

Financial Accounting, 9e (Wild)

Chapter 1 Introducing Financial Statements

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Importance of Accounting

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

2) Recordkeeping, or bookkeeping, is the recording of transactions and events, either manually or electronically.

Answer: TRUE

Difficulty: 1 Easy

Topic: Importance of Accounting

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

3) Accounting is an information and measurement system that identifies, records, and communicates information about an organization's business activities.

Answer: TRUE

Difficulty: 1 Easy

Topic: Importance of Accounting

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

4) Financial accounting serves external users by providing them with general-purpose financial statements.

Answer: TRUE

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

5) External users of accounting information do not directly run the organization and have limited access to its accounting information.

Answer: TRUE

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

6) The primary objective of managerial accounting is to provide general purpose financial statements to help external users analyze and interpret an organization's activities.

Answer: FALSE

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Users of Accounting Information

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

10) Internal users include lenders, shareholders, brokers and nonexecutive employees.

Answer: FALSE

Difficulty: 2 Medium

Topic: Users of Accounting Information

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Users of Accounting Information

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

12) Ethics are beliefs that separate right from wrong.

Answer: TRUE

Difficulty: 2 Medium

Topic: Ethics-A Key Concept

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

Bloom's: Understand

AACSB: Ethics

AICPA: BB Industry; FN Decision Making

13) The Sarbanes-Oxley Act (SOX) requires each issuer of securities to disclose whether it has adopted a code of ethics for its senior financial officers and the contents of that code.

Answer: TRUE

Difficulty: 1 Easy

Topic: Ethics-A Key Concept

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

Bloom's: Remember

AACSB: Ethics

AICPA: BB Legal; FN Reporting

14) The fraud triangle asserts that there are three factors that push a person to commit fraud: opportunity, pressure, and rationalization.

Answer: TRUE

Difficulty: 2 Medium

Topic: Ethics-A Key Concept

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

Bloom's: Understand

AACSB: Ethics

AICPA: BB Industry; BB Legal; FN Decision Making

15) The Sarbanes-Oxley Act (SOX) requires a business that sells stock to disclose a code of ethics for its executives.

Answer: TRUE

Difficulty: 2 Medium

Topic: Ethics-A Key Concept

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

Bloom's: Understand

AACSB: Ethics

AICPA: BB Legal; FN Reporting

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Legal; FN Reporting

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

24) The revenue recognition principle requires that revenue be recognized when goods or services are provided to customers, and at the amount expected to be received from the customer.

Answer: TRUE

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

25) The expense recognition principle is also known as the cost principle.

Answer: FALSE

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

26) The measurement principle is also known as the cost principle.

Answer: TRUE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Legal; FN Decision Making

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Global; FN Reporting

31) Objectivity means that financial information is supported by independent, unbiased evidence; it demands more than a person's opinion.

Answer: TRUE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; BB Global; FN Measurement

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Global; FN Measurement

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Reporting

39) The four common forms of business ownership include sole proprietorship, partnership, corporation, and non-profit.

Answer: FALSE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

40) The four common forms of business ownership include sole proprietorship, partnership, corporation, and limited liability company (LLC).

Answer: TRUE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Business Activities and the Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

42) Planning is a part of each business activity (Operating, investing, and financing), and gives each activity meaning and focus.

Answer: TRUE

Difficulty: 1 Easy

Topic: Business Activities and the Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Critical Thinking; FN Decision Making

43) *Financing activities* provide the means organizations use to pay for resources such as land, buildings, and equipment.

Answer: TRUE

Difficulty: 1 Easy

Topic: Business Activities and the Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Critical Thinking; FN Decision Making

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Business Activities and the Accounting Equation

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Critical Thinking; FN Decision Making

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Business Activities and the Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

46) Owner financing refers to resources contributed by creditors or lenders.

Answer: FALSE

Difficulty: 1 Easy

Topic: Business Activities and the Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

47) Revenues are increases in equity (via net income) from a company's sales of products and services to customers.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

48) A net loss occurs when revenues exceed expenses.

Answer: FALSE

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement; FN Reporting

49) Net income occurs when revenues exceed expenses.

Answer: TRUE

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement; FN Reporting

50) Liabilities are owner claims on assets.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

Answer: TRUE

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

52) Dividends paid to stockholders are subtracted as expenses in the calculation of net income.

Answer: FALSE

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

53) Equity increases as a result of stockholder investments and business revenues.

Answer: TRUE

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

54) Equity decreases as a result of revenues and expenses.

Answer: FALSE

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

55) Stockholder investments are increases in equity from a company's earnings activities.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

56) After each business transaction is recorded, the accounting equation remains in balance.

Answer: TRUE

Difficulty: 1 Easy

Topic: Transaction Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Transaction Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement; FN Decision Making

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making; FN Measurement

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

60) A stockholder's investment increases equity via net income.

Answer: FALSE

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Return on Assets

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

62) Return on assets (ROA) is also known as return on investment (ROI).

Answer: TRUE

Difficulty: 1 Easy

Topic: Return on Assets

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Resource Management; FN Decision Making

63) Return on assets (ROA) is useful in evaluating management, analyzing and forecasting profits, and planning activities.

Answer: TRUE

Difficulty: 2 Medium

Topic: Return on Assets

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Resource Management; FN Decision Making

64) Arrow's net income of \$112 million and average assets of \$1,400 million results in a return on assets of 8%.

Answer: TRUE

Explanation: $\text{Return on Assets} = \text{Net Income} / \text{Average Assets}$

$\text{Return on Assets} = \$112 \text{ million} / \$1,400 \text{ million} = 8.00\%$

Difficulty: 2 Medium

Topic: Return on Assets

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Return on Assets

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

66) Risk is the uncertainty about the return we will earn.

Answer: TRUE

Difficulty: 1 Easy

Topic: Return and Risk

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

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Industry; FN Risk Analysis

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Return and Risk

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Industry; FN Risk Analysis

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Return and Risk

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

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Industry; BB Critical Thinking; FN Risk Analysis

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

70) An income statement reports on investing and financing activities.

Answer: FALSE

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

72) The income statement describes revenues earned and expenses incurred along with the resulting net income or loss over a specified period of time, due to earnings activities.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

76) The balance sheet is based on the accounting equation.

Answer: TRUE

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

78) Operating activities include long-term borrowing and repaying cash from lenders, and cash investments by or dividends paid to stockholders.

Answer: FALSE

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

Answer: FALSE

Difficulty: 3 Hard

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; BB Critical Thinking; FN Reporting

83) The materiality constraint looks at both the importance and relative size of an amount.

Answer: TRUE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement

84) The cost-benefit constraint prescribes that only information with benefits of disclosure less than the costs of providing it, need be disclosed.

Answer: FALSE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement

85) The cost-benefit constraint prescribes that only information with benefits of disclosure greater than the costs of providing it need be disclosed.

Answer: TRUE

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement

86) Net income is sometimes called earnings or profit.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

A) Identifies business activities.

B) Records business activities.

C) Communicates business activities.

D) Eliminates the need for interpreting financial data.

E) Helps people make better decisions.

Answer: D

Difficulty: 2 Medium

Topic: Importance of Accounting

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

88) Technology:

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

Answer: C

Difficulty: 2 Medium

Topic: Importance of Accounting

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

Bloom's: Understand

AACSB: Technology

AICPA: BB Industry; FN Leveraging Technology

89) The primary objective of financial accounting is to:

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

Answer: B

Difficulty: 2 Medium

Topic: Users of Accounting Information

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: B

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: C

Difficulty: 2 Medium

Topic: Users of Accounting Information

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: E

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

93) Ethical behavior requires that:

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

Answer: A

Difficulty: 2 Medium

Topic: Ethics-A Key Concept

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

Bloom's: Understand

AACSB: Ethics

AICPA: BB Legal; FN Reporting

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

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

Answer: C

Difficulty: 3 Hard

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

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

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

Answer: C

Difficulty: 2 Medium

Topic: Ethics-A Key Concept

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

Bloom's: Understand

AACSB: Ethics

AICPA: BB Industry; FN Decision Making

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

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

Answer: E

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement

97) A corporation is:

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

Answer: A

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

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

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

Answer: B

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Global; FN Reporting

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

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

Answer: B

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting

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

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

Answer: B

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting

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

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

Answer: A

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting

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

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

Answer: B

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Apply

AACSB: Communication; Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: C

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting

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

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

Answer: B

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement; FN Reporting

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

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

Answer: C

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement; FN Reporting

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

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

Answer: A

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement; FN Reporting

107) The International Accounting Standards Board (IASB):

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

Answer: A

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Global; FN Reporting

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

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

Answer: C

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Apply

AACSB: Communication; Analytical Thinking

AICPA: BB Industry; BB Legal; FN Measurement

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

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

Answer: E

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Legal; FN Reporting

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

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

Answer: D

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Legal; FN Reporting

111) A limited liability company:

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

Answer: A

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Legal; FN Reporting

112) A partnership:

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

Answer: B

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Legal; FN Reporting

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

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

Answer: C

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Legal; FN Measurement

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

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

Answer: B

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Legal; FN Measurement

115) Revenue is properly recognized:

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

Answer: D

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Answer: D

Difficulty: 2 Medium

Topic: Users of Accounting Information

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: E

Difficulty: 2 Medium

Topic: Ethics-A Key Concept

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

Bloom's: Understand

AACSB: Communication; Ethics

AICPA: BB Industry; FN Decision Making

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

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

Answer: B

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: E

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: D

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

121) An example of a financing activity is:

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

Answer: B

Difficulty: 3 Hard

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

122) An example of an operating activity is:

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

Answer: A

Difficulty: 3 Hard

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Legal; FN Reporting

123) Operating activities:

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

Answer: B

Difficulty: 2 Medium

Topic: Financial Statements; Business Activities and the Accounting Equation

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

124) An example of an investing activity is:

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

Answer: C

Difficulty: 3 Hard

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

125) Net Income:

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

Answer: D

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: D

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

$\text{Assets} = \$192,000 + \$300,000 = \$492,000$

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: A

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

$\text{Equity} = \$300,000 - \$192,000 = \$108,000$

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: A

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Answer: B

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Answer: C

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Answer: E

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Answer: D

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Answer: B

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

134) Revenues are:

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

Answer: D

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Answer: B

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

$\$99,000 = \$32,000 + \text{Equity}$; $\text{Equity} = \$67,000$

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Critical Thinking; FN Measurement

136) Another name for equity is:

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

Answer: C

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Answer: C

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Answer: B

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Answer: A

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Answer: C

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

$\$700,000 = \$200,000 + \text{Equity}$; $\text{Equity} = \$500,000$

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: D

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

$\text{Cash} + \text{Accounts Receivable} + \text{Supplies} + \text{Equipment} = \text{Accounts Payable} + \text{Equity}$

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

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

Difficulty: 3 Hard

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: B

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

$\text{Cash} + \text{Supplies} + \text{Equipment} - \text{Accounts Payable} = \text{Equity}$

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

Difficulty: 3 Hard

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: B

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Answer: C

Difficulty: 1 Easy

Topic: Transaction Analysis

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

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

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

Answer: B

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

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

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

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: D

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: E

Explanation: Assets = Liabilities + Equity

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

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

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

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: C

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: D

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

$\text{Change in Assets} = \text{Change in Liabilities} + \text{Change in Equity}$

$\text{Change in Assets} = + \$75,000 - \$30,000$

$\text{Change in Assets} = \text{Increase of } \$45,000$

Difficulty: 3 Hard

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: A

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

$\text{Change in Assets} = \text{Change in Liabilities} + \text{Change in Equity}$

$\text{Increase of } \$89,000 = \text{Increase of } \$67,000 + \text{Change in Equity}$

$\text{Change in Equity} = \text{Increase of } \$22,000$

Difficulty: 3 Hard

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: A

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

$\text{Change in Assets} = \text{Change in Liabilities} + \text{Change in Equity}$

$\text{Change in Assets} = + \$74,000 - \$19,000$

$\text{Change in Assets} = + \$55,000$

Difficulty: 3 Hard

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: C

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

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

Liabilities will decrease by \$38,000 in Accounts payable due to the payment of the debt. Equity would not be affected by this transaction.

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: B

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

$$\$365,000 = \text{Liabilities} + \$120,000$$

$$\text{Liabilities} = \$245,000$$

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: A

Explanation: $\text{Return on Assets} = \text{Net Income} / \text{Average Assets}$

$\text{Return on Assets} = \$144 \text{ million} / \$1,800 \text{ million} = 0.08 = 8.0\%$

Difficulty: 2 Medium

Topic: Return on Assets

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

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

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

Answer: C

Explanation: $\text{Return on Assets} = \text{Net Income} / \text{Average Assets}$

$\text{Return on Assets} = \$35 \text{ million} / \$200 \text{ million} = 0.175 = 17.5\%$

Difficulty: 2 Medium

Topic: Return on Assets

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

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

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

Answer: B

Explanation: Return on Assets = Net Income/Average Assets

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

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

Difficulty: 3 Hard

Topic: Return on Assets

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

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

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

Answer: D

Explanation: Return on Assets = Net Income/Average Assets

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

$$\text{Return on Assets} = \$43,000 / \$275,000 = 0.156 = 15.6\%$$

Difficulty: 3 Hard

Topic: Return on Assets

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

- 158) U. S. government bonds are:
- A) High-risk and high-return investments.
 - B) Low-risk and low-return investments.
 - C) High-risk and low-return investments.
 - D) Low-risk and high-return investments.
 - E) High risk and no-return investments.

Answer: B

Difficulty: 2 Medium

Topic: Return and Risk

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

159) Risk is:

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

Answer: C

Difficulty: 1 Easy

Topic: Return and Risk

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Risk Analysis

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

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

Answer: D

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: E

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

162) The statement of cash flows:

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

Answer: C

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: D

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

164) A balance sheet lists:

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

Answer: C

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: A

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: B

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: E

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: D

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: A

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: C

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

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

Answer: C

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

$\text{Cash} + \text{Equipment} + \text{Buildings} = \text{Liabilities} + \text{Equity}$

$\$57,000 + \$206,000 + \$175,000 = \$141,000 + \text{Equity}$

$\$438,000 = \$141,000 + \text{Equity}; \text{Equity} = \$297,000$

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

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

Answer: E

Explanation: Assets – Liabilities = Equity

Cash + Buildings + Land – Liabilities = Equity

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

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

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

Answer: A

Explanation: $\text{Net Income} = \text{Revenues} - \text{Expenses}$

$\text{Net Income} = \text{Consulting Revenue} - \text{Employee Salaries Expense} - \text{Interest Expense} - \text{Rent Expense}$

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

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

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

Answer: D

Explanation: Revenues – Expenses = Net Income

Service Revenue – Rent Expense – Utilities Expense – Salaries Expense

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

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: B

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: E

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: A

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

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

Difficulty: 3 Hard

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: D

Explanation: Ending Equity = Beginning Equity + Investments by Stockholders + Net Income – Dividends

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

Difficulty: 3 Hard

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: D

Explanation: Beginning Equity + Investments by Stockholders + Net Income – Dividends = Ending Equity

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

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: B

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: C

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

$\text{Cash} + \text{Accounts Receivable} + \text{Office Equipment} = \text{Accounts Payable} + \text{Equity}$

$\$22,000 + \$16,000 + \$50,000 = \$17,000 + \text{Equity}$

$\$88,000 = \$17,000 + \text{Equity}; \text{Equity} = \$71,000$

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: E

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

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

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

$\text{Assets} = \$92,000 + \$190,000$; $\text{Assets} = \$282,000$

Difficulty: 3 Hard

Topic: Financial Statements

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: B

Explanation: $\text{Return on Assets} = \text{Net Income} / \text{Average Assets}$

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

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

Difficulty: 3 Hard

Topic: Return on Assets

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

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

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

Answer: A

Explanation: $\text{Return on Assets} = \text{Net Income} / \text{Average Assets}$

$\text{Return on Assets} = \text{Revenues} - \text{Expenses} / \text{Average Assets}$

$\text{Return on Assets} = (\$80,000 - \$50,000) / [(\$400,000 + \$450,000) / 2]$ $\text{Return on Assets} = \$30,000 / \$425,000 = 0.0705 = 7.1\%$

Difficulty: 3 Hard

Topic: Return on Assets

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

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

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

Answer: C

Explanation: $\text{Net Increase/(Decrease) in Cash} = \text{Cash Flows from Operating Activities} + \text{Cash Flows from Investing Activities} + \text{Cash Flows from Financing Activities}$

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

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

Difficulty: 3 Hard

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: D

Explanation: $\text{Net Income} = \text{Revenues} - \text{Expenses}$

$\text{Net Income} = \$83,000 - \$64,000;$

$\text{Net Income} = \$19,000$

Difficulty: 3 Hard

Topic: Financial Statements

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: A

Explanation: $\text{Ending Equity} = \text{Beginning}$

$\text{Equity} + \text{Revenues} - \text{Expenses} + \text{Stock Issuances} - \text{Dividends}$

$\text{Ending Equity} = \$72,000 + \$90,000 - \$65,000 + \$0 - \$9,000$ Ending Equity = \$88,000

Difficulty: 3 Hard

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: E

Explanation: Ending Equity = Beginning Equity + Net Income + Stock Issuances – Dividends

$$\text{Ending Equity} = \$52,000 + \$35,000 + \$0 - \$12,000 = \$75,000$$

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: C

Explanation: Assets - Equity = Liabilities

$$\text{Cash} + \text{Accounts Receivable} + \text{Equipment} - \text{Equity} = \text{Liabilities}$$

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

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting

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

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

Answer: D

Explanation: Assets and equity both increase at the time the rent is earned.

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: D

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: E

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: A

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: D

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: C

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: A

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: B

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: B

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: E

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: C

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Measurement

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

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

Answer: D

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement

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

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

Answer: A

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement

203) The revenue recognition principle:

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

Answer: B

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement

204) The full disclosure principle:

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

Answer: C

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement

205) The materiality constraint:

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

Answer: C

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement

206) The going concern assumption:

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

Answer: A

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement

207) The monetary assumption:

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

Answer: B

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement

208) The time period assumption:

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

Answer: C

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement

209) The business entity assumption:

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

Answer: D

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Measurement

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

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

Answer: E

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Ethics

AICPA: BB Legal; FN Reporting

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

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

Answer: E

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: B

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: A

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: D

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: B

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

Answer: D

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

Match the following terms with the appropriate definition.

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

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

Difficulty: 1 Easy

Topic: Importance of Accounting; Users of Accounting Information; Ethics-A Key Concept

Learning Objective: 01-C1 Explain the purpose and importance of accounting.; 01-C2 Identify users and uses of, and opportunities in, accounting.; 01-C3 Explain why ethics are crucial to accounting.

Bloom's: Remember

AACSB: Communication; Ethics

AICPA: BB Industry; BB Legal; FN Reporting

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

Difficulty: 1 Easy

Topic: Importance of Accounting; Users of Accounting Information; Ethics-A Key Concept

Learning Objective: 01-C1 Explain the purpose and importance of accounting.; 01-C2 Identify users and uses of, and opportunities in, accounting.; 01-C3 Explain why ethics are crucial to accounting.

Bloom's: Remember

AACSB: Communication; Ethics

AICPA: BB Industry; BB Legal; FN Reporting

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

Difficulty: 1 Easy

Topic: Importance of Accounting; Users of Accounting Information; Ethics-A Key Concept

Learning Objective: 01-C1 Explain the purpose and importance of accounting.; 01-C2 Identify users and uses of, and opportunities in, accounting.; 01-C3 Explain why ethics are crucial to accounting.

Bloom's: Remember

AACSB: Communication; Ethics

AICPA: BB Industry; BB Legal; FN Reporting

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

Difficulty: 1 Easy

Topic: Importance of Accounting; Users of Accounting Information; Ethics-A Key Concept

Learning Objective: 01-C1 Explain the purpose and importance of accounting.; 01-C2 Identify users and uses of, and opportunities in, accounting.; 01-C3 Explain why ethics are crucial to accounting.

Bloom's: Remember

AACSB: Communication; Ethics

AICPA: BB Industry; BB Legal; FN Reporting

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

Difficulty: 1 Easy

Topic: Importance of Accounting; Users of Accounting Information; Ethics-A Key Concept

Learning Objective: 01-C1 Explain the purpose and importance of accounting.; 01-C2 Identify users and uses of, and opportunities in, accounting.; 01-C3 Explain why ethics are crucial to accounting.

Bloom's: Remember

AACSB: Communication; Ethics

AICPA: BB Industry; BB Legal; FN Reporting

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

Difficulty: 1 Easy

Topic: Importance of Accounting; Users of Accounting Information; Ethics-A Key Concept

Learning Objective: 01-C1 Explain the purpose and importance of accounting.; 01-C2 Identify users and uses of, and opportunities in, accounting.; 01-C3 Explain why ethics are crucial to accounting.

Bloom's: Remember

AACSB: Communication; Ethics

AICPA: BB Industry; BB Legal; FN Reporting

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

Difficulty: 1 Easy

Topic: Importance of Accounting; Users of Accounting Information; Ethics-A Key Concept

Learning Objective: 01-C1 Explain the purpose and importance of accounting.; 01-C2 Identify users and uses of, and opportunities in, accounting.; 01-C3 Explain why ethics are crucial to accounting.

Bloom's: Remember

AACSB: Communication; Ethics

AICPA: BB Industry; BB Legal; FN Reporting

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

Difficulty: 1 Easy

Topic: Importance of Accounting; Users of Accounting Information; Ethics-A Key Concept

Learning Objective: 01-C1 Explain the purpose and importance of accounting.; 01-C2 Identify users and uses of, and opportunities in, accounting.; 01-C3 Explain why ethics are crucial to accounting.

Bloom's: Remember

AACSB: Communication; Ethics

AICPA: BB Industry; BB Legal; FN Reporting

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

Difficulty: 1 Easy

Topic: Importance of Accounting; Users of Accounting Information; Ethics-A Key Concept

Learning Objective: 01-C1 Explain the purpose and importance of accounting.; 01-C2 Identify users and uses of, and opportunities in, accounting.; 01-C3 Explain why ethics are crucial to accounting.

Bloom's: Remember

AACSB: Communication; Ethics

AICPA: BB Industry; BB Legal; FN Reporting

Answers: 217) C 218) A 219) G 220) I 221) B 222) D 223) E 224) F 225) H

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

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

226) The uncertainty about the return to be earned.

Difficulty: 1 Easy

Topic: The Accounting Equation; Return on Assets; Return and Risk

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.; 01-A2 Compute and interpret return on assets.; 01-A3 Appendix 1A-Explain the relation between return and risk.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

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

Difficulty: 1 Easy

Topic: The Accounting Equation; Return on Assets; Return and Risk

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.; 01-A2 Compute and interpret return on assets.; 01-A3 Appendix 1A-Explain the relation between return and risk.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

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

Difficulty: 1 Easy

Topic: The Accounting Equation; Return on Assets; Return and Risk

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.; 01-A2 Compute and interpret return on assets.; 01-A3 Appendix 1A-Explain the relation between return and risk.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

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

Difficulty: 1 Easy

Topic: The Accounting Equation; Return on Assets; Return and Risk

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.; 01-A2 Compute and interpret return on assets.; 01-A3 Appendix 1A-Explain the relation between return and risk.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

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

Difficulty: 1 Easy

Topic: The Accounting Equation; Return on Assets; Return and Risk

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.; 01-A2 Compute and interpret return on assets.; 01-A3 Appendix 1A-Explain the relation between return and risk.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

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

Difficulty: 1 Easy

Topic: The Accounting Equation; Return on Assets; Return and Risk

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.; 01-A2 Compute and interpret return on assets.; 01-A3 Appendix 1A-Explain the relation between return and risk.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

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

Difficulty: 1 Easy

Topic: The Accounting Equation; Return on Assets; Return and Risk

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.; 01-A2 Compute and interpret return on assets.; 01-A3 Appendix 1A-Explain the relation between return and risk.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

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

Difficulty: 1 Easy

Topic: The Accounting Equation; Return on Assets; Return and Risk

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.; 01-A2 Compute and interpret return on assets.; 01-A3 Appendix 1A-Explain the relation between return and risk.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

Answers: 226) D 227) C 228) B 229) A 230) H 231) F 232) G 233) E

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

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

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

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

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

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

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

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

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

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

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

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

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

Match the following definitions with the appropriate terms.

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

239) Generally accepted accounting principles

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

240) Time period assumption

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

241) Statement of retained earnings.

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

242) Balance sheet

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

243) Objectivity principle

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

244) Measurement (Cost) principle

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

245) Securities and Exchange Commission

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

246) IASB

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

247) Full disclosure principle

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

248) Statement of cash flows

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

Answers: 239) E 240) A 241) G 242) D 243) B 244) J 245) C 246) I 247) F 248) H

Match the following definitions with the appropriate terms.

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

249) Statement of cash flows

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles; Business Activities and the Accounting Equation; The Accounting Equation; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-A1 Define and interpret the accounting equation and each of its components.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

250) Events

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles; Business Activities and the Accounting Equation; The Accounting Equation; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-A1 Define and interpret the accounting equation and each of its components.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

251) Monetary unit principle

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles; Business Activities and the Accounting Equation; The Accounting Equation; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-A1 Define and interpret the accounting equation and each of its components.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

252) Business entity principle

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles; Business Activities and the Accounting Equation; The Accounting Equation; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-A1 Define and interpret the accounting equation and each of its components.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

253) Revenue recognition principle

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles; Business Activities and the Accounting Equation; The Accounting Equation; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-A1 Define and interpret the accounting equation and each of its components.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

254) Accounting equation

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles; Business Activities and the Accounting Equation; The Accounting Equation; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-A1 Define and interpret the accounting equation and each of its components.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

255) Income statement

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles; Business Activities and the Accounting Equation; The Accounting Equation; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-A1 Define and interpret the accounting equation and each of its components.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

256) Expenses

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles; Business Activities and the Accounting Equation; The Accounting Equation; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-A1 Define and interpret the accounting equation and each of its components.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

257) Liabilities

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles; Business Activities and the Accounting Equation; The Accounting Equation; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-A1 Define and interpret the accounting equation and each of its components.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

Answers: 249) G 250) C 251) E 252) H 253) I 254) B 255) D 256) F 257) A

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

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

258) Paid utilities expenses.

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

259) Dividends to stockholders.

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

260) Purchase of land.

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

261) Sale of used equipment.

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

263) Paid employee wages.

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

264) Received investment from stockholder.

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

Answers: 258) C 259) A 260) B 261) B 262) A 263) C 264) A 265) A

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

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

266) Assets.

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

267) Dividends.

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

268) Revenues.

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

269) Cash from investing activities.

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

270) Expenses.

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

271) Liabilities.

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

272) Cash from operating activities.

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

273) Cash from financing activities.

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

Answers: 266) D 267) B 268) A 269) C 270) A 271) D 272) C 273) C

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

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

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

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation; Financial Statements

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

275) Cash dividends paid to stockholders.

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation; Financial Statements

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

276) Cash received from customers.

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation; Financial Statements

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation; Financial Statements

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

278) Cash paid for utilities.

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation; Financial Statements

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Difficulty: 3 Hard

Topic: Business Activities and the Accounting Equation; Financial Statements

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

Answers: 274) B 275) C 276) A 277) C 278) A 279) B

280) Explain the role of accounting in the information age.

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

Difficulty: 2 Medium

Topic: Importance of Accounting

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

Bloom's: Understand

AACSB: Communication; Technology

AICPA: BB Industry; FN Reporting

281) What is the balance sheet? What is its purpose?

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

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

282) Identify the users and uses of accounting information.

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

Difficulty: 2 Medium

Topic: Users of Accounting Information

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

283) Identify several opportunities in accounting and distinguish between private accounting and public accounting.

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

Difficulty: 2 Medium

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

284) Explain why ethics are an integral part of accounting.

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

Difficulty: 2 Medium

Topic: Ethics-A Key Concept

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

Bloom's: Understand

AACSB: Communication; Ethics

AICPA: BB Industry; FN Decision Making

285) Describe the three important guidelines for revenue recognition.

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

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Legal

287) How does the objectivity principle support ethical behavior?

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

Difficulty: 2 Medium

Topic: Ethics-A Key Concept; Generally Accepted Accounting Principles

Learning Objective: 01-C3 Explain why ethics are crucial to accounting.; 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Bloom's: Understand

AACSB: Communication; Ethics

AICPA: BB Industry; FN Decision Making

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

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

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Reporting

289) How does the going-concern principle affect reporting asset values of a business?

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

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

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

Difficulty: 2 Medium

Topic: Financial Statements; The Accounting Equation

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.; 01-A1 Define and interpret the accounting equation and each of its components.

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

291) Explain the accounting equation and define its terms.

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

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

292) What distinguishes liabilities from equity?

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

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

293) What is the purpose of return on assets as an analytical tool?

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

Difficulty: 2 Medium

Topic: Return on Assets

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; BB Resource Management; FN Measurement

294) Define risk and return and discuss the relation between them.

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

Difficulty: 2 Medium

Topic: Return and Risk

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

Bloom's: Understand

AACSB: Communication; Reflective Thinking

AICPA: BB Critical Thinking; FN Risk Analysis

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

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

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

296) Identify and describe the four basic financial statements:

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

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

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

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

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

Answer:

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

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Legal; FN Decision Making

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

Answer: \$570,000. The Measurement (Cost) principle requires the acquisition of an asset to be recorded in the accounting records at cost.

Difficulty: 2 Medium

Topic: Generally Accepted Accounting Principles

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

Bloom's: Understand

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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

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

Answer:

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

Difficulty: 3 Hard

Topic: Generally Accepted Accounting Principles

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; BB Legal; FN Measurement

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

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

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

Ending Assets = Ending Liabilities + Ending Equity

$\$360,000 = \$100,000 + \$260,000$

Difficulty: 3 Hard

Topic: The Accounting Equation; Financial Statements

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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

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

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

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

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

Difficulty: 2 Medium

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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

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

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

Answer: \$23,000

Feedback: Assets = Liabilities + Equity

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

Change in Equity = Stockholder Investments + Net Income – Dividends

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

\$15,000 = Net Income – \$8,000

Net Income = \$23,000

Difficulty: 3 Hard

Topic: Transaction Analysis; Financial Statements

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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

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

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

Answer: \$212,700

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

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

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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

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

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

Answer: October 1st Equity = \$74,000; October 31st Equity = \$94,000

Feedback:

Total assets:

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

At October 1:

Assets = Liabilities + Equity

\$80,000 = \$6,000 + Equity

Equity = \$74,000

At October 31:

Equity, September 1 \$74,000

Plus September net income 20,000

Equity, September 30 \$94,000

or:

October 1 Equity + Net Income + October 31 Equity

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

Difficulty: 3 Hard

Topic: Transaction Analysis; Financial Statements

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

P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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

Answer: Assets increased by \$62,000.

Feedback: $\text{Assets} = \text{Liabilities} + \text{Equity}$

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

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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

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

Show the effects of the above transactions on the accounting equation of Soo Lin, Consultant. Use the following format for your answers. The first item is shown as an example.
Increase = I Decrease = D No effect = N

Date	Assets	Liabilities	Equity
Example:			
April 1	I	N	I

Answer:

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

Difficulty: 3 Hard

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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

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

Answer:

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

Difficulty: 3 Hard

Topic: Transaction Analysis

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

308) The following schedule reflects shows the first month's transactions of the Green Construction Company; Jennifer Green is its sole stockholder:

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

Answer:

1. Investment of cash in business by stockholder or performed services for cash.
2. Purchased equipment for cash.
3. Purchased supplies on credit.
4. Performed services for cash or investment of cash in business by stockholder in exchange for stock.
5. Performed services for both cash and on credit.
6. Paid accounts payable.
7. Received cash for an account receivable.
8. Used supplies in business.
9. Cash dividend paid to stockholder or paid expense of business.

Difficulty: 3 Hard

Topic: Transaction Analysis; The Accounting Equation

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

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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

ACTION ADVENTURE GAMES			
Balance Sheet			
June 10			
Assets		Equity	
Cash.....	<u>\$60,000</u>	Common stock.....	<u>\$60,000</u>
		Total liabilities	
Total assets.....	<u>\$60,000</u>	and equity.....	<u>\$60,000</u>

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

ACTION ADVENTURE GAMES			
Balance Sheet			
June 30			
Assets		Liabilities	
Cash.....	\$51,000	Accounts payable....	\$2,000
Office supplies.....	2,000	Notes payable.....	18,000
Land.....	10,000	Equity	
Building.....	<u>20,000</u>	Common stock.....	<u>60,000</u>
		Retained earnings	<u>3,000</u>
		Total liabilities and	
Total assets.....	<u>\$83,000</u>	equity.....	<u>\$83,000</u>

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

June 10
 20
 30

Answer:

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

Difficulty: 3 Hard

Topic: The Accounting Equation; Transaction Analysis; Financial Statements

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

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

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

Answer:

- The risk involved is that the investor may need the money in the CD before the CD matures and would have to give up the interest. The return is the 4.5% interest on the \$500 invested in the CD.
- The risk is that the team bet on may not beat the point spread and the bet would be lost. The return would be any winnings based on the odds.
- The risk is that the value of Microsoft stock could go down. The return would come from increase in the value of the stock.
- The risk is that the student might not be able to find a job that pays enough to live on and allow for loan payments with interest. The return is that the student would be able to finance an education and earn higher wages.

Difficulty: 3 Hard

Topic: Return and Risk

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

Bloom's: Apply

AACSB: Reflective Thinking

AICPA: FN Risk Analysis

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

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

Answer:

TWO RIVERS VENDING SERVICE
Balance Sheet
April 30

Assets		Liabilities	
Cash.....	\$ 10,000	Accounts payable.....	\$ 18,000
Accounts receivable.....	10,000	Notes payable.....	<u>47,000</u>
Office equipment.....	12,000	Total liabilities.....	\$ 65,000
Building.....	28,000		
Trucks.....	<u>55,000</u>	Stockholders equity.....	<u>50,000</u>
Total assets.....	<u>\$115,000</u>	Total liabilities and equity.....	<u>\$115,000</u>

Difficulty: 3 Hard

Topic: Financial Statements

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

Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

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

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

Answer:

SMOKEY RIVER SUPPLIES
Balance Sheet
December 31

Assets		Liabilities	
Cash.....	\$10,000	Accounts payable.....	\$13,000
Accounts receivable.....	8,000	Notes payable.....	<u>41,000</u>
Supplies.....	12,000	Total liabilities.....	\$54,000
Equipment.....	35,000		
Land.....	<u>18,000</u>	Equity	
		Common stock.....	<u>20,000</u>
		Retained earnings	<u>9,000</u>
		Total liabilities and	
Total assets.....	<u>\$83,000</u>	equity.....	<u>\$83,000</u>

Difficulty: 2 Medium

Topic: Financial Statements

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

Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

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

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

Answer:

CANE PROPERTY MANAGEMENT			
Balance Sheet			
December 31			
Assets		Liabilities	
Cash.....	\$ 7,500	Accounts payable.....	\$ 3,500
Accounts receivable...	5,000	Salaries payable.....	1,000
Office supplies.....	1,500	Note payable.....	<u>50,000</u>
Land.....	35,000	Total liabilities.....	\$ 54,500
Building.....	100,000	Equity	
Office equipment.....	10,000	Common stock.....	<u>100,000</u>
		Retained earnings	<u>4,500</u>
Total assets.....	<u>\$159,000</u>	Total liabilities and Equity	<u>\$159,000</u>

Difficulty: 3 Hard

Topic: Financial Statements

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

Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

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

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

Answer:

GARZA DÉCOR
Income Statement
For Month Ended November 30

Revenue:		
Fees earned.....		\$34,000
Operating expenses:		
Rent expense.....	\$9,600	
Salaries expense.....	4,200	
Telephone expense.....	<u>250</u>	14,050
Net income.....		<u>\$19,950</u>

GARZA DÉCOR
Statement of Retained Earnings
For Month Ended November 30

Retained Earnings, November 1.....	\$ 0
Plus: Net income.....	19,950
Less: Dividends.....	<u>(6,000)</u>
Retained Earnings, November 30.....	<u>\$13,950</u>

GARZA DECOR
Balance Sheet
November 30

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

Difficulty: 3 Hard

Topic: Financial Statements

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

Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

315) Data for Kennedy Realty are as follows:

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

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

Answer:

KENNEDY REALTY		
Statement of Retained Earnings		
For year Ended December 31		
Retained earnings, January 1*	\$ 15,000	*
	<u>32,00</u>	
Plus Net income	<u>0</u>	
	\$ 47,000	
Less Dividends	<u>(30,000)</u>)
Retained earnings, December 31	<u>\$ 17,000</u>	
*Total assets at January 1	\$100,000	
	<u>35,00</u>	
Less total liabilities at January 1	<u>0</u>	
Total equity at January 1	<u>\$ 65,000</u>	
Common stock at January 1	<u>50,000</u>	
Retained earnings at January 1	<u>\$ 15,000</u>	

Difficulty: 3 Hard

Topic: Financial Statements

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

Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

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

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

Answer:

Jet Styling Statement of Cash Flows <u>For Month Ended January 31</u>		
Cash flows from operating activities:		
Cash collected from customers.....	\$ 7,750	
Cash paid for supplies.....	(1,500)	
Cash paid for rent.....	(1,800)	
Cash paid for wages.....	<u>(4,000)</u>	
Cash flows from operating activities.....		\$ 450
Cash flows from investing activities:		
Purchase of equipment.....		(7,500)
Cash flows from financing activities:		
Cash received from issuance of common stock.....	15,000	
Cash dividends paid.....	(2,000)	
Payment of loan.....	<u>(1,000)</u>	
Cash flows from financing activities.....		<u>12,000</u>
Net increase in cash.....		<u>\$ 4,950</u>
Beginning cash balance.....		<u>3,200</u>
Ending cash balance.....		<u>\$ 8,150</u>

Difficulty: 3 Hard

Topic: Financial Statements

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

Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

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

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

Answer:

ROADMASTER AUTO RENTALS
Income Statement
For Year Ended December 31

Revenues	\$ 217,000
Expenses:	
Insurance expense	\$ 2,000
Wages expense	75,000
Advertising expense	22,000
Maintenance expense	<u>39,000</u>
Total expenses	<u>\$ 138,000</u>
Net income	<u><u>\$ 79,000</u></u>

ROADMASTER AUTO RENTALS
Statement of Retained Earnings
For Year Ended December 31

Retained earnings, January 1	\$90,000
Add: Net income	79,000
Less: Dividends	<u>(52,000)</u>
Retained earnings, December 31	<u><u>\$117,000</u></u>

ROADMASTER AUTO RENTALS
Balance Sheet
December 31

Assets		Liabilities	
Cash	\$ 11,000	Accounts payable	\$ 36,000
Accounts receivable	24,000	Notes payable	<u>47,000</u>
Airplanes	150,000	Total liabilities	\$ 83,000
Hangar	60,000	Equity	
Office furniture	15,000	Common stock	60,000
		Retained earnings	117,000
Total assets	<u><u>\$260,000</u></u>	Total liabilities and equity	<u><u>\$260,000</u></u>

Difficulty: 3 Hard

Topic: Financial Statements

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

Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

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

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

VERITY SIDING CO.

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

Answer:

		Assets =			Liabilities		+		Equity	
Date		Cash	Accounts Receivable	Equipment	Accounts Payable	Notes Payable	Common Stock	Dividends	Revenues	Expenses
May										
1		90,000					90,000			
2		(10,000)		25,000		15,000				
2		(3,000)								(3,000)
6		5,000							5,000	
7		(2,000)			2,500					(2,000)
8				2,500						
9			16,000						16,000	
15		(2,300)								(2,300)
17		2,400							2,400	
20		10,000	(10,000)							
28		(1,500)			(1,500)					
31		(2,400)								(2,400)
31		(5,300)								(5,300)
31		(450)								(450)
		80,450	6,000	27,500	1,000	15,000	90,000	-	23,400	(15,450)

Difficulty: 3 Hard

Topic: Transaction Analysis

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

Bloom's: Apply; Analyze

AACSB: Analytic

AICPA: BB Industry; FN Reporting

319) _____ is an information and measurement system that identifies, records and communicates relevant, reliable and comparable information about an organization's economic activities.

Answer: Accounting

Difficulty: 1 Easy

Topic: Importance of Accounting

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

320) A _____ is a business that is owned by only one person.

Answer: Sole proprietorship

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

321) _____ users of accounting information are not directly involved in running the organization.

Answer: External

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

322) _____ is the area of accounting aimed at serving external users by providing them with general-purpose financial statements.

Answer: Financial accounting

Difficulty: 1 Easy

Topic: Users of Accounting Information

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

323) Congress passed the _____ to help curb financial abuses at companies that issue their stock to the public.

Answer: Sarbanes-Oxley Act

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication; Ethics

AICPA: BB Legal; FN Reporting

324) _____ are beliefs that separate right from wrong and are considered accepted standards of good and bad behavior.

Answer: Ethics

Difficulty: 1 Easy

Topic: Ethics-A Key Concept

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

Bloom's: Remember

AACSB: Communication; Ethics

AICPA: BB Industry; FN Decision Making

325) The assumption that requires that a business be accounted for separately from its owners is the _____ assumption.

Answer: business entity

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

326) The _____ principle requires that financial information is supported by independent, unbiased evidence.

Answer: objectivity

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

Answer: going-concern

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

Answer: monetary unit

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

Answer: Measurement (Cost) principle

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

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

Answer: unlimited liability

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

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

Answer: limited partnership, limited liability partnership, limited liability company

Explanation: answers can appear in any order

Difficulty: 1 Easy

Topic: Generally Accepted Accounting Principles

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

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

Answer: Financing

Difficulty: 1 Easy

Topic: Business Activities and the Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: Investing

Difficulty: 1 Easy

Topic: Business Activities and the Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: Operating

Difficulty: 1 Easy

Topic: Business Activities and the Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: Dividends

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: Revenues

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: assets

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: liabilