.

239. Jet Styling, Inc. 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 investment by owner	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 dividend to stockholder	2,000
i.	Cash payment of wages	4,000

240. The records of Roadmaster Auto Rentals, Inc. show the following information as of December 31. The owner, Rob Fletcher, the sole stockholder, received a dividend of \$52,000 during the year. Prepare a December income statement, a December statement of retained earnings, and a December 30 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
Retained earnings, January 1	150,000	Office Furniture	15,000
Airplanes	150,000	Maintenance expense	39,000
Notes payable	47,000	Revenues	217,000
Hangar	60,000		

- 24 Verity Siding Company, Inc., owned by 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.
	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.

<b>VERITY SIDING CO.</b>									
<b>Date</b>	<b>Assets =</b>					<b>Liabilities +</b>	<b>Equity</b>		
<b>May</b>	<b>Cash</b>	<b>Accounts</b>	<b>Equipment</b>	<b>Accounts</b>	<b>Notes Payable</b>	<b>Commissions</b>	<b>Dividends</b>	<b>Revenues</b>	<b>Expenses</b>

		Receivable		Payable	le	stock			
1									
2									
3									
4									
5									
6									
7									
8									
9									
15									
17									
20									
28									
31									
31									
31									
	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-

**Fill in the Blank Questions**

242. \_\_\_\_\_ is an information and measurement system that identifies, records and communicates relevant, reliable and comparable information about an organization's economic activities.

\_\_\_\_\_

243.A \_\_\_\_\_ is a business that is owned by only one person.

\_\_\_\_\_

244. \_\_\_\_\_ users of accounting information are not directly involved in running the organization.

\_\_\_\_\_

245. \_\_\_\_\_ is the area of accounting aimed at serving external users by providing them with general-purpose financial statements.

\_\_\_\_\_

246. Congress passed the \_\_\_\_\_ to help curb financial abuses at companies that issue their stock to the public.

\_\_\_\_\_

247. \_\_\_\_\_ are beliefs that separate right from wrong and are considered accepted standards of good and bad behavior.

\_\_\_\_\_

248. The assumption that requires that a business be accounted for separately from its owners is the \_\_\_\_\_ assumption.

\_\_\_\_\_

249. The \_\_\_\_\_ principle requires that financial information is supported by independent, unbiased evidence.

\_\_\_\_\_

250. The \_\_\_\_\_ assumption assumes business will continue operating indefinitely instead of being closed or sold.

\_\_\_\_\_

251. The \_\_\_\_\_ assumption states that transactions and events are expressed in money units.

\_\_\_\_\_

252. 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 \_\_\_\_\_.

\_\_\_\_\_

253. A disadvantage of a sole proprietorship is the fact that the owner has \_\_\_\_\_.

\_\_\_\_\_

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

\_\_\_\_\_

255. 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.

\_\_\_\_\_

256. 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.

\_\_\_\_\_

257. 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.

\_\_\_\_\_

258. Resources such as cash removed from the business by the business owner for personal use are called \_\_\_\_\_.

\_\_\_\_\_

259. \_\_\_\_\_ are the increases in equity from a company's sales of products and services to customers.

\_\_\_\_\_

260. A common characteristic of \_\_\_\_\_ is their ability to yield expected future benefits to a business.

\_\_\_\_\_

261. Creditors' claims on assets that reflect company obligations to provide assets, products, or services to others are called \_\_\_\_\_.

\_\_\_\_\_

262. The stockholders' claim on assets, also known as net assets, is called \_\_\_\_\_.

\_\_\_\_\_

263. The accounting equation is \_\_\_\_\_.

\_\_\_\_\_

264. The term \_\_\_\_\_ refers to a liability that promises a future outflow of resources.

\_\_\_\_\_

265. Using the accounting equation, equity is equal to \_\_\_\_\_.

\_\_\_\_\_

266. \_\_\_\_\_, which is one part of accounting, is the recording of transactions and events, either manually or electronically.

\_\_\_\_\_

267. \_\_\_\_\_ is net income divided by average total assets.

\_\_\_\_\_

268. Risk is the \_\_\_\_\_ about the return an investor expects to earn.

\_\_\_\_\_

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

\_\_\_\_\_

270. 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.

\_\_\_\_\_

## Chapter 01 Accounting in Business **Answer Key**

### True / False Questions

1. Accounting is an information and measurement system that identifies, records, and communicates relevant, reliable, and comparable information about an organization's business activities.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C1 Explain the purpose and importance of accounting.*

*Topic: Importance of Accounting*

2. Bookkeeping is the recording of transactions and events and is only part of accounting.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C1 Explain the purpose and importance of accounting.*

*Topic: Importance of Accounting*

3. An accounting information system communicates data to help users make better decisions.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C1 Explain the purpose and importance of accounting.*

*Topic: Importance of Accounting*

4. Financial accounting is the area of accounting that provides internal reports to assist the decision making needs of internal users.

**FALSE**

*AACSB: Communication*

*AACSB: Reflective Thinking*

*AICPA: BB Industry*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

5. Internal operating activities include research and development, distribution, and human resources.

**TRUE**

*AACSB: Communication*

*AACSB: Reflective Thinking*

*AICPA: BB Industry*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of 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.

**FALSE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

7. External auditors examine financial statements to verify that they are prepared according to generally accepted accounting principles.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

8. External users include lenders, shareholders, customers, and regulators.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

9. Regulators often have legal authority over certain activities of organizations.

**TRUE**

*AACSB: Communication*

*AACSB: Reflective Thinking*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

10. Internal users include lenders, shareholders, brokers and managers.

**FALSE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

11. Opportunities in accounting include auditing, consulting, market research, and tax planning.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

12. Identifying the proper ethical path is usually easy.

**FALSE**

*AACSB: Ethics*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C3 Explain why ethics are crucial to accounting.*

*Topic: Ethics*

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.

**TRUE**

*AACSB: Ethics*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C3 Explain why ethics are crucial to accounting.*

*Topic: Ethics*

14. The fraud triangle asserts that the three factors that must exist for a person to commit fraud are opportunity, pressure, and rationalization.

**TRUE**

*AACSB: Ethics*

*AICPA: BB Industry*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C3 Explain why ethics are crucial to accounting.*

*Topic: Ethics*

15. The Sarbanes-Oxley Act (SOX) does not require public companies to apply both accounting oversight and stringent internal controls.

**FALSE**

*AACSB: Ethics*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

16. A partnership is a business owned by two or more people.

**TRUE**

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

17. Owners of a corporation are called shareholders or stockholders.

**TRUE**

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

18. In the partnership form of business, the owners are called stockholders.

**FALSE**

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

19. The balance sheet shows a company's net income or loss due to earnings activities over a period of time.

**FALSE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

20. The Financial Accounting Standards Board is the governmental agency that sets both broad and specific accounting principles.

**FALSE**

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

21. The business entity principle means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

**FALSE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting*

*principles.*

*Topic: Generally Accepted Accounting Principles*

22. Generally accepted accounting principles are the basic assumptions, concepts, and guidelines for preparing financial statements.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

23. The business entity assumption means that a business is accounted for separately from other business entities, including its owner or owners.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

24. As a general rule, revenues should not be recognized in the accounting records when earned, but rather when cash is received.

**FALSE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

25. Specific accounting principles are basic assumptions, concepts, and guidelines for preparing financial statements and arise out of long-used accounting practice.

**FALSE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

26. General accounting principles arise from long-used accounting practices.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

27. A sole proprietorship is a business owned by one or more persons.

**FALSE**

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

28. Unlimited liability and separate taxation of the business are advantages of a sole proprietorship.

**FALSE**

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

29. Understanding generally accepted accounting principles is not necessary to effectively use and interpret financial statements.

**FALSE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

30. The International Accounting Standards board (IASB) has the authority to impose its standards on companies around the world.

**FALSE**

*AACSB: Communication*

*AICPA: BB Global  
AICPA: FN Reporting  
Accessibility: Keyboard Navigation  
Blooms: Understand  
Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

31. Objectivity means that financial information is supported by independent, unbiased evidence.

**TRUE**

*AACSB: Communication  
AICPA: BB Industry  
AICPA: FN Measurement  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

32. The idea that a business will continue to operate instead of being closed or sold underlies the going-concern assumption.

**TRUE**

*AACSB: Communication  
AICPA: BB Industry  
AICPA: FN Measurement  
Accessibility: Keyboard Navigation  
Blooms: Remember  
Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

33. According to the cost principle, it is necessary for managers to report an approximation of an asset's market value upon purchase.

**FALSE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

34. The monetary unit assumption means that all companies doing business in the United States must express transactions and events in U.S. dollars.

**FALSE**

*AACSB: Communication*

*AICPA: BB Global*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

35. The International Accounting Standards Board (IASB) is the government group that establishes reporting requirements for companies that issue stock to the public.

**FALSE**

*AACSB: Communication*

*AICPA: BB Global*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

36. A limited liability company offers the limited liability of a partnership or proprietorship and the tax treatment of a corporation.

**FALSE**

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

37. The Securities and Exchange Commission (SEC) is a government agency that has legal authority to establish GAAP.

**TRUE**

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

38. The three common forms of business ownership include sole proprietorship, partnership, and non-profit.

**FALSE**

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

39. The three major types of business activities are operating, financing, and investing.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.*

*Topic: Business Activities and the Accounting Equation*

40. Planning involves defining an organization's ideas, goals, and actions.

**TRUE**

*AACSB: Communication*

*AICPA: BB Critical Thinking*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.*

*Topic: Business Activities and the Accounting Equation*

41. Strategic management is the process of determining the right mix of operating activities for the type of organization, its plans, and its market.

**TRUE**

*AACSB: Communication*

*AICPA: BB Critical Thinking*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.*

*Topic: Business Activities and the Accounting Equation*

42. Investing activities are the means an organization uses to pay for resources like land, buildings, and equipment to carry out its plans.

**FALSE**

*AACSB: Communication*

*AICPA: BB Critical Thinking*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.*

*Topic: Business Activities and the Accounting Equation*

43. Investing activities are the acquiring and disposing of resources that an organization uses to acquire and sell its products or services.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.*

*Topic: Business Activities and the Accounting Equation*

44. Owner financing refers to resources contributed by creditors or lenders.

**FALSE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.*

*Topic: Business Activities and the Accounting Equation*

45. Revenues are increases in equity from a company's sales of products and services to customers.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

46. A net loss occurs when revenues exceed expenses.

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Critical Thinking*

*AICPA: FN Measurement*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

47. Net income occurs when revenues exceed expenses.

**TRUE**

*AACSB: Analytical Thinking*

*AICPA: BB Critical Thinking*

*AICPA: FN Measurement*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

48. Liabilities are the owner's claim on assets.

**FALSE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

49. Assets are the resources a company owns or controls that are expected to yield future benefits.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

50. Dividends are expenses.

**FALSE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

51. The accounting equation can be restated as:  $\text{Assets} - \text{Equity} = \text{Liabilities}$ .

**TRUE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

52. The accounting equation implies that:  $\text{Assets} + \text{Liabilities} = \text{Equity}$ .

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

53. Common stock is an increase in equity from a company's earnings activities.

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Critical Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

54. Every business transaction leaves the accounting equation in balance.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

55. An external transaction is an exchange within an entity that may or may not affect the accounting equation.

**FALSE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

56. From an accounting perspective, an event is a happening that affects the accounting equation, but cannot be measured.

**FALSE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

57. Stockholders' equity is increased when cash is received from customers in payment of previously recorded accounts receivable.

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Critical Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

58. A stockholder's investment in a business normally creates an asset (cash), a liability (note payable), and stockholders' equity (investment.)

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Critical Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

59. Return on assets is often stated in ratio form as the amount of average total assets divided by income.

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Resource Management*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Topic: Return on Assets*

60. Return on assets is also known as return on investment.

**TRUE**

*AACSB: Communication*

*AICPA: BB Resource Management*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Topic: Return on Assets*

61. Return on assets is useful to decision makers for evaluating management, analyzing and forecasting profits, and in planning activities.

**TRUE**

*AACSB: Communication*

*AICPA: BB Resource Management*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Topic: Return on Assets*

62. Arrow's net income of \$117 million and average assets of \$1,400 million results in a return on assets of 8.36%.

**TRUE**

Return on Assets = Net Income/Average Assets

Return on Assets = \$117 million/\$1,400 million = 8.36%

*AACSB: Analytical Thinking*

*AICPA: BB Resource Management*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Topic: Return on Assets*

63. Return on assets reflects a company's ability to generate profit through productive use of its assets.

**TRUE**

*AACSB: Analytical Thinking*

*AICPA: BB Resource Management*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Topic: Return on Assets*

64. Risk is the uncertainty about the return we will earn.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: BB Industry*

*AICPA: FN Risk Analysis*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk.*

*Topic: Return and Risk Analysis*

65. Generally the lower the risk, the higher the return that can be expected.

**FALSE**

*AACSB: Reflective Thinking*

*AICPA: BB Industry*

*AICPA: FN Risk Analysis*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk.*

*Topic: Return and Risk Analysis*

66. U.S. Government Treasury bonds provide low return and low risk to investors.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*AICPA: BB Industry*

*AICPA: FN Risk Analysis*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk.*

*Topic: Return and Risk Analysis*

67. The four basic financial statements include the balance sheet, income statement, statement of retained earnings, and statement of cash flows.

**TRUE**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

68. An income statement reports on investing and financing activities.

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

69. A balance sheet covers activities over a period of time such as a month or year.

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

70. The income statement describes revenues earned and expenses incurred over a specified period of time due to earnings activities.

**TRUE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

71. The statement of cash flows shows the net effect of revenues and expenses for a reporting period.

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

72. The income statement shows the financial position of a business on a specific date.

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

73. The first section of the income statement reports cash flows from operating activities.

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

74. The balance sheet is based on the accounting equation.

**TRUE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

75. Investing activities involve the buying and selling of assets such as land and equipment that are held for long-term use in the business.

**TRUE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

76. Operating activities include long-term borrowing and repaying cash from lenders, and cash investments or dividends to stockholders.

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

77. The purchase of supplies appears on the statement of cash flows as an investing activity because it involves the purchase of assets.

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

78. The income statement reports on operating activities at a point in time.

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

79. The statement of cash flows identifies cash flows separated into operating, investing, and financing activities over a period of time.

**TRUE**

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

80. Ending retained earnings on the statement of retained earnings is calculated by adding stockholder investments and net losses and subtracting net income and dividends.

**FALSE**

*AACSB: Analytical Thinking*

*AICPA: BB Critical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

## Multiple Choice Questions

81. 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.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C1 Explain the purpose and importance of accounting.*

*Topic: Importance of Accounting*

82. 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.

*AACSB: Technology*

*AICPA: BB Industry*

*AICPA: FN Leveraging Technology*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C1 Explain the purpose and importance of accounting.*

*Topic: Importance of Accounting*

83. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

84. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

85. External users of accounting information include all of the following *except*.

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

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

86. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

87. 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.

*AACSB: Ethics*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C3 Explain why ethics are crucial to accounting.*

*Topic: Ethics*

88. The conceptual framework that the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are attempting to converge and enhance includes the following broad areas to guide standard setting *except*.

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

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

89. All of the following are true regarding ethics *except*.
- A. Ethics are beliefs that separate 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.

*AACSB: Ethics*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C3 Explain why ethics are crucial to accounting.*

*Topic: Ethics*

90. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Legal*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

91. 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.

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

92. The independent group that is attempting to harmonize accounting practices of different countries is the:

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

*AACSB: Communication*

*AICPA: BB Global*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

93. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

94. 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. Cost principle.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

95. 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. Cost Principle.
- E. Monetary unit assumption.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

96. 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.

*AACSB: Analytical Thinking*

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

97. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

98. 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. Cost principle.**
- C. Going-concern assumption.
- D. Realization principle.
- E. Business entity assumption.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Legal*

*AICPA: FN Measurement*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

99. The rule that (1) requires revenue to be recognized at the time it is earned, (2) allows the inflow of assets associated with revenue to be in a form other than cash, and (3) measures the amount of revenue as the cash plus the cash equivalent value of any noncash assets received from customers in exchange for goods or services, is called the:
- A. Going-concern assumption.
  - B. Cost principle.
  - C. Revenue recognition principle.**
  - D. Objectivity principle.
  - E. Business entity assumption.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Legal*

*AICPA: FN Measurement*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

100. 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. Cost principle.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Lega*

*AICPA: FN Measurement*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

101. The International Accounting Standards Board (IASB):

- A. Hopes to create harmony among accounting practices of different countries to improve comparability.
- 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.

*AACSB: Communication*

*AICPA: BB Globa*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

102. 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. Cost principle.**
  - D. Business entity assumption.
  - E. Revenue recognition principle.

*AACSB: Analytical Thinking*

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Legal*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

103. 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. 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. Cost principle.
  - D. Business entity assumption.
  - E. Revenue recognition principle.**

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

104. Marsha Bogswell is the owner of Bogswell Legal Services, Inc. Which accounting principle requires Marsha to keep her personal financial information separate from the financial information of Bogswell Legal Services, Inc.?

- A. Monetary unit assumption.
- B. Going-concern assumption.
- C. Cost principle.
- D. Business entity assumption.**
- E. Matching principle.

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

105. A limited partnership:

- A. Includes a general partner with unlimited liability.**
- B. Is subject to double taxation.
- C. Has owners called stockholders.
- D. Is the same as a corporation.
- E. May only have two partners.

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

106. A partnership:

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

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

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

- A. Going-concern assumption.
- B. Matching principle.
- C.** Cost principle.
- D. Business entity assumption.
- E. Consideration assumption.

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

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

- A. Going-concern assumption.
- B. Matching principle.**
- C. Cost principle.
- D. Business entity assumption.
- E. Consideration assumption.

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

109. 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 and the business obtains the right to collect the sales price.**
- E. When cash from a sale is received.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting*

*principles.*

*Topic: Generally Accepted Accounting Principles*

110. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

111. 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.

*AACSB: Communication*

*AACSB: Ethics*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C3 Explain why ethics are crucial to accounting.*

*Topic: Ethics*

112. 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

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

113. If a company receives \$12,000 from the stockholders 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.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

114. 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.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

115. 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.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

116. 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.

*AACSB: Analytical Thinking*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

117. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Business Activities and the Accounting Equation*

*Topic: Financial Statements*

118. An example of an investing activity is:

- A. Paying wages of employees.
- B. Dividends paid by the company.
- C.** Purchase of land.
- D. Selling inventory.
- E. Contributions from stockholders.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

119. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

120. 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.

Assets = Liabilities + Stockholders' Equity

Assets = \$192,000 + \$300,000 = \$492,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

121. 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.

Assets = Liabilities + Stockholders' Equity

Equity = \$300,000 - \$192,000 = \$108,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

122. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

123. Increases in equity from a company's sales of products or services are:

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

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

124. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

125. Creditors' claims on the assets of a company are called:

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

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

126. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

127. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

128. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

129. 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.

Assets = Liabilities + Stockholders' Equity

\$99,000 = \$32,000 + Stockholders' Equity; Stockholders' Equity = \$67,000

*AACSB: Analytical Thinking*

*AICPA: BB Critical Thinking*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

130. Another name for equity is:

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

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

131. When expenses exceed revenues, the resulting change in equity is:

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

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

132. A resource that the stockholder receives from the company is called a(n):

- A. Liability.
- B. Dividend.**
- C. Expense.
- D. Common stock.
- E. Investment.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

133. Distributions of cash or other resources by a business to its stockholders are called:

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

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

134. 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 the common stock is known.

Assets = Liabilities + Stockholders' Equity

\$700,000 = \$200,000 + Stockholders' Equity (or Claims of the Stockholders); Stockholders'

Equity = \$500,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

135. 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 stockholders' equity as of May 31 of the current year?

- A. \$8,300
- B. \$13,050
- C. \$20,500
- D. \$31,100**
- E. \$40,400

Assets = Liabilities + Stockholders' Equity

Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + Stockholders' Equity

$\$20,500 + \$7,250 + \$650 + \$12,000 = \$9,300 + \text{Stockholders' Equity}$

$\$40,400 = \$9,300 + \text{Stockholders' Equity}; \text{Stockholders' Equity} = \$31,100$

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

136. 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 stockholders' equity as of August 31 of the current year?

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

Assets - Liabilities = Stockholders' Equity

Cash + Supplies + Equipment - Accounts Payable = Stockholders' Equity

\$30,000 + \$600 + \$10,000 - \$8,500 = \$32,100

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

137. Assets created by selling goods and services on credit are:

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

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

138. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

139. 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.

Assets = Liabilities + Stockholders' Equity

Assets would decrease by \$30,000 in Cash due to the payment of the accounts payable.

Liabilities would also decrease by \$30,000 in Accounts Payable due to the payment of an obligation. There is no effect on Stockholders' Equity.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

140. 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.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

141. 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.

Assets = Liabilities + Stockholders' Equity

$$\$600,000 = \$250,000 + \$350,000$$

Assets increase by \$75,000 (Equipment) due to the purchase.

Liabilities also increase by \$75,000 (Accounts Payable) due to the purchase on credit.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

142. 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. Neither assets, total liabilities, nor equity are changed.
- D. Both total assets and equity are unchanged and liabilities increase.
- E. Total assets increase and equity decreases.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

143. If the liabilities of a business increased \$75,000 during a period of time and the stockholders' 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.

Assets = Liabilities + Stockholders' Equity

Change in Assets = Change in Liabilities + Change in Stockholders' Equity

Change in Assets = Increase of \$75,000 + Decrease of \$30,000

Change in Assets = Increase of \$45,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

144. 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.

Assets = Liabilities + Stockholders' Equity

Change in Assets = Change in Liabilities + Change in Stockholders' Equity

Increase of \$89,000 = Increase of \$67,000 + Change in Stockholders' Equity

Change in Stockholders' Equity = Increase of \$22,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

145. 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 these.

Assets = Liabilities + Stockholders' Equity

Change in Assets = Change in Liabilities + Change in Stockholders' Equity

Change in Assets = Increase of \$74,000 + Decrease of \$19,000

Change in Assets = Increase of \$55,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

146. 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 and liabilities would decrease \$38,000.
  - 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.

Assets = Liabilities + Stockholders' Equity

Assets will decrease by \$38,000 in Cash due to the payment of the debt.

Liabilities will decrease by \$38,000 in Accounts payable due to the payment of the debt.

Stockholders' Equity would not be affected by this transaction.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

147. 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.

Assets = Liabilities + Stockholders' Equity

\$365,000 = Liabilities + \$120,000

Liabilities = \$245,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

148. Rushing had income of \$150 million and average invested assets of \$1,800 million. Its return on assets is:

- A. 8.3%.**
- B. 83.3%.
- C. 12%.
- D. 120%.
- E. 16.7%.

Return on Assets = Net Income/Average Assets

Return on Assets = \$150 million/\$1,800 million = 0.833 = 8.3%

*AACSB: Analytical Thinking*

*AICPA: BB Resource Management*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Topic: Return on Assets*

149. Cage Company had income of \$350 million and average invested assets of \$2,000 million. Its return on assets (ROA) is:

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

Return on Assets = Net Income/Average Assets

Return on Assets = \$350 million/\$2,000 million = 0.175 = 17.5%

*AACSB: Analytical Thinking*

*AICPA: BB Resource Management*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Topic: Return on Assets*

150. 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%.

Return on Assets = Net Income/Average Assets

Return on Assets =  $\$18,955 / [(\$200,000 + \$246,000) / 2]$

Return on Assets =  $\$18,955 / \$223,000 = 0.085 = 8.5\%$

*AACSB: Analytical Thinking*

*AICPA: BB Resource Management*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Topic: Return on Assets*

151. 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%

Return on Assets = Net Income/Average Assets

Return on Assets =  $\$43,000 / [(\$250,000 + \$300,000) / 2]$

Return on Assets =  $\$43,000 / \$275,000 = 0.15636 = 15.6\%$

*AACSB: Analytical Thinking*

*AICPA: BB Resource Management*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Topic: Return on Assets*

152. 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.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Risk Analysis*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk.*

*Topic: Return and Risk Analysis*

153. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Risk Analysis*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk.*

*Topic: Return and Risk Analysis*

154. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

155. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

156. The statement of retained earnings:

- A. Reports how retained earnings changes at a point in time.
- B.** Reports how retained earnings 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

157. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

158. 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 retained earnings.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

159. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

160. 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 changes in stockholders' equity.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

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

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

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

162. Cash investments by stockholders are listed on which of the following statements?

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

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

163. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

164. 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.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

165. 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.

Assets = Liabilities + Stockholders' Equity

Cash + Equipment + Buildings = Liabilities + Stockholders' Equity

\$57,000 + \$206,000 + \$175,000 = \$141,000 + Stockholders' Equity

\$438,000 = \$141,000 + Stockholders' Equity; Stockholders' Equity = \$297,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

166. 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.

Assets - Liabilities = Stockholders' Equity

Cash + Equipment + Land - Liabilities = Stockholders' Equity

\$70,000 + \$125,000 + \$205,000 - \$130,000 = \$270,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

167. Determine the net income of a company for which of 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.

Net Income = Revenues - Expenses

Net Income = Consulting Revenue - Employee Salaries Expense - Interest Expense - Rent Expense

Net Income = \$400,000 - \$180,000 - \$10,000 - \$20,000; Net Income = \$190,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

168. Determine the net income of a company for which of 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.

Revenues - Expenses = Net Income

Service Revenue - Rent Expense - Utilities Expense - Salaries Expense

\$300,000 - \$48,000 - \$3,200 - \$81,000 = \$167,800

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

169. 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.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*  
*AICPA: FN Reporting*  
*Accessibility: Keyboard Navigation*  
*Blooms: Understand*  
*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*  
*Topic: Financial Statements*

170. 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.

*AACSB: Analytical Thinking*  
*AICPA: BB Industry*  
*AICPA: FN Reporting*  
*Accessibility: Keyboard Navigation*  
*Blooms: Understand*  
*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*  
*Topic: Financial Statements*

171. 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.

Net Change in Cash = Cash Flows from Operating Activities + Cash Flows from Investing Activities + Cash Flows from Financing Activities

Net Change in Cash = \$60,500 + (\$47,000) + \$25,000; Net Change in Cash = \$38,500

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

172. Zapper has beginning equity of \$257,000, net income of \$51,000, dividends of \$40,000 and investments by stockholders of \$6,000. Its ending equity is:

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

Ending Equity = Beginning Equity + Common Stock + Net Income - Dividends

Ending Equity = \$257,000 + \$6,000 + \$51,000 - \$40,000; Ending Equity = \$274,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

173. 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.

Beginning Equity + Common Stock + Net Income - Dividends = Ending Equity

$$\$277,000 + \$0 + \$63,000 - \$25,000 = \$315,000$$

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

174. 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.

AACSB: Communication

AICPA: BB Industry

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

175. 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.

Assets = Liabilities + Stockholders' Equity

Cash + Accounts Receivable + Office Equipment = Accounts Payable + Stockholders' Equity

\$22,000 + \$16,000 + \$50,000 = \$17,000 + Stockholders' Equity

\$88,000 = \$17,000 + Stockholders' Equity; Stockholders' Equity = \$71,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

176. 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. 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.

Assets = Liabilities + Stockholders' Equity

Assets = \$92,000 + (Beginning Equity + Revenues - Expenses)

Assets = \$92,000 + (\$145,000 + \$210,000 - \$165,000)

Assets = \$92,000 + \$190,000; Assets = \$282,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

*Topic: Transaction Analysis*

177. 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%

Return on Assets = Net Income/Average Assets

Return on Assets =  $\$17,500 / [(\$200,000 + \$300,000) / 2]$

Return on Assets =  $\$17,500 / \$250,000 = 0.07 = 7.0\%$

*AACSB: Analytical Thinking*

*AICPA: BB Resource Management*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Topic: Return on Assets*

178. 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%

Return on Assets = Net Income/Average Assets

Return on Assets = Revenues - Expenses/Average Assets

Return on Assets =  $(\$80,000 - \$50,000)/[(\$400,000 + \$450,000)/2]$

Return on Assets =  $\$30,000/\$425,000 = 0.0705 = 7.1\%$

*AACSB: Analytical Thinking*

*AICPA: BB Resource Management*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Topic: Return on Assets*

179. 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.

Net Increase/(Decrease) in Cash = Cash Flows from Operating Activities + Cash Flows from Investing Activities + Cash Flows from Financing Activities

Net Increase/(Decrease) in Cash = \$27,000 + (\$22,000) + (\$12,000)

Net Increase/(Decrease) in Cash = (\$7,000)

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

180. Charlie's Chocolates Inc.'s stockholders made investments of \$50,000 and 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.

Net Income = Revenues - Expenses

Net Income = \$83,000 - \$64,000; Net Income = \$19,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

*Topic: Transaction Analysis*

181. Savvy Sightseeing had beginning equity of \$72,000; revenues of \$90,000, expenses of \$65,000, and dividends to stockholders of \$9,000. Calculate the ending equity.

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

Ending Equity = Beginning Equity + Revenues - Expenses - Dividends

Ending Equity = \$72,000 + \$90,000 - \$65,000 - \$9,000

Ending Equity = \$88,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

182. Doc's Ribhouse had beginning equity of \$52,000; net income of \$35,000, and Dividends by the company of \$12,000. Calculate the ending equity.

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

Ending Equity = Beginning Equity + Net Income - Dividends

Ending Equity = \$52,000 + \$35,000 - \$12,000 = \$75,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

183. 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.

Assets - Equity = Liabilities

Cash + Accounts Receivable + Equipment - Equity = Liabilities

\$24,000 + \$30,000 + \$50,000 - \$72,000 = \$32,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

184. 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 when the first rent payment is collected?

- 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.

Cash collected is an increasing asset and the rental of the space generates a revenue, which increases equity.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

185. All of the following are classified as assets *except*:

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

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

186. Which of the following accounts is not included in the calculation of a company's ending stockholders' equity?

- A. Revenues.
- B. Expenses.
- C. Dividends.
- D. Common stock.
- E. Cash.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

187. All of the following are classified as liabilities *except*.

- A. Supplies.
- B. Bonds Payable.
- C. Wages Payable.
- D. Accounts Payable.
- E. Interest Payable.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

188. 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.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

189. 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.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

190. All of the following are classified as liabilities *except*.

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

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

191. 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.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

192. 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 effect.
- 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.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

193. 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.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

194. 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 in exchange for common stock.
  - C.** Equipment was purchased on credit.
  - D. Supplies were purchased for cash.
  - E. Advertising expense for the month was paid in cash.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Accessibility: Keyboard Navigation*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

## Matching Questions

195. Match the following terms with the appropriate definitions.

- |   |                                   |          |
|---|-----------------------------------|----------|
| 1. The area of accounting aimed at serving external users by providing them with general-purpose financial statements.  | Accounting                        | <u>7</u> |
| 2. The part of accounting that involves recording transactions and events, either electronically or manually.   | Recordkeeping                     | <u>2</u> |
| 3. Persons using accounting information who are directly involved in managing and operating the organization.   | External users                    | <u>6</u> |
| 4. Accounting specialists that have met educational and experience requirements, passed an examination and exhibit ethical characteristics to achieve a professional certification. | Internal users                    | <u>3</u> |
| 5. Beliefs that distinguish right from wrong, considered accepted standards of good and bad behavior.   | Managerial accounting             | <u>9</u> |
| 6. Persons using accounting information who are not directly involved in running the organization.  | Financial accounting              | <u>1</u> |
| 7. An information and measurement system that identifies, records and communicates relevant reliable and comparable information about an organization's business activities.        | Certified Public Accountant (CPA) | <u>4</u> |
| 8. A model that asserts the factors that must exist for a person to commit fraud.   | Ethics                            | <u>5</u> |
| 9. The area of accounting that serves the decision-making needs of internal users.  | Fraud triangle                    | <u>8</u> |

*AACSB: Communication*  
*AACSB: Ethics*  
*AICPA: BB Industry*  
*AICPA: BB Legal*  
*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C1 Explain the purpose and importance of accounting.*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Learning Objective: 01-C3 Explain why ethics are crucial to accounting.*

*Topic: Ethics*

*Topic: Importance of Accounting*

*Topic: Users of Accounting Information*

196. Match the following terms with the appropriate definitions.

- |  |                     |          |
|--|---------------------|----------|
| 1. Decreases in equity from costs of providing products or services to customers.  | Risk                | <u>7</u> |
| 2. 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. | Common stock        | <u>6</u> |
|  | Return on           |          |
|  | assets              | <u>4</u> |
| 3. Creditor's claims on a company's assets.  |                     |          |
| 4. A financial ratio stated as income divided by assets invested.  | Liabilities         | <u>3</u> |
| 5. Resources a company owns or controls that are expected to yield future benefit.   | Expenses            | <u>1</u> |
| 6. Resources such as cash that a stockholder puts into the company.  | Dividends           | <u>8</u> |
| 7. The uncertainty about the return to be earned.  | Assets              | <u>5</u> |
| 8. Resources such as cash that a stockholder receives from the company for personal use.   | Accounting equation | <u>2</u> |

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Lega*

*AICPA: FN Reporting*

*AICPA: FN Risk Analysis*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk.*

*Topic: Return and Risk Analysis*

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

- |   |                     |          |
|---|---------------------|----------|
| 1. Judge the soundness of a customer before making sales on credit.                         | Purchasing Managers | <u>5</u> |
| 2. Decide whether to buy, hold, or sell a company's stock.                                  | Suppliers           | <u>1</u> |
| 3. Assess whether an organization is likely to repay its loans with interest.               | Regulators          | <u>4</u> |
| 4. Assess whether a company has paid all required taxes and complied with securities rules. | Lenders             | <u>3</u> |
| 5. Know what, when, and how much to purchase.   | Shareholders        | <u>2</u> |

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*AICPA: FN Risk Analysis*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

198. Match the following terms with the appropriate definitions.

- |   |  |           |
|---|--|-----------|
| 1. Presumes that the life of a company can be divided into periods for reporting purposes.  | Cost principle                           | <u>10</u> |
| 2. A financial statement that reports the changes in retained earnings over the reporting period; including increases such as net income and for decreases such as dividends or net loss. | Objectivity principle                    | <u>3</u>  |
| 3. A principle that requires the information in financial statements to be supported by independent unbiased evidence.  | IASB                                     | <u>7</u>  |
| 4. A report that describes a company's financial position at a point in time.   | Time period assumption                   | <u>1</u>  |
|   | Generally accepted accounting principles | <u>5</u>  |
| 5. The concepts and rules that govern financial accounting.   | Statement of retained earnings           | <u>2</u>  |
| 6. The governmental agency that has the legal authority to establish accounting rules.  | Statement of cash flows                  | <u>8</u>  |
| 7. An independent group consisting of individuals from many countries that identify preferred accounting practices.   | Full disclosure principle                | <u>9</u>  |
| 8. A report that identifies cash receipts and cash payments over a period of time.  | Securities and Exchange Commission       | <u>6</u>  |
| 9. Prescribes that a company report the details behind financial statements that would impact user decisions.   |  |           |
| 10. Prescribes that assets and services to be recorded initially on a cash or equal-to-cash basis.  | Balance sheet                            | <u>4</u>  |

*AACSB: Communication*  
*AICPA: BB Industry*  
*AICPA: BB Legal*  
*AICPA: FN Measurement*  
*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

*Topic: Generally Accepted Accounting Principles*

199. Match the following terms with the appropriate definitions.

- |  |  |
|--|--|
| 1. The principle that assumes transactions and events can be expressed in money units.   | Accounting equation <u>4</u>           |
| 2. A financial statement that lists cash inflows (receipts) and cash outflows (payments); the cash flows are arranged by operating, investing, and financing activities. | Events <u>8</u>                        |
| 3. Creditor's claims on assets.  | Monetary unit principle <u>1</u>       |
| 4. The relation between a company's assets, liabilities, and equity.   | Income statement <u>9</u>              |
| 5. Wages paid to earn revenues.  | Statement of cash flows <u>2</u>       |
| 6. The principle that requires a business to be accounted for separately from its owners.  | Liabilities <u>3</u>                   |
| 7. The principle that revenue is recorded when earned through providing goods or services.   | Expenses <u>5</u>                      |
| 8. Happenings, such as changes in market value, that effect the accounting equation and are reliably measured.   | Business entity principle <u>6</u>     |
| 9. Describes a company's revenues and expenses along with the resulting net income or loss over a period of time.  | Revenue recognition principle <u>7</u> |

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Legal*

*AICPA: FN Measurement*

*AICPA: FN Reporting*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Business Activities and the Accounting Equation*

*Topic: Financial Statements*

*Topic: Generally Accepted Accounting Principles*

*Topic: The Accounting Equation*

## Short Answer Questions

200. Identify each of the following business activities 1 through 6 into the appropriate category a, b, and c.

a. Operating

b. Investing

c. Financing

- \_\_\_ 1. Paid utilities expenses.
- \_\_\_ 2. Withdrawal of funds by stockholders.
- \_\_\_ 3. Purchase of land.
- \_\_\_ 4. Sale of used equipment.
- \_\_\_ 5. Borrowed money from a bank on a long-term note.
- \_\_\_ 6. Paid employee wages.
- \_\_\_ 7. Received investment from owner.
- \_\_\_ 8. Paid an amount due on a long-term bank loan.

1. A; 2. C; 3. B; 4. B; 5. C; 6. A; 7. C; 8. C

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.*

*Topic: Business Activities and the Accounting Equation*

201. Match each of the following items 1 through 8 with the financial statement a through d 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. Balance sheet
- d. Statement of cash flows

- \_\_\_\_\_ 1. Assets.
- \_\_\_\_\_ 2. Dividends.
- \_\_\_\_\_ 3. Revenues.
- \_\_\_\_\_ 4. Cash from investing activities.
- \_\_\_\_\_ 5. Expenses.
- \_\_\_\_\_ 6. Liabilities.
- \_\_\_\_\_ 7. Cash from operating activities.
- \_\_\_\_\_ 8. Cash from financing activities.

1. C; 2. B; 3. A; 4. D; 5. A; 6. C; 7. D; 8. D

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

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

- a. Operating activity
- b. Investing activity
- c. Financing activity

- \_\_\_ 1. Cash received from a one-time sale of used office equipment.
- \_\_\_ 2. Cash paid for dividends to stockholders.
- \_\_\_ 3. Cash received from customers.
- \_\_\_ 4. Cash received from owner contributions.
- \_\_\_ 5. Cash paid for utilities.
- \_\_\_ 6. Cash paid for a delivery van to be used in the business.

1. B; 2. C; 3. A; 4. C; 5. A; 6. B

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Business Activities and the Accounting Equation*

*Topic: Financial Statements*

203. Explain the role of accounting in the information age.

Accounting is an information and measurement system. It identifies, records, and communicates relevant, reliable and comparable information about business activities. Accounting also includes the crucial process of analysis and interpretation. It is part of our everyday lives, through such activities as banking, paying taxes, and receiving payroll checks. Technology plays a major role in accounting by reducing the time effort and cost of recordkeeping while improving clerical accuracy.

*AACSB: Communication*

*AACSB: Technology*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C1 Explain the purpose and importance of accounting.*

*Topic: Importance of Accounting*

204. What is the balance sheet? What is its purpose?

The balance sheet is one of the four required financial statements a company prepares periodically. It describes a company's financial position by listing the types and amounts of assets, liabilities, and equity of a business at a specified point in time. The statement's purpose is to provide information that helps users assess the financial condition of the business.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

205. Identify the users and uses of accounting information.

There are two general types of users of accounting information. Internal users are managers and officers of businesses. They require information about business activities in order to make decisions about planning, monitoring, and control. External users rely on financial statements to make business decisions. These users include lenders, and shareholders. Lenders need information for measuring the risk and return of loans. Shareholders need information for assessing the risk and return in owning shares.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

206. Identify several opportunities in accounting and distinguish between private accounting and public accounting.

The four broad areas of accounting are financial accounting, managerial accounting, taxation and other accounting related employment. The majority of the employment opportunities are in private accounting where employees work for businesses. Private sector jobs would include general accounting, taxation, budgeting, and cost accounting activities. Public accounting offers opportunities to perform work such as auditing, tax services, and consulting.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

207. Explain why ethics are an integral part of accounting.

The purpose of accounting is to provide useful information for decision makers. For information to be useful, it must be trusted. This requires ethical behavior by accountants and managers in all phases of gathering, analyzing and reporting financial information so that good decisions are made.

*AACSB: Communication*

*AACSB: Ethics*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C3 Explain why ethics are crucial to accounting.*

*Topic: Ethics*

208. Describe the three important guidelines for revenue recognition.

The three important guidelines for revenue recognition include: (1) Revenue is recognized when earned. (2) Assets received from selling products and services do not need to be in cash. (3) Revenue recognized is measured by cash received plus the cash equivalent of other assets received.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

209. Identify the three basic forms of business organizations and their key attributes.

The three basic forms of business organizations are sole proprietorships, partnerships, and corporations. Sole proprietorships are businesses owned by one person. They are separate entities for accounting purposes, but are not separate from the owner legally or for tax purposes. Partnerships are businesses owned by two or more people who are jointly liable for tax and other obligations. Corporations are businesses legally separate from their owners, making them responsible for their own acts and own debts. They conduct business with the rights, duties and responsibilities of a person.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Legal*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

210. How does the objectivity principle support ethical behavior?

The objectivity principle supports ethical behavior since it requires that financial information be documented by independent, unbiased evidence. Consequently, the impact of belief and opinions on the recording and reporting of business transactions and events is lessened.

*AACSB: Communication*

*AACSB: Ethics*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C3 Explain why ethics are crucial to accounting.*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Ethics*

*Topic: Generally Accepted Accounting Principles*

211. Identify and describe the two main groups involved in establishing generally accepted accounting principles.

The Financial Accounting Standards Board (FASB) is the private-sector group that has been delegated the task to set both the broad and specific principles of GAAP. The Securities and Exchange Commission (SEC) is a government agency that has the legal authority to set GAAP and oversees proper use of GAAP by companies that issue stock and debt to the public.

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

212. How does the going-concern principle affect reporting asset values of a business?

The going-concern principle means that financial statements reflect an assumption that the business continues in operation instead of being closed or sold. Assets are therefore reported at cost rather than at liquidation value.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

213. Describe the income statement and the relation between revenues, expenses, and net income or loss.

The income statement describes a company's revenues and expenses along with the resulting net income or loss over a period of time due to earnings activities. Revenues are the increases in equity from sales of products and services to customers. Expenses are the costs of providing products and services to customers. When revenues exceed expenses, net income occurs. When expenses exceed revenues, a net loss occurs.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

*Topic: The Accounting Equation*

214. Explain the accounting equation and define its terms.

The accounting equation is stated as:  $\text{Assets} = \text{Liabilities} + \text{Equity}$ . Assets are resources owned or controlled by a business that are expected to provide future benefit. Creditors' claims on assets are called liabilities. The stockholders' claim on assets is called equity. The accounting equation shows that the resources (assets) of the business equal the source of funds to acquire and the claims against those resources.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

215. What distinguishes liabilities from equity?

Liabilities are creditors' claims on assets. They reflect obligations to transfer assets or provide products or services to others in a future outflow of resources. Equity is stockholders' claim to assets. It includes the investments of the stockholders and what the company earns on the stockholders' behalf. Equity is also called net assets or residual interest.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

216. What is the purpose of return on assets as an analytical tool?

Return on assets is useful in evaluating management, analyzing and forecasting profits, and planning activities. It shows the effectiveness of using assets to earn profit.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: BB Resource Management*

*AICPA: FN Measurement*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Topic: Return on Assets*

217. Define risk and return and discuss the relation between them.

Net income is often related to return, which is what is earned from investments. Risk is the uncertainty about the return that will be earned. All investments involve risk, but risk and return vary among investment opportunities. In general, the lower the risk of an investment; the lower the expected return. Higher return is expected in exchange for accepting higher risk.

*AACSB: Communication*

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*AICPA: FN Risk Analysis*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk.*

*Topic: Return and Risk Analysis*

218. Describe the three types of activities reported on the statement of cash flows.

The three types of activities reported in the statement of cash flows are (1) operating, which involve using cash to research, develop, purchase, produce, distribute, and market products and services as well as receiving cash from selling products and services; (2) financing, which are the cash inflows and cash outflows related to owner investments and withdrawal and long-term borrowing and repaying cash from lending and (3) investing, which represent the cash inflows and outflows from the purchase and sale of long-term assets.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

219. Identify and describe the four basic financial statements.

The four basic financial statements are the balance sheet, income statement, statement of retained earnings, and statement of cash flows. The balance sheet describes the company's financial position and lists the types and amounts of assets, liabilities, and equity at a point in time. The income statement describes the company's revenues, expenses, and net income over a period of time. The statement of retained earnings explains changes in retained earnings from net income or loss, and dividends over a period of time. The statement of cash flows reports on cash flows for operating, investing, and financing activities over a period of time.

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

## Essay Questions

220. 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. Partners or sole proprietors 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 partners.
- 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.

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

	<b>Proprietorship</b>	<b>Partnership</b>	<b>Corporation</b>
a.	no	no	yes
b.	yes	no	yes
c.	yes	yes	no
d.	no	no	yes
e.	yes	yes	yes
f.	no	yes	no
g.	no	no	yes

*AICPA: BB Legal  
AICPA: FN Decision Making  
Blooms: Understand  
Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

221. 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?

\$570,000. The cost principle requires the acquisition of an asset to be recorded in the accounting records at cost.

*AACSB: Analytical Thinking  
AICPA: BB Industry  
AICPA: FN Measurement  
Blooms: Understand  
Difficulty: 2 Medium*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

222. You are reviewing the accounting records of Buddy's Foreign Automotive, Inc., owned by Bruce Jones. 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.

1. Business entity assumption. Buddy should refund the \$500 to the business or record it as a dividend. In the future, he should use a personal check to pay for soccer camp.
2. Going-concern assumption. Buddy's Foreign Automotive is not going out of business. The business is just closing for vacation. He could hold an appropriate sale to generate extra business before going on vacation.
3. Monetary unit assumption. The invoice should be restated in U.S. dollars for accounting purposes.
4. Revenue recognition principle. Since the service has not been completed, revenue should not be recognized. The \$1,500 should be placed in an account such as Deposits Received from Customers (a type of unearned revenue) until the service is completed.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: BB Legal*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

223. 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.

Beginning equity = \$80,000; Ending equity = \$260,000

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

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

*Topic: The Accounting Equation*

224. 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.

\$380,000 = \$140,000 + \$240,000

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

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

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

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

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

<b>Account</b>	<b>Increase</b>	<b>Decrease</b>
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 the stockholder, and a dividend of \$11,000 by the stockholder, no other items affected the stockholders' equity balance. Using the balance sheet equation, compute net income for the past year.

\$23,000

Feedback: Assets = Liabilities + Stockholders' Equity

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

Change in Equity = Investment + Net Income - Dividends

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

\$15,000 = Net Income - \$8,000

Net Income = \$23,000

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

*Topic: Transaction Analysis*

226. The accounts of Mason Company at the end of the past year report the following amounts:

<b>Accounts</b>	<b>Amount</b>
Dividends	\$15,500
Revenues	\$97,000
Expenses	\$43,800
Common stock	2,000

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

\$212,700

Feedback: Beginning Equity + Common Stock - Dividends + Revenues - Expenses = Ending Equity

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

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

227. Cornelia's Closet has the following account balances for the dates given:

	<b>October 1</b>	<b>October 31</b>
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 investments or withdrawals by the owner. Determine the equity at both October 1 and October 31.

October 1<sup>st</sup> Equity = \$74,000; October 31<sup>st</sup> Equity = \$94,000

Feedback: Total assets:

	<b>October 1</b>	<b>October 31</b>
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 + Equity

Equity = \$74,000

At October 31:

Equity, September 1	\$74,000
Plus September net income	<u>20,000</u>
Equity, September 30	<u>\$94,000</u>

or:

October 1 Equity + Net Income + October 31 Equity

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

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

*Topic: Transaction Analysis*

228. 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?

Assets increased by \$62,000.

Feedback: Assets = Liabilities + Equity

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

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

229. Soo Lin, the sole stockholder, began an Internet Consulting practice organized as a corporation 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.
	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 corporation paid a \$2,000 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
<b>Example:</b>			
April 1	I	N	I

<b>Date</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>
April 1	I	N	I
April 2	D	N	D
April 3	I, D	I	N
April 4	I, D	N	N
April 8	I	N	I
April 15	I	N	I
April 20	I, D	N	N
April 30	D	N	D
April 30	D	N	D

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

230. For each of the following transactions, identify the effects as reflected in the accounting equation. Use "+" to indicate an increase and "-" to indicate a decrease. Use "A", "L", and "E" to indicate assets, liabilities, and equity, respectively. Part A has been completed as an example.

		+A	+E
a.	L. Chester invested \$100,000 in a corporation.		
	Land was purchased for \$50,000.		
b.	A down payment of \$15,000 cash was made and a note was signed for the balance.	_____	_____
c.	Services were rendered to customers for cash.	_____	_____
d.	A building was purchased for cash.	_____	_____
e.	Supplies were purchased for cash.	_____	_____
f.	Paid the office secretary's salary.	_____	_____
g.	The amount owed on the land from Part (b) was paid.	_____	_____

- a. +A +E
- b. +A +L
- c. +A +E
- d. +A -A
- e. +A -A
- f. -A -E
- g. -A -L

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Transaction Analysis*

231. The following schedule reflects shows the first month's transactions of the Green Construction Company Inc.:

	<b>Cash</b>	+	<b>Accounts Receivable</b>	+	<b>Supplies</b>	+	<b>Equipment</b>	=	<b>Accounts Payable</b>	+	<b>Stockholders' Equity</b>
1.	+20,000										+20,000
2.	-5,000						+5,000				
3.					+\$1,500				+1,500		
4.	+3,000										+3,000
5.	+1,000		+1,500								+2,500
6.	-750								-750		
7.	+500		-500								
8.					-400						-400
9.	-2,000										-2,000

Provide descriptions for each transaction.

1. Investment of cash in business by owner *or* performed services for cash.
2. Purchased equipment for cash.
3. Purchased supplies on credit.
4. Business sold more common stock.
5. Performed services for both cash and on credit.
6. Paid accounts payable.
7. Received cash for an account receivable.
8. Used supplies in business.
9. Dividends of cash from business to owner for personal use *or* paid expense of business.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Topic: Accounting Equation*



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

<b>ACTION ADVENTURE GAMES, Inc.</b>			
<b>Balance Sheet</b>			
<b>June 10</b>			
<b>Assets</b>		<b>Stockholders' Equity</b>	
Cash	<u>\$60,000</u>	Common stock + Retained earnings	<u>\$60,000</u>
Total assets	<u>\$60,000</u>	Total liabilities and equity	<u>\$60,000</u>

<b>ACTION ADVENTURE GAMES, Inc.</b>			
<b>Balance Sheet</b>			
<b>June 20</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$48,000	Notes payable	\$18,000
Land	10,000	Stockholders' Equity	
Building	<u>20,000</u>	Common stock + Retained earnings	<u>60,000</u>
Total assets	<u>\$78,000</u>	Total liabilities and equity	<u>\$78,000</u>

<b>ACTION ADVENTURE GAMES, Inc.</b>			
<b>Balance Sheet</b>			
<b>June 30</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$51,000	Accounts payable	\$2,000
Office supplies	2,000	Notes payable	18,000
Land	10,000	Stockholders' Equity	
Building	<u>20,000</u>	Common stock + Retained earnings	<u>63,000</u>
Total assets	<u>\$83,000</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	

June	10	The owner invested \$60,000 cash in the corporation.
	20	Land and building were purchased for \$12,000 cash and an \$18,000 note payable.
	30	Office supplies were purchased for \$2,000 on account. Cash was received for \$3,000 of services provided.

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-P1 Analyze business transactions using the accounting equation.*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Accounting Equation*

*Topic: Financial Statements*

*Topic: Transaction Analysis*

233. 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.

a. The risk involved is that the investor may need the money in the CD before the CD matures and would have to give up the interest. The return is the 4.5% interest on the \$500 invested in the CD.

b. The risk is that the team bet on may not beat the point spread and the bet would be lost. The return would be any winnings based on the odds.

c. The risk is that the value of Microsoft stock could go down. The return would come from increase in the value of the stock.

d. The risk is that the student might not be able to find a job that pays enough to live on and allow for loan payments with interest. The return is that the student would be able to finance an education and earn higher wages.

*AACSB: Reflective Thinking*

*AICPA: BB Critical Thinking*

*AICPA: FN Risk Analysis*

*Blooms: Apply*

*Difficulty: 3 Hard*

*Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk.*

*Topic: Return and Risk Analysis*

234. Prepare a April 30 balance sheet in proper form for Two Rivers Vending Service, Inc. 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

<b>TWO RIVERS VENDING SERVICE, Inc.</b>			
<b>Balance Sheet</b>			
<b>April 30</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$10,000	Accounts payable	\$18,000
Accounts receivable	10,000	Notes payable	<u>47,000</u>
Office equipment	12,000	Total liabilities	\$65,000
Building	28,000		
Trucks	<u>55,000</u>	Stockholders' Equity	
		Common stock + Retained earnings	<u>50,000</u>
Total assets	<u>\$115,000</u>	Total liabilities and equity	<u>\$115,000</u>

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Create*

*Difficulty: 3 Hard*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

235. Prepare a December 31 balance sheet in proper form for Smokey River Supplies, Inc. 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
Stockholders' equity	29,000

<b>SMOKEY RIVER SUPPLIES, Inc.</b>			
<b>Balance Sheet</b>			
<b>December 31</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$10,000	Accounts payable	\$13,000
Accounts receivable	8,000	Notes payable	<u>41,000</u>
Supplies	12,000	Total liabilities	\$54,000
Equipment	35,000		
Land	<u>18,000</u>	Stockholders' Equity	
		Common stock + Retained earnings	<u>29,000</u>
<b>Total assets</b>	<b><u>\$83,000</u></b>	<b>Total liabilities and equity</b>	<b><u>\$83,000</u></b>

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Create*

*Difficulty: 2 Medium*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

236. Prepare a December 31 balance sheet in proper form for Cane Property Management, Inc. using the following accounts and amounts:

Commissions earned	\$40,000
Accounts payable	3,500
Accounts receivable	5,000
Stockholders' equity	104,500
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

<b>CANE PROPERTY MANAGEMENT, Inc.</b>			
<b>Balance Sheet</b>			
<b>December 31</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$7,500	Accounts payable	\$3,500
Accounts receivable	5,000	Salaries payable	1,000
Office supplies	1,500	Note payable	<u>50,000</u>
Land	35,000	Total liabilities	\$54,500
Building	100,000	Stockholders' Equity	
Office equipment	<u>10,000</u>	Common stock + Retained earnings	<u>104,500</u>
Total assets	<u>\$159,000</u>	Total liabilities and equity	<u>\$159,000</u>

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Create*

*Difficulty: 3 Hard*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

237. 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 began Garza Décor, Inc. with an initial investment of \$50,000 cash. On November 30, her records showed the following (alphabetically arranged) items and amounts.

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

<b>GARZA DÉCOR, Inc.</b>		
<b>Income Statement</b>		
<b>For Month Ended November 30</b>		
Revenue:		
Fees earned		\$34,000
Operating expenses:		
Rent expense	\$9,600	
Salaries expense	4,200	
Telephone expense	<u>250</u>	<u>14,050</u>
Net income		<u>\$19,950</u>

<b>GARZA DÉCOR, Inc.</b>		
<b>Statement of Retained Earnings</b>		
<b>For Month Ended November 30</b>		
Retained earnings, November 1		\$0

Plus:		
Net income	<u>19,950</u>	<u>19,950</u>
		19,950
Less dividends		<u>(6,000)</u>
Retained earnings, November 30		<u>\$13,950</u>

<b>GARZA DECOR, Inc.</b>			
<b>Balance Sheet</b>			
<b>November 30</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$21,200	Accounts payable	\$12,000
Accounts receivable	19,000	Notes payable	<u>4,250</u>
Office furnishings	<u>40,000</u>	Total liabilities	\$16,250
		Stockholders' Equity	
		Common stock	<u>50,000</u>
		Retained earnings	<u>13,950</u>
Total assets	<u>\$80,200</u>	Total liabilities and equity	<u>\$80,200</u>

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Create*

*Difficulty: 3 Hard*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

238. Data for Kennedy Realty are as follows:

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

The owner, Finn Kennedy, received a dividend of \$30,000 during the year. Using the above data, prepare Kennedy Realty's Statement of Retained Earnings for the year ended December 31.

<b>KENNEDY REALTY</b>	
<b>Statement of Retained Earnings</b>	
<b>For year Ended December 31</b>	
Retained earnings, January 1*	\$65,000*
Plus Net income	<u>32,000</u>
	\$97,000
Less Dividends	<u>(30,000)</u>
Retained earnings, December 31	<u>\$67,000</u>
*Total assets at January 1	\$100,000
Less total liabilities at January 1	<u>35,000</u>
Total stockholder's equity at January 1	<u>\$65,000</u>

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Create*

*Difficulty: 3 Hard*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

239. Jet Styling, Inc. 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 investment by owner	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 dividend to stockholder	2,000
i.	Cash payment of wages	4,000

<b>Jet Styling, Inc.</b>		
<b>Statement of Cash Flows</b>		
<b>For Month Ended January 31</b>		
Cash flows from operating activities:		
Cash collected from customers	\$7,750	
Cash paid for supplies	(1,500)	
Cash paid for rent	(1,800)	
Cash paid for wages	(4,000)	
Cash flows from operating activities		\$450
Cash flows from investing activities:		

Purchase of equipment		(7,500)
Cash flows from financing activities:		
Investment by stockholder	15,000	
Dividends	(2,000)	
Payment of loan	<u>(1,000)</u>	
Cash flows from financing activities		<u>12,000</u>
Net increase in cash		<u>\$4,950</u>
Beginning cash balance		<u>3,200</u>
Ending cash balance		<u>\$8,150</u>

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Create*

*Difficulty: 3 Hard*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

240. The records of Roadmaster Auto Rentals, Inc. show the following information as of December 31. The owner, Rob Fletcher, the sole stockholder, received a dividend of \$52,000 during the year. Prepare a December income statement, a December statement of retained earnings, and a December 30 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
Retained earnings, January 1	150,000	Office Furniture	15,000
Airplanes	150,000	Maintenance expense	39,000
Notes payable	47,000	Revenues	217,000
Hangar	60,000		

<b>ROADMASTER AUTO RENTALS, Inc. Income Statement For Year Ended December 31</b>		
Revenues		\$217,000
Expenses:		
Insurance expense	\$2,000	
Wages expense	75,000	
Advertising expense	22,000	
Maintenance expense	<u>39,000</u>	
Total expenses		<u>\$138,000</u>
Net income		<u>\$79,000</u>

**ROADMASTER AUTO RENTALS,**

<b>Inc. Statement of Retained Earnings For Year Ended December 31</b>	
Retained earnings, January 1	\$150,000
Add: Net income	79,000
Less: Dividends	<u>(52,000)</u>
Retained earnings, December 31	<u>\$177,000</u>

<b>ROADMASTER AUTO RENTALS, Inc. Balance Sheet December 31</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$11,000	Accounts payable	\$36,000
Accounts receivable	24,000	Notes payable	<u>47,000</u>
Airplanes	150,000	Total liabilities	\$83,000
Hangar	60,000	Stockholders' Equity	
Office furniture	<u>15,000</u>	Common stock + Retained earnings	<u>177,000</u>
Total assets	<u>\$260,000</u>	Total liabilities and equity	<u>\$260,000</u>

*AACSB: Analytical Thinking*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Create*

*Difficulty: 3 Hard*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

24 Verity Siding Company, Inc., owned by 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.
	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.									
Date	Assets =					Liabilities +	Equity		
May	Cash	Accounts	Equipment	Accounts	Notes Payable	Common	Dividends	Revenues	Expenses

		Receivable		Payable	le	stock			
1									
2									
3									
4									
5									
6									
7									
8									
9									
15									
17									
20									
28									
31									
31									
31									
	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-

	Assets =					Liabilities +	Equity		
Date	Cash	Receivable	Equipment	Payable	Notes Payable	Common stock	Dividends	Revenues	Expenses
May 1	90,000					90,000			
2	(10,000)		25,000		15,000				

2	(3,000)								(3,000)
6	5,000						5,000		
7	(2,000)								(2,000)
8			2,500	2,500					
9		16,000					16,000		
15	(2,300)								(2,300)
17	2,400						2,400		
20	10,000	(10,000)							
28	(1,500)			(1,500)					
31	(2,400)								(2,400)
31	(5,300)								(5,300)
31	(450)	_____	_____	_____	_____	_____	_____	_____	(450)
	<u>80,450</u>	<u>6,000</u>	<u>27,500</u>	<u>1,000</u>	<u>15,000</u>	<u>90,000</u>	<u>_____</u> -	<u>23,400</u>	<u>(15,450)</u>

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Analyze

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

## Fill in the Blank Questions

242. \_\_\_\_\_ is an information and measurement system that identifies, records and communicates relevant, reliable and comparable information about an organization's economic activities.

**Accounting**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C1 Explain the purpose and importance of accounting.*

*Topic: Importance of Accounting*

243. A \_\_\_\_\_ is a business that is owned by only one person.

**Sole proprietorship**

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Generally Accepted Accounting Principles*

244. \_\_\_\_\_ users of accounting information are not directly involved in running the organization.

**External**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

245. \_\_\_\_\_ is the area of accounting aimed at serving external users by providing them with general-purpose financial statements.

**Financial accounting**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.*

*Topic: Users of Accounting Information*

246. Congress passed the \_\_\_\_\_ to help curb financial abuses at companies that issue their stock to the public.

**Sarbanes-Oxley Act**

*AACSB: Communication*

*AACSB: Ethics*

*AICPA: BB Legal*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

247. \_\_\_\_\_ are beliefs that separate right from wrong and are considered accepted standards of good and bad behavior.

**Ethics**

*AACSB: Communication*

*AACSB: Ethics*

*AICPA: BB Industry*

*AICPA: FN Decision Making*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C3 Explain why ethics are crucial to accounting.*

*Topic: Ethics*

248. The assumption that requires that a business be accounted for separately from its owners is the \_\_\_\_\_ assumption.

**business entity**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

249. The \_\_\_\_\_ principle requires that financial information is supported by independent, unbiased evidence.

**objectivity**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

250. The \_\_\_\_\_ assumption assumes business will continue operating indefinitely instead of being closed or sold.

**going-concern**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

251. The \_\_\_\_\_ assumption states that transactions and events are expressed in money units.

**monetary unit**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

252. 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 \_\_\_\_\_.

**cost principle**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Measurement*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

253. A disadvantage of a sole proprietorship is the fact that the owner has \_\_\_\_\_.

**unlimited liability**

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

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

**limited partnership; limited liability partnership; limited liability company**

Answers can appear in any order

*AACSB: Communication*

*AICPA: BB Legal*

*AICPA: FN Decision Making*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

*Topic: Generally Accepted Accounting Principles*

255. 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.

**Financing**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.*

*Topic: Business Activities and the Accounting Equation*

256. 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.

**Investing**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.*

*Topic: Business Activities and the Accounting Equation*

257. 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.

**Operating**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.*

*Topic: Business Activities and the Accounting Equation*

258. Resources such as cash removed from the business by the business owner for personal use are called \_\_\_\_\_.

**dividends**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

259. \_\_\_\_\_ are the increases in equity from a company's sales of products and services to customers.

**Revenues**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

260. A common characteristic of \_\_\_\_\_ is their ability to yield expected future benefits to a business.

**assets**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

261. Creditors' claims on assets that reflect company obligations to provide assets, products, or services to others are called \_\_\_\_\_.

**liabilities**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

262. The stockholders' claim on assets, also known as net assets, is called \_\_\_\_\_.

**equity**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

263. The accounting equation is \_\_\_\_\_.

**Assets = Liabilities + Stockholders' Equity**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

264. The term \_\_\_\_\_ refers to a liability that promises a future outflow of resources.

**payable**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

265. Using the accounting equation, equity is equal to \_\_\_\_\_.

**assets minus liabilities**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Understand*

*Difficulty: 2 Medium*

*Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.*

*Topic: The Accounting Equation*

266. \_\_\_\_\_, which is one part of accounting, is the recording of transactions and events, either manually or electronically.

**Record-keeping or Bookkeeping**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-C1 Explain the purpose and importance of accounting.*

*Topic: Importance of Accounting*

267. \_\_\_\_\_ is net income divided by average total assets.

**Return on assets**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A2 Compute and interpret return on assets.*

*Topic: Return on Assets*

268. Risk is the \_\_\_\_\_ about the return an investor expects to earn.

**uncertainty**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Risk Analysis*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk.*

*Topic: Return and Risk Analysis*

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

**The statement of retained earnings**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*

270. 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.

**income statement**

*AACSB: Communication*

*AICPA: BB Industry*

*AICPA: FN Reporting*

*Blooms: Remember*

*Difficulty: 1 Easy*

*Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.*

*Topic: Financial Statements*