

***Financial Accounting, 5e (Spiceland)***

**Chapter 1 A Framework for Financial Accounting**

1) Accounting is a system of maintaining records of a company's operations and communicating that information to decision makers.

Answer: TRUE

Difficulty: 1 Easy

Topic: Defining Accounting

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Defining Accounting

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: FALSE

Explanation: Creditors lend money to a company.

Difficulty: 1 Easy

Topic: Defining Accounting

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: FALSE

Explanation: Financial accounting primarily serves to provide information to external parties.

Difficulty: 2 Medium

Topic: Defining Accounting

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

5) Financing activities are transactions involving external sources of funding.

Answer: TRUE

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

6) Investing activities include the purchase and sale of long-term resources.

Answer: TRUE

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

9) Cash, inventory for sale to customers, supplies, and buildings are examples of liabilities.

Answer: FALSE

Explanation: These are examples of assets.

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

10) Amounts owed to suppliers, employees, the government in the form of taxes, and utility companies are examples of liabilities.

Answer: TRUE

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

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

Answer: TRUE

Difficulty: 3 Hard

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

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

Answer: FALSE

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

Difficulty: 3 Hard

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

14) The costs related to rent, utilities, and salaries in the current reporting period are examples of liabilities.

Answer: FALSE

Explanation: These are examples of expenses.

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

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

Answer: TRUE

Difficulty: 3 Hard

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

17) Expenses include a company's costs of providing products and services to customers, as well as cash payments to its stockholders.

Answer: FALSE

Explanation: Expenses include costs of providing products and services. Cash payments to stockholders are called dividends.

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: FALSE

Explanation: Stockholders of a corporation have limited liability.

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

21) A company's resources include assets and stockholders' equity.

Answer: FALSE

Explanation: Assets are resources of a company. Stockholders' equity represents stockholders' claims to those resources.

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: FALSE

Explanation: Financial statements are designed to provide information to external users.

Difficulty: 1 Easy

Topic: Financial Statements - Income Statement

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Reporting

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

Answer: FALSE

Explanation: The income statement reports revenues and expenses.

Difficulty: 1 Easy

Topic: Financial Statements - Balance Sheet

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Reporting

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Reporting

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

Answer: FALSE

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

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting



28) Retained earnings represents the cumulative amount of net income, over the life of the company, which has not been distributed to stockholders as dividends.

Answer: TRUE

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

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

Answer: FALSE

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

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

31) Investing cash flows generally include cash receipts and cash payments for transactions involving revenue and expense activities during the period.

Answer: FALSE

Explanation: These are operating activities.

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

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

Answer: FALSE

Explanation: These are investing activities.

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement; Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Making Decisions with Accounting Information

Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Making Decisions with Accounting Information

Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: TRUE

Difficulty: 3 Hard

Topic: Making Decisions with Accounting Information

Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Decision Making

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

41) The 1934 Securities Exchange Act gives the Securities and Exchange Commission (SEC) the power to require companies that publicly trade their stock to prepare periodic financial statements for distribution to investors and creditors.

Answer: TRUE

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

44) The primary objective of financial accounting is to provide useful information to managers in making decisions.

Answer: FALSE

Explanation: Financial accounting is intended primarily to provide information to investors and creditors.

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Career Options in Accounting

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

47) The two fundamental decision-specific qualitative characteristics that make accounting information useful are comparability and understandability.

Answer: FALSE

Explanation: The two fundamental characteristics are relevance and faithful representation.

Difficulty: 1 Easy

Topic: Conceptual Framework

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

48) Relevance refers to accounting information having confirmatory value and/or predictive value.

Answer: TRUE

Difficulty: 1 Easy

Topic: Conceptual Framework

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Decision Making

49) To be a faithful representation of business activities, accounting information should be complete, neutral, and free from error.

Answer: TRUE

Difficulty: 1 Easy

Topic: Conceptual Framework

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

50) The periodicity assumption indicates that the economic life of an enterprise can be divided into artificial time periods for financial reporting purposes.

Answer: TRUE

Difficulty: 1 Easy

Topic: Conceptual Framework

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Reporting

51) The economic entity assumption states that in the absence of information to the contrary, the business entity will continue to operate indefinitely.

Answer: FALSE

Explanation: The economic entity assumption states that we identify all economic events with a particular economic entity. In other words, only business transactions involving the specific company should be reported as part of the company's financial accounting information.

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

52) What is the primary purpose of financial accounting?

A) Determine the amount of tax liability owed to the government.

B) Communicate business activities to internal management.

C) Measure business activities and communicate those measures to external users to make decisions.

D) Measure the profitability of the company in order to assist employees with making decisions.

Answer: C

Difficulty: 1 Easy

Topic: Defining Accounting

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking



- 53) The primary purpose(s) of financial accounting is(are) to:
- A) Measure and record business transactions.
  - B) Prepare federal and state tax returns.
  - C) Communicate financial results to investors and creditors.
  - D) Both measure and communicate financial information to external parties.

Answer: D

Difficulty: 1 Easy

Topic: Defining Accounting

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

- 54) Which definition below best describes financial accounting?
- A) Process of measuring income taxes owed to the government.
  - B) System of maintaining communication with a company's customers and suppliers.
  - C) Procedures designed to enhance the company's image to potential investors.
  - D) Measuring business activities and communicating them to external parties.

Answer: D

Difficulty: 2 Medium

Topic: Defining Accounting

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

- 55) Financial accounting does not deal with which of the following?
- A) Measuring a company's economic activity.
  - B) Providing information to internal users.
  - C) Preparing financial reports.
  - D) Communicating financial results to investors.

Answer: B

Difficulty: 2 Medium

Topic: Defining Accounting

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

56) Financial accounting:

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

Answer: A

Difficulty: 1 Easy

Topic: Defining Accounting

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

57) The primary focus for financial accounting information is to provide information useful for:

	<b>Investing decisions</b>	<b>Credit decisions</b>
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

- A) Investing decisions and credit decisions.
- B) Investing decisions but not credit decisions.
- C) Credit decisions but not investing decisions.
- D) Neither investing decisions nor credit decisions.

Answer: A

Difficulty: 1 Easy

Topic: Defining Accounting

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

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

Answer: D

Difficulty: 1 Easy

Topic: Defining Accounting

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

- A) Customers.
- B) Suppliers.
- C) Employees.
- D) Customers, suppliers, and employees are all external users of financial statements.

Answer: D

Difficulty: 1 Easy

Topic: Defining Accounting

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

60) The form of business organization that is legally separate from its owners is a:

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

Answer: C

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

61) Which business form has the advantage of limited liability?

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

Answer: A

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

62) Limited liability means:

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

Answer: A

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

63) One disadvantage of the corporate form of business is:

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

Answer: D

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

- 64) Which of the following is an operating activity?
- A) Issuing common stock.
  - B) Paying dividends.
  - C) Borrowing cash from a bank to acquire a building.
  - D) Paying electricity bills for the month.

Answer: D

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

- 65) How many of the following transactions are operating activities?

Borrow \$50,000 from the bank.

Purchase \$12,000 in supplies.

Provide services to customers for \$27,000.

Pay the utility bill of \$750.

Purchase a delivery truck for \$12,000.

Receive \$25,000 from issuing common stock.

A) One.

B) Two.

C) Three.

D) Four.

Answer: C

Explanation: (1) Purchase supplies, (2) Provide services to customers, and (3) Pay utility bill.

Difficulty: 3 Hard

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

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

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

Answer: B

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

67) Stimpleton Company engages in the following cash payments:

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

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

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

Answer: D

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

Difficulty: 3 Hard

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

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

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

Answer: B

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

69) Transactions of a company that include the purchase and sale of long-term assets are referred to as:

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

Answer: A

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

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

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

Answer: C

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

71) Transactions of a company involving external sources of funding are referred to as:

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

Answer: B

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

72) Financing activities include:

- A) Primary operations such as selling goods to customers.
- B) Transactions with company employees.
- C) Transactions involving external sources of funding.
- D) The purchase and sale of long-term assets.

Answer: C

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

73) Financing activities include:

- A) The purchase of a building.
- B) Issuing common stock to stockholders.
- C) Transactions with company employees.
- D) Selling goods or services to customers.

Answer: B

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement



- 74) The accounting equation is defined as:
- A)  $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$ .
  - B)  $\text{Assets} = \text{Liabilities} - \text{Stockholders' Equity}$ .
  - C)  $\text{Net Income} = \text{Revenues} - \text{Expenses}$ .
  - D)  $\text{Liabilities} + \text{Revenues} = \text{Assets}$ .

Answer: A

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

- 75) Which statement below best describes the accounting equation?
- A) The change in retained earnings equals net income less dividends.
  - B) Equality of revenue and expense transactions over time.
  - C) Resources of the company equal creditors' and owners' claims to those resources.
  - D) Financing activities equal investing and operating activities.

Answer: C

Explanation:  $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$ .

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

- 76) If a company has stockholders' equity of \$60,000 at the end of the year, which of the following statements must be true?
- A) The company's assets exceed liabilities by \$60,000.
  - B) The company has issued \$60,000 of common stock.
  - C) Net income for the year equals \$60,000.
  - D) Total revenues during the year equal \$60,000.

Answer: A

Explanation:  $\text{Assets} - \text{Liabilities} = \text{Stockholders' Equity}$ .

Difficulty: 3 Hard

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Measurement

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

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

Answer: B

Explanation: Assets (\$55,000) = Liabilities (\$30,000) + Stockholders' Equity (\$25,000).

Difficulty: 3 Hard

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

78) An alternative form of the accounting equation is:

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

Answer: D

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

79) The accounts that represent the resources of the company are called:

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

Answer: D

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

80) The assets of a company represent:

- A) Amounts owed to creditors.
- B) Sales of goods or services to customers.
- C) Resources that will be used to benefit the company.
- D) Investments by stockholders.

Answer: C

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

81) Which of the following accounts represents a resource of the company?

- A) Common stock.
- B) Service revenue.
- C) Supplies.
- D) Salaries expense.

Answer: C

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

82) Which of the following does not represent an asset of a company?

- A) Supplies held by the company.
- B) Amounts owed to suppliers.
- C) Equipment owned and used for operations.
- D) Land owned by the company.

Answer: B

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

83) Creditors' claims to a corporation's resources are referred to as:

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

Answer: C

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

84) Liabilities are best defined as:

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

Answer: B

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

85) Amounts owed to suppliers for supplies purchased on account are defined as a(n):

- A) Revenue.
- B) Asset.
- C) Liability.
- D) Expense.

Answer: C

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

86) Which of the following does not represent a liability of a company?

- A) Salaries owed to employees.
- B) Taxes owed to the government.
- C) Amounts owed to suppliers.
- D) All of the other answers are liabilities.

Answer: D

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

87) The accounts that represent resources owed to creditors are called:

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

Answer: B

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

88) Liabilities can be best described as:

- A) The amount of expenses over the past year.
- B) The amount expected to be distributed to stockholders.
- C) The amount owed to creditors.
- D) The amount of services provided to customers during the year.

Answer: C

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

89) The stockholders' interest in a corporation is called:

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

Answer: D

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

90) Stockholders' claims to the company's resources are referred to as:

- A) Stockholders' equity.
- B) Revenues.
- C) Assets.
- D) Liabilities.

Answer: A

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

91) Using the information below from the accounting records of Thomas Corporation, stockholders' claims to the company's resources amount to:

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

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

Answer: D

Explanation: Stockholders' claims (Stockholders' Equity) = Assets (\$1,200,000) – Liabilities (\$800,000)

Difficulty: 3 Hard

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Measurement

92) Which of the following best describes revenue?

- A) Resources of a company.
- B) Sales of goods and services to a customer.
- C) Cash received from a customer.
- D) Dividends paid to stockholders.

Answer: B

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

93) The costs of providing goods and services to customers are referred to as:

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

Answer: B

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

94) The costs associated with producing revenues are referred to as:

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

Answer: D

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

95) Net income can best be described as:

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

Answer: B

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking; Measurement



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

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

Answer: B

Explanation: Revenues (\$12,000) – Expenses (\$4,000) = Net Income (\$8,000).

Difficulty: 3 Hard

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Measurement

97) The account type that represents payments to stockholders is called:

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

Answer: D

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

98) Dividends represent:

- A) Resources of the company.
- B) Cash payments to stockholders.
- C) Amounts owed to creditors.
- D) Expenses of operating the company.

Answer: B

Difficulty: 1 Easy

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

99) The equation best describing the income statement is:

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

Answer: A

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

100) Expenses are shown in which of the following statements?

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

Answer: A

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

101) Which of the following items would not appear in an income statement?

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

Answer: D

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

102) Which of the following items would not appear in an income statement?

- A) Delivery Expense.
- B) Accounts Payable.
- C) Service Revenue.
- D) Utilities Expense.

Answer: B

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

103) Consider the following account balances of the Shattuck Law Firm at the end of the year:

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

How many of these accounts would appear in Shattuck's year-end income statement?

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

Answer: C

Explanation: Salaries Expense, Service Revenue, and Utilities Expense.

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement

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

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Reporting

104) Given the information below, calculate net income in the current period.

Accounts Receivable	\$ 14,700
Rent Expense	7,500
Insurance Expense	2,100
Common Stock	24,000
Service Revenue	28,300
Supplies	4,300
Equipment	21,600
Income Tax Expense	4,200

- A) \$27,300.
- B) \$29,200.
- C) \$14,500.
- D) \$10,200.

Answer: C

Explanation: Service Revenue (\$28,300) – Rent Expense (\$7,500) – Insurance Expense (\$2,100) – Income Tax Expense (\$4,200) = \$14,500.

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

105) A company had the following amounts at the end of the year:

Cash	\$ 11,200
Supplies Expense	1,500
Dividends	2,600
Service Revenue	23,500
Prepaid Rent	4,300
Salaries Expense	8,200
Accounts Payable	12,700
Land	36,900

What amount would the company report for net income?

- A) \$11,200.
- B) \$6,900.
- C) \$13,800.
- D) \$42,300.

Answer: C

Explanation: Service Revenue (\$23,500) – Supplies Expense (\$1,500) – Salaries Expense (\$8,200) = \$13,800.

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Measurement

106) Net income (loss) appears in which two financial statements?

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

Answer: B

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement; Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

107) Which of the following items is reported in the statement of stockholders' equity?

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

Answer: C

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

108) Which of the following accounts appears in the statement of stockholders' equity?

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

Answer: C

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

109) Which of the following accounts appears in the statement of stockholders' equity?

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

Answer: D

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

- 110) Which one of the following statements regarding financial reports is correct?
- A) The balance sheet classifies all assets according to operating, investing, and financing activities.
  - B) The income statement is used to show that a company's resources equal claims to those resources.
  - C) The statement of stockholders' equity updates the balances of common stock and retained earnings for related transactions during the year.
  - D) The statement of cash flows shows cash inflows and outflows from operating activities only.

Answer: C

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement; Financial Statements - Balance Sheet; Financial Statements - Statement of Stockholders' Equity; Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

- 111) Which of the following best explains the meaning of total stockholders' equity?
- A) The difference between total revenues and total expenses, less dividends for the year.
  - B) The amount of common stock less dividends over the life of the company.
  - C) All revenues, expenses, and dividends over the life of the company.
  - D) The amount of capital invested by stockholders plus profits retained over the life of the company.

Answer: D

Explanation: Total stockholders' equity equals the amount of common stock plus retained earnings. Common stock is the amount of capital invested by stockholders, and retained earnings are profits retained over the life of the company.

Difficulty: 3 Hard

Topic: Financial Statements - Balance Sheet; Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Reporting

- 112) Which of the following statements regarding financial reports is not correct?
- A) A balance sheet contains assets, liabilities, and stockholders' equity information.
  - B) An income statement shows revenues and expenses.
  - C) A statement of stockholders' equity reports revenues, net income, and dividends information.
  - D) A statement of cash flows shows cash inflows and outflows from operating, investing, and financing activities.

Answer: C

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement; Financial Statements - Balance Sheet; Financial Statements - Statement of Stockholders' Equity; Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

- 113) Retained earnings at the end of the year is calculated using:

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

Answer: A

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement



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

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

Answer: B

Explanation: Beginning Retained Earnings (\$32,900) + Net Income (\$22,500) – Dividends (\$4,300) = Ending Retained Earnings (\$51,100).

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

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

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

Answer: C

Explanation: Beginning Retained Earnings (\$0) + Net Income (\$4.4) – Dividends (\$5.4) = Ending Retained Earnings (\$–1.0).

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

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

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

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

Answer: C

Explanation: Beginning Retained Earnings (\$54,000) + Net Income (\$84,000) – Dividends (\$28,000) = Ending Retained Earnings (\$110,000).

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

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

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

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

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

Answer: A

Explanation: Beginning Retained Earnings (\$13,000) = Ending Retained Earnings (\$88,000) - Total Net Income (\$87,000) + Total Dividends (\$12,000).

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Measurement

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

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

Answer: D

Explanation: Beginning Retained Earnings (\$0) + Net Income (\$7,100 - \$1,600 + \$3,600) - Dividends (\$8,000) = Ending Retained Earnings (\$1,100).

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

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

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

Answer: A

Explanation: Beginning Retained Earnings (\$0) + Net Income (\$14,740) – Dividends (\$2,410 + \$0 + \$1,570 + \$1,060) = Ending Retained Earnings (\$9,700). Divide net income amount by 4 to get average ( $\$14,740 / 4 \text{ years}$ ) = \$3,685.

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

120) On January 1, Gucci Brothers Inc. started the year with a \$492,000 balance in Retained Earnings and a \$605,000 balance in Common Stock. During the year, the company reported net income of \$92,000, paid a dividend of \$15,200, and issued more common stock for \$27,500.

What is total stockholders' equity at the end of the year?

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

Answer: C

Explanation: Total Stockholders' Equity = Common Stock (\$605,000 + \$27,500) + Retained Earnings (\$492,000 + \$92,000 – \$15,200) = \$1,201,300.

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

121) The financial statement that represents the accounting equation is the:

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

Answer: C

Difficulty: 2 Medium

Topic: Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

122) The equation best describing the balance sheet is:

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

Answer: A

Difficulty: 2 Medium

Topic: Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

123) The financial statement that represents activity over the entire life of the company is the:

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

Answer: B

Difficulty: 2 Medium

Topic: Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

124) Liabilities are shown in which of the following statements?

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

Answer: C

Difficulty: 2 Medium

Topic: Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

125) Consider the following account balances of the Shattuck Law Firm at the end of the year:

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

How many of these accounts would appear in Shattuck's year-end balance sheet?

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

Answer: A

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

Difficulty: 3 Hard

Topic: Financial Statements - Balance Sheet

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

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Reporting

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

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

Answer: C

Difficulty: 2 Medium

Topic: Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

127) Which of the following is not a balance sheet item?

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

Answer: C

Difficulty: 2 Medium

Topic: Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

128) Which of the following is a balance sheet item?

- A) Net Income.
- B) Dividends.
- C) Utilities Expense.
- D) Cash.

Answer: D

Difficulty: 2 Medium

Topic: Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

- 129) Which of the following statements is NOT correct about the financial statements?
- A) An income statement reports revenues, expenses, and net income information.
  - B) The statement of stockholders' equity presents common stock, dividends, and retained earnings information.
  - C) A balance sheet reports assets, liabilities, revenues, and expenses.
  - D) The statement of cash flows shows cash inflows and outflows from operating, financing, and investing activities.

Answer: C

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement; Financial Statements - Balance Sheet; Financial Statements - Statement of Stockholders' Equity; Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

- 130) The balance sheet depicts which of the following equations?

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

Answer: C

Difficulty: 2 Medium

Topic: Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting



131) Which of the following financial statements reports a company's retained earnings?

- A) Income statement.
- B) Balance sheet.
- C) Statement of cash flows.
- D) All of the other answers are statements that report retained earnings.

Answer: B

Difficulty: 2 Medium

Topic: Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

132) Which of the following is not a balance sheet item?

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

Answer: D

Difficulty: 2 Medium

Topic: Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

133) Which of the following is not a major section in the statement of cash flows?

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

Answer: B

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

134) Cash paid for which of the following activities would affect the amount reported for operating cash flows in the statement of cash flows?

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

Answer: C

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

135) How many of the following transactions would affect operating cash flows reported in the statement of cash flows (all transaction involve cash)?

Repay \$40,000 borrowed from the bank.

Pay \$11,000 in salaries to employees.

Receive \$25,000 from customers for services provided.

Pay \$750 for advertising.

Purchase equipment for \$15,000.

Receive \$25,000 from the sale of land.

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

Answer: C

Explanation: (1) Pay salaries, (2) Receive from customers, and (3) Pay advertising.

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Reporting

136) Investing cash flows in the statement of cash flows would include which of the following?

- A) Paying salaries for the month.
- B) Purchase of land.
- C) Paying dividends to stockholders.
- D) Selling goods or services to customers.

Answer: B

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

137) FlintCo purchases additional office equipment to better serves its customers. This cash purchase is reported in the statement of cash flows as what type of activity?

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

Answer: B

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

138) Financing cash flows in the statement of cash flows would include which of the following?

- A) Paying salaries for the month.
- B) Purchase of land.
- C) Paying dividends to stockholders.
- D) Selling goods or services to customers.

Answer: C

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

139) Cash received from bank borrowing would be reported in the statement of cash flows as what type of activity?

- A) Investing.
- B) Organizing.
- C) Operating.
- D) Financing.

Answer: D

Difficulty: 2 Medium

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

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

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

Answer: B

Explanation: Total change in cash (\$44,000) = net operating cash flows (\$22,000) + net investing cash flows (−\$13,000) + net financing cash flows (\$35,000).

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

141) The financial statement(s) that record activity over an interval of time include the:

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

Answer: D

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement; Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

142) Which of the following is the correct order for preparing the financial statements listed?

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

Answer: D

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement; Financial Statements - Balance Sheet; Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

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

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

Answer: D

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement; Financial Statements - Balance Sheet;  
Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

144) Which financial statement is typically prepared first?

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

Answer: B

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

145) Which of the following best represents value created for stockholders during the current period?

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

Answer: C

Difficulty: 2 Medium

Topic: Making Decisions with Accounting Information

Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

146) While many financial accounting numbers have an impact on stock prices, which of the following has the single greatest impact, on average?

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

Answer: D

Difficulty: 2 Medium

Topic: Making Decisions with Accounting Information

Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Decision Making

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

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

Answer: B

Difficulty: 2 Medium

Topic: Making Decisions with Accounting Information

Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Decision Making

148) Which financial statement best reveals to investors and creditors information about a company's debt?

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

Answer: B

Difficulty: 2 Medium

Topic: Making Decisions with Accounting Information

Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Decision Making

149) GAAP is an abbreviation for:

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

Answer: D

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

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

Answer: A

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking



151) The body of rules and procedures that guide the measurement and communication of financial accounting information in the United States is known as:

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

Answer: B

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

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

Answer: A

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

153) Financial accounting and reporting standards in the United States are established primarily by the:

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

Answer: B

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

154) The private sector organization that is currently responsible for setting accounting standards in the United States is the:

- A) Financial Accounting Standards Board.
- B) Accounting Principles Board.
- C) Securities and Exchange Commission.
- D) American Institute of Certified Public Accountants.

Answer: A

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

155) The legal authority to set accounting standards lies with the:

- A) Financial Accounting Standards Board.
- B) Accounting Principles Board.
- C) Securities and Exchange Commission.
- D) American Institute of Certified Public Accountants.

Answer: C

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

156) The International Accounting Standards Board:

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

Answer: C

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

- 157) Financial accounting objectives do not include providing information:
- A) Useful to investors and creditors in making decisions.
  - B) To determine market values, assess profit potential, and evaluate management.
  - C) Helpful to investors in predicting cash flows.
  - D) That tells about a company's economic resources and claims to those resources.

Answer: B

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

- 158) Which statement below best describes the objectives of financial accounting?
- A) Provide information that helps predict cash flows.
  - B) Provide information about the economic resources, claims to resources and changes in resources and claims.
  - C) Provide information that is useful in making decisions.
  - D) All of the other answers are objectives of financial accounting.

Answer: D

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

- 159) Of the following, the most important objective for financial accounting is to provide information useful for:
- A) Predicting cash flows.
  - B) Determining taxable income.
  - C) Providing accountability.
  - D) Increasing future profits.

Answer: A

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

160) Independent auditors express an opinion on the:

- A) Extent to which financial statements are in compliance with GAAP.
- B) Accuracy of the amount of income taxes a company owes to the government.
- C) Quality of the company's products.
- D) Well-being and fair treatment of a company's workforce.

Answer: A

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

161) To ensure that management has in fact appropriately applied GAAP, the SEC requires independent outside verification of the financial statements of public traded companies by an:

- A) Advisor.
- B) Attorney.
- C) Auditor.
- D) Analyst.

Answer: C

Difficulty: 1 Easy

Topic: Financial Accounting Standards

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: FN Reporting

- 162) Which of the following best describes the primary role of auditors in financial reporting?
- A) Consultants that are hired by company management to advise on key matters related to competition, product pricing, employee retention, and financial reporting strategies.
  - B) Key employees of the company that actively participate on the management team in strategic planning, product development, and financial reporting.
  - C) Government employees assigned by local officials to ensure accurate financial reporting and operational integrity by the company.
  - D) Independent party hired by management to express a professional opinion of the extent to which the company's financial reporting is in compliance with generally accepted accounting principles.

Answer: D

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

- 163) The role of the Public Company Accounting Oversight Board is to:
- A) Advise investors and creditors of companies' future profit potential.
  - B) Ensure that auditors follow a strict set of guidelines when conducting their audits.
  - C) Assist company management in the case of financial default on debt.
  - D) Develop accounting and reporting standards in the United States.

Answer: B

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

164) A career in a public accounting firm traditionally involves working in the area of:

- A) Auditing.
- B) Tax preparation/planning.
- C) Business consulting.
- D) All of the other answer choices are correct statements.

Answer: D

Difficulty: 1 Easy

Topic: Career Options in Accounting

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

165) A career in private accounting indicates:

- A) Working undercover for an organization such as the Federal Bureau of Investigation (FBI).
- B) Being employed by one of the "Big 4" accounting firms.
- C) Providing accounting services to the company that employs you.
- D) All of the other answer choices are correct statements.

Answer: C

Difficulty: 2 Medium

Topic: Career Options in Accounting

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

166) The term "cooking the books" refers to:

- A) Purposely providing misleading financial information to investors and creditors.
- B) Hiring an auditor to provide independent verification of the fairness of financial statements.
- C) Filing all tax-related statements by the required deadline.
- D) Preparing internal budgets to plan for expenditures in the following year.

Answer: A

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

167) Fundamental qualitative characteristics of accounting information are:

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

Answer: C

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

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

Answer: C

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

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

Answer: D

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

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

Answer: A

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

171) For accounting information to be relevant, it should possess which of the following characteristics?

- A) Predictive value and confirmatory value.
- B) Large in amount and timely.
- C) Comparability and consistency.
- D) Verifiability.

Answer: A

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

172) Materiality is based upon which factor(s)?

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

Answer: B

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking



173) The conceptual framework's qualitative characteristic of relevance includes:

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

Answer: A

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

174) According to the conceptual framework, verifiability implies:

- A) Consensus.
- B) Logic.
- C) Legal evidence.
- D) Legal verdict.

Answer: A

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

175) The conceptual framework's qualitative characteristic of faithful representation includes:

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

Answer: B

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

176) Constraints on qualitative characteristics of accounting information include:

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

Answer: D

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

177) Enhancing qualitative characteristics of accounting information include:

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

Answer: B

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

178) The major underlying assumptions of accounting include all of the following except:

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

Answer: C

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

179) If a company has gone bankrupt, its financial statements likely violate the:

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

Answer: C

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

180) The assumption that a business will continue to operate into the future is the:

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

Answer: D

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

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

Answer: B

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

182) The assumption that the life of the business can be divided into time intervals for reporting purposes is the:

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

Answer: B

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

183) The assumption that amounts are reported using a common scale (such as the dollar in the United States) is the:

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

Answer: A

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Match each account classification with its example.

- A) Payments made to stockholders.
- B) Amounts owed to the bank.
- C) Common stock issued to investors.
- D) Workers' salaries for the current period.
- E) Cleaning services provided to customers.
- F) Land owned by a company.

184) Liabilities

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

185) Revenues

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

186) Dividends

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

187) Stockholders' equity

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

188) Assets

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

189) Expenses

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

Answers: 184) B 185) E 186) A 187) C 188) F 189) D

Match each business activity with its example.

- A) Purchase office building.
- B) Pay utilities.
- C) Receive investments from stockholders.

190) Operating

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

191) Financing

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

192) Investing

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

Answers: 190) B 191) C 192) A

Match each financial statement with the accounts reported in it.

- A) Dividends.
- B) Assets and liabilities.
- C) Revenues and expenses.

193) Income statement

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement; Financial Statements - Statement of Stockholders' Equity; Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

194) Statement of stockholders' equity

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement; Financial Statements - Statement of Stockholders' Equity; Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

195) Balance sheet

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement; Financial Statements - Statement of Stockholders' Equity; Financial Statements - Balance Sheet

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

Answers: 193) C 194) A 195) B



Match each organization to its role.

- A) Ensure that auditors follow strict guidelines when conducting their audits.
- B) Independent, private-sector group that is primarily responsible for setting financial reporting rules in the United States.
- C) Develop a single set of high-quality, understandable global accounting standards.
- D) Enforce proper application of financial reporting rules for companies whose securities are publicly traded.

196) Financial Accounting Standards Board

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

197) Public Company Accounting Oversight Board

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

198) International Accounting Standards Board

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

199) Securities and Exchange Commission

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Answers: 196) B 197) A 198) C 199) D

Match each qualitative characteristic with its definition.

- A) All information necessary to describe an item is reported.
- B) Information provides feedback on past activities.
- C) Information is presented in time to make useful decisions.
- D) Information is useful in helping to forecast future outcomes.
- E) Measurements that independent parties would agree upon.
- F) Information that does not bias the decision maker.

200) Predictive value

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

201) Confirmatory value

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

202) Verifiability

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

203) Timeliness

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

204) Neutrality

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

205) Completeness

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

Answers: 200) D 201) B 202) E 203) C 204) F 205) A

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

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

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

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

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

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

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

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

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

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

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

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

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

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

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

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

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

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

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

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

211) Below are cash transactions of a company. Indicate whether the transaction will affect an account reported in the income statement or the balance sheet. Ignore the impact of the transaction on the Cash and Retained Earnings accounts. The first one is done as an example.

	<b>Financial Statement</b>	<b>Related Transactions</b>
1.	<b>Income Statement</b>	Pay taxes for the current period.
2.		Borrow cash from the bank.
3.		Pay salaries to employees for the current period.
4.		Receive from customers for services provided in the current period.
5.		Pay one year of rent in advance.
6.		Pay for supplies.
7.		Pay for advertising for the current period.
8.		Pay for land.
9.		Pay utilities for the current period.
10.		Repay amount borrowed from the bank.

Answer: 1. Income Statement; 2. Balance Sheet; 3. Income Statement; 4. Income Statement; 5. Balance Sheet; 6. Balance Sheet; 7. Income Statement; 8. Balance Sheet; 9. Income Statement; 10. Balance Sheet

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement; Financial Statements - Balance Sheet

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

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Reporting

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

Answer:

<b>Revenues</b>	-	<b>Expenses</b>	=	<b>Net Income</b>
\$22,000	-	\$16,000	=	<b>\$6,000</b>
Assets	=	<b>Liabilities</b>	+	<b>Stockholders' equity</b>
\$50,000	=	\$28,000	+	\$X
\$50,000	-	\$28,000	=	<b>\$22,000</b>

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement; Financial Statements - Balance Sheet

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

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Reporting

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

Answer:

<b>Revenues</b>	-	<b>Expenses</b>	=	<b>Net Income</b>
\$20,000	-	\$13,000	=	<b>\$7,000</b>
Assets	=	<b>Liabilities</b>	+	<b>Stockholders' equity</b>
\$25,000	=	\$15,000	+	\$X
\$25,000	-	\$15,000	=	<b>\$10,000</b>

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement; Financial Statements - Balance Sheet

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

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Reporting



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

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

Answer: **Huffman Corporation**

**Income Statement**

**For the year ended December 31**

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

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

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

Answer:

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

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

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Reporting

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

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

Answer:

**Klein Interiors  
Balance Sheet  
December 31**

Assets		Liabilities	
Cash	\$8,000	Accounts payable	\$12,000
Equipment	78,000	Notes payable	25,000
		Total liabilities	37,000
		<b>Stockholders' Equity</b>	
		Common stock	20,000
		Retained earnings	29,000*
		Total stockholders' equity	49,000
Total assets	\$86,000	Total liabilities and stockholders' equity	\$86,000

\* **Assets = Liabilities + Stockholders' equity**  
 $\$86,000 = \$37,000 + (\$20,000 + \text{Retained earnings})$   
 $\$86,000 - \$37,000 - \$20,000 = \text{Retained earnings}$   
 $\$29,000 = \text{Retained earnings}$

Difficulty: 3 Hard

Topic: Financial Statements - Balance Sheet

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

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

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

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

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

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

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

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

Answer:

1.	<b>Revenues</b>	-	<b>Expenses</b>	=	<b>Net Income</b>		
	\$27,000	-	\$18,000	=	<b>\$9,000</b>		
2.	<b>Change in stockholders' equity</b>	=	<b>Issue common stock</b>	-	<b>Dividends</b>	+	<b>Net Income</b>
	\$20,000	=	\$12,000	-	\$5,000	+	\$X
	\$20,000	-	\$12,000	+	\$5,000	=	<b>\$13,000</b>
3.	<b>Assets</b>	=	<b>Liabilities</b>	+	<b>Stockholders' equity</b>		
	\$25,000	=	\$13,000	+	\$X		
	\$25,000	-	\$13,000	=	<b>\$12,000</b>		
4.	<b>Total change in cash</b>	=	<b>Operating cash flows</b>	+	<b>Financing cash flows</b>	+	<b>Investing cash flows</b>
	\$28,000	=	\$30,000	+	\$18,000	+	\$X
	\$28,000	-	\$30,000	-	\$18,000	=	<b>(\$20,000)</b>

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement; Financial Statements - Statement of Stockholders' Equity; Financial Statements - Balance Sheet; Financial Statements - Statement of Cash Flows

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

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

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

Answer:

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

Feedback: \* Retained earnings = Beginning Retained Earnings + Net Income - Dividends

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

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

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

Answer:

	<b>Change in Retained Earnings</b>	=	<b>Net Income</b>	-	<b>Dividends</b>
1.	\$3,200	=	\$4,800	-	\$X
	\$3,200	=	\$4,800	-	<b>\$1,600</b>
2.	[X - \$1,800]	=	\$1,200	-	\$200
	<b>\$X = \$2,800</b>				
3.	\$2,500	=	\$X	-	\$1,500
	\$2,500	=	<b>\$4,000</b>	-	\$1,500
4.	[\$2,700 - X]	=	\$900	-	\$500
	<b>\$X = \$2,300</b>				
5.	\$500	=	\$1,200	-	\$X
	\$500	=	\$1,200	-	<b>\$700</b>

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

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

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

Answer:

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

Difficulty: 3 Hard

Topic: Financial Statements - Balance Sheet

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting



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

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

Answer:

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

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Cash Flows

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

223) Riley, Incorporated reports the following amounts at the end of the year:

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

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

Answer: **Riley, Incorporated**  
**Income Statement**  
**For the year ended December 31**

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

**Riley, Incorporated**  
**Statement of Stockholders' Equity**  
**For the year ended December 31**

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

**Riley, Incorporated**  
**Balance Sheet**  
**December 31**

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

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement; Financial Statements - Statement of Stockholders' Equity; Financial Statements - Balance Sheet

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

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Reporting

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

Income Statement		Statement of Stockholders' Equity		
Revenues	\$(a)		Common Stock	Retained Earnings
Expenses:		Beginning	\$25,000	\$12,000
Salaries	8,000	Issuances	(c)	
Delivery	7,000	Net income		5,000
Utilities	5,000	Dividends		(d)
Net income	(b)	Ending	\$30,000	\$15,000
Balance Sheet				
Assets:		Liabilities:		
Cash	\$15,000	Accounts payable		15,000
Supplies	7,000	Stockholders' Equity:		
Prepaid rent	(e)	Common stock		(g)
Equipment	35,000	Retained earnings		(h)
Total assets	(f)	Total liabilities and stockholders' equity		(i)

Answer: Income Statement, Net Income (b) = **\$5,000** (from Statement of Stockholders' Equity).

Income Statement, Revenues (a) = **\$25,000** (Net Income \$5,000 + Total Expenses \$20,000).  
Statement of Stockholders' Equity, Common Stock Issuances (c) = **\$5,000** (\$25,000 + (c) = \$30,000).

Statement of Stockholders' Equity, Dividends (d) = **\$2,000** (\$12,000 + \$5,000 - (d) = \$15,000).

Balance Sheet, Common Stock (g) = **\$30,000** (from Statement of Stockholders' Equity).

Balance Sheet, Retained Earnings (h) = **\$15,000** (from Statement of Stockholders' Equity).

Balance Sheet, Total liabilities and stockholders' equity (i) = **\$60,000** (\$15,000 liabilities + \$30,000 common stock + \$15,000 retained earnings).

Balance Sheet, Total assets (f) = **\$60,000** (Total assets = Total liabilities and stockholders' equity).

Balance Sheet, Prepaid Rent (e) = (\$60,000 Total assets - \$15,000 Cash - \$7,000 Supplies - \$35,000 Equipment).

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement; Financial Statements - Statement of Stockholders' Equity; Financial Statements - Balance Sheet

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

225) Use the following information available as of December 31 to prepare an income statement for the year and a balance sheet for Goldie Company.

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

Accounts payable, \$18,500

Accounts receivable, \$17,300

Miscellaneous expenses for the year, \$8,700

Supplies on hand, \$2,700

Notes payable, \$30,000

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

Equipment, \$84,400

Cash on hand, \$11,200

Salaries expense for the year, \$71,500

Supplies expense for the year, \$9,400

Rent expense for the year, \$12,000

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

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

Answer: **Goldie Company**  
**Income Statement**  
**For the year ended December 31**

Service revenue	\$120,000
Expenses:	
Salaries	71,500
Rent	12,000
Supplies	9,400
Interest	3,000
Miscellaneous	8,700
Total expenses	<u>104,600</u>
Net income	<u>\$15,400</u>

**Goldie Company**  
**Balance Sheet**  
**December 31**

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

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement; Financial Statements - Balance Sheet

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

226) Below are typical transactions for a company.

	Type of Business Activity	Transactions
1.		Issue common stock.
2.		Receive cash from a bank loan.
3.		Sell products to customers.
4.		Pay employees' wages.
5.		Purchase equipment.
6.		Pay dividends to stockholders.
7.		Sell building.
8.		Purchase office supplies.
9.		Pay utilities.
10.		Pay for maintenance on delivery vehicles.

**Required:**

Indicate whether each transaction is classified as a financing, investing, or operating activity.

Answer:

	Type of Business Activity	Transactions
1.	<u>Financing</u>	Issue common stock.
2.	<u>Financing</u>	Receive cash from a bank loan.
3.	<u>Operating</u>	Sell products to customers.
4.	<u>Operating</u>	Pay employees' wages.
5.	<u>Investing</u>	Purchase equipment.
6.	<u>Financing</u>	Pay dividends to stockholders.
7.	<u>Investing</u>	Sell building.
8.	<u>Operating</u>	Purchase office supplies.
9.	<u>Operating</u>	Pay utilities.
10.	<u>Operating</u>	Pay for maintenance on delivery vehicles.

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

227) Account classifications include assets, liabilities, stockholders' equity, dividends, revenues, and expenses.

	<b>Account Classifications</b>	<b>Accounts</b>	<b>Related Transactions</b>
1.		Accounts Receivable	Provide services on account.
2.		Land	Purchase land.
3.		Prepaid Rent	Pay rent in advance.
4.		Salaries Expense	Pay employee salaries.
5.		Utilities Expense	Pay utilities.
6.		Service Revenue	Provide services to customers.
7.		Accounts Payable	Purchase materials on account.
8.		Notes Payable	Borrow from the bank.
9.		Dividends	Distribute cash to stockholders.
10.		Common Stock	Issue stock to stockholders.

**Required:**

Indicate the account classification for each account name.

Answer:

	<b>Account Classifications</b>	<b>Account Names</b>
1.	<u>Asset</u>	Accounts Receivable
2.	<u>Asset</u>	Land
3.	<u>Asset</u>	Prepaid Rent
4.	<u>Expense</u>	Salaries Expense
5.	<u>Expense</u>	Utilities Expense
6.	<u>Revenue</u>	Service Revenue
7.	<u>Liability</u>	Accounts Payable
8.	<u>Liability</u>	Notes Payable
9.	<u>Dividends</u>	Dividends
10.	<u>Stockholders' Equity</u>	Common Stock

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement



228) Tiffany's provides financial services related to investment selections, retirement planning, and general insurance needs. For the current year, the company reports the following amounts:

Advertising Expense	\$31,200	Service Revenue	\$129,300
Buildings	108,000	Interest Expense	3,500
Salaries Expense	67,800	Utilities Expense	14,500
Accounts Payable	6,300	Equipment	25,700
Cash	6,400	Notes Payable	30,000

In addition, the company had common stock of \$60,000 at the beginning of the year and issued an additional \$15,000 during the year. The company also had retained earnings of \$20,000 at the beginning of the year and paid dividends of \$3,500.

**Required:**

Prepare the income statement, statement of stockholders' equity, and balance sheet for Tiffany's for the year ended December 31.

Answer: **Tiffany's  
Income Statement  
For the year ended December 31**

Service revenue	\$129,300
Expenses:	
Advertising	31,200
Salaries	67,800
Utilities	14,500
Interest	<u>3,500</u>
Total expenses	<u>117,000</u>
Net income	<u>\$12,300</u>

**Tiffany's  
Statement of Stockholders' Equity  
For the year ended December 31**

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance at beginning of the year	\$60,000	\$20,000	\$80,000
Issuance of common stock	15,000		15,000
Add: Net income for the year		12,300	12,300
Less: Dividends		<u>(3,500)</u>	<u>(3,500)</u>
Balance at end of the year	<u>\$75,000</u>	<u>\$28,800</u>	<u>\$103,800</u>

**Tiffany's  
Balance Sheet  
December 31**

Assets		Liabilities	
Cash	\$6,400	Accounts payable	\$6,300
Equipment	25,700	Notes payable	<u>30,000</u>
Buildings	108,000	Total liabilities	36,300
		<b>Stockholders' Equity</b>	
		Common stock	75,000
		Retained earnings	<u>28,800</u>
		Total stockholders' equity	<u>103,800</u>
Total assets	<u>\$140,100</u>	Total liabilities and stockholders' equity	<u>\$140,100</u>

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement; Financial Statements - Statement of Stockholders' Equity; Financial Statements - Balance Sheet

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

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Reporting

229) Below are incomplete financial statements.

Income Statement		Statement of Stockholders' Equity		
<b>Revenues</b>	<b>(a)</b>		<b>Common Stock</b>	<b>Retained Earnings</b>
Expenses:		Beginning	\$15,000	\$8,000
Salaries	\$11,000	Issuances	(c)	
Rent	5,000	Net income		3,000
Advertising	7,000	Dividends		(d)
Net income	(b)	Ending	\$18,000	\$9,000
<b>Balance Sheet</b>				
<b>Assets:</b>		<b>Liabilities:</b>		
Cash	\$6,000	Accounts payable		\$5,000
Supplies	(e)	<b>Stockholders' Equity:</b>		
Land	7,000	Common Stock		(g)
Buildings	14,000	Retained Earnings		(h)
Total assets	(f)	Total liabilities and stockholders' equity		(i)

**Required:**

Calculate the missing amounts.

Answer: (Suggested order of calculation)

Statement of Stockholders' Equity:

$$\$15,000 + (c) = \$18,000$$

$$(c) = \mathbf{\$3,000.}$$

$$\$8,000 + \$3,000 - (d) = \$9,000$$

$$(d) = \mathbf{\$2,000.}$$

Income Statement:

$$(b) = \mathbf{\$3,000} \text{ (from Statement of Stockholders' Equity).}$$

$$(a) - \$11,000 - \$5,000 - \$7,000 = \$3,000 \text{ (b)}$$

$$(a) = \mathbf{\$26,000.}$$

Balance Sheet:

$$(g) = \mathbf{\$18,000} \text{ (from Statement of Stockholders' Equity).}$$

$$(h) = \mathbf{\$9,000} \text{ (from Statement of Stockholders' Equity).}$$

$$\$5,000 + \$18,000 (g) + \$9,000 (h) = (i)$$

$$(i) = \mathbf{\$32,000.}$$

$$(f) = \mathbf{\$32,000} \text{ (total assets = total liabilities and stockholders' equity).}$$

$$\$6,000 + (e) + \$7,000 + \$14,000 = \$32,000 (f)$$

$$(e) = \mathbf{\$5,000.}$$

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement; Financial Statements - Statement of Stockholders' Equity; Financial Statements - Balance Sheet

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

Bloom's: Analyze

AACSB: Analytical Thinking

AICPA: FN Reporting

The following information applies to problems 230 to 232.

Simplex Corporation provides the following information at the end of the year.

Salaries payable to workers at the end of the year	\$3,500
Advertising expense for the year	8,700
Building that has been purchased	70,000
Supplies at the end of the year	7,500
Retained earnings at the end of the year	38,000
Utilities expense for the year	4,200
Note payable to the bank	21,500
Service revenue during the year	67,800
Salaries expense for the year	24,200
Accounts payable to suppliers	6,700
Dividends paid to stockholders during the year	?
Common stock that has been issued, including \$8,000 that was issued this year	30,000
Cash remaining	5,500
Interest expense for the year	1,800
Accounts receivable from customers	16,700

230) Prepare the income statement for the year ended December 31, 20XX.

Answer: **Simplex Corporation**  
**Income Statement**

**For the year ended December 31, 20XX**

Service revenue	\$67,800
Expenses:	
Advertising	8,700
Utilities	4,200
Salaries	24,200
Interest	1,800
Total expenses	38,900
Net income	<u>\$28,900</u>

Difficulty: 3 Hard

Topic: Financial Statements - Income Statement

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

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Reporting

231) Prepare the statement of stockholders' equity for the year ended December 31, 20XX. The balance of retained earnings at the beginning of the year equals \$24,500.

Answer:

**Simplex Corporation**  
**Statement of Stockholders' Equity**  
**For the year ended December 31, 20XX**

	<b>Common Stock</b>	<b>Retained Earnings</b>	<b>Total Stockholders' Equity</b>
Balance at January 1	\$22,000	\$24,500	\$46,500
Issuance of common stock	8,000		8,000
Net income for the year		28,900	28,900
Less: Dividends		<b>(15,400)*</b>	<b>(15,400)</b>
Balance at December 31	<u>\$30,000</u>	<u>\$38,000</u>	<u>\$68,000</u>

* Beginning retained earnings	\$24,500
+ Net income	28,900
- Dividends	<u>?</u>
= Ending retained earnings	<u>\$38,000</u>

Difficulty: 3 Hard

Topic: Financial Statements - Statement of Stockholders' Equity

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

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Reporting

232) Prepare the balance sheet for Simplex Corporation on December 31, 20XX.

Answer:

**Simplex Corporation**  
**Balance Sheet**  
**December 31, 20XX**

<b>Assets</b>		<b>Liabilities</b>	
Cash	\$5,500	Accounts payable	\$6,700
Accounts receivable	16,700	Salaries payable	3,500
Supplies	7,500	Notes payable	21,500
Buildings	70,000	Total liabilities	31,700
		<b>Stockholders' Equity</b>	
		Common stock	30,000
		Retained earnings	38,000
		Total stockholders' equity	68,000
Total assets	\$99,700	Total liabilities and stockholders' equity	\$99,700

Difficulty: 3 Hard

Topic: Financial Statements - Balance Sheet

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

Bloom's: Apply

AACSB: Knowledge Application

AICPA: FN Reporting

233) The four underlying assumptions of generally accepted accounting principles are economic entity, monetary unit, periodicity, and going concern. Consider the following four independent situations.

1. Masterson has provided music cassettes for the past 30 years. Because of the advance in electronic musical devices, customer demand has dwindled over the years to almost nothing in the current year and the company can no longer pay its debts. For the most recent year, the company reports its assets in the balance sheet at historical (original) cost.
2. Phillips Flooring specializes in the installation of wood flooring. The company has the usual business expenses: salaries, supplies, utilities, advertising, and taxes. Mr. Phillips took his wife and two sons to Six Flags. Mr. Phillips reported the airfare and hotel expenses in the income statement of Phillips Flooring.
3. Mama's Restaurant has over 200 stores throughout the Southeast. Approximately 100,000 customers visit its stores each day. Because of the continual nature of dining, the company does not publish an income statement. The company feels that it has an indefinite life and a periodic report would mislead investors.
4. Indian Packaging delivers packages between the United States and India. During the current year, the company delivered 2,000 packages for its American customers totaling \$75,000 in revenue. For its Indian customers, the company delivered 1,000 packages totaling 1,500,000 Indian Rupee. The company's income statement indicates that total revenue equals 3,000 packages delivered with no corresponding amount in the income statement.

**Required:**

For each situation, indicate which of the underlying assumptions of GAAP is violated.

Answer:

	<b>Assumption violated</b>
1.	Going concern
2.	Economic entity
3.	Periodicity
4.	Monetary unit

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking



234) Listed below are several terms and definitions associated with the FASB's conceptual framework.

	Terms	Definitions
1.	Verifiability	a. Requires the consideration of the costs and value of information.
2.	Relevance	b. Recording transactions only for the company.
3.	Timeliness	c. The indefinite life of a company can be broken into definite periods.
4.	Cost effectiveness	d. Accounting should be useful in making decisions.
5.	Decision usefulness	e. Agreement between a measure and the phenomenon it represents.
6.	Faithful representation	f. Information arrives prior to the decision.
7.	Materiality	g. Information is related to the decision at hand.
8.	Economic entity assumption	h. Implies consensus among different measures.
9.	Periodicity assumption	i. Concerns the relative size of an item and its effect on decisions.

**Required:**

Pair each term with its related definition.

Answer: 1. h; 2. g; 3. f; 4. a; 5. d; 6. e; 7. i; 8. b; 9. c.

Difficulty: 2 Medium

Topic: Conceptual Framework

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

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

Difficulty: 1 Easy

Topic: Defining Accounting

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

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

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

Difficulty: 2 Medium

Topic: Measuring Business Activities

Learning Objective: 01-02 Understand the business activities that financial accounting measures.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

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

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

Difficulty: 2 Medium

Topic: Financial Statements - Income Statement; Financial Statements - Statement of Stockholders' Equity; Financial Statements - Balance Sheet; Financial Statements - Statement of Cash Flows

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

238) How does the value of an audit affect financial statements?

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

Difficulty: 2 Medium

Topic: Financial Accounting Standards

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: FN Reporting

239) Define the four basic assumptions underlying Generally Accepted Accounting Principles: (a) economic entity, (b) going concern, (c) periodicity, (d) monetary unit.

Answer: Economic entity - All economic events can be identified with a particular economic entity. Going concern - In the absence of information to the contrary, it is anticipated that a business entity will continue to operate indefinitely. Periodicity - The life of a company can be divided into artificial time periods to provide timely information to external users. Monetary unit - In the U.S., financial statement elements should be measured in terms of the U.S. dollar. It assumes that the value of a dollar is stable over time.

Difficulty: 1 Easy

Topic: Conceptual Framework

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical Thinking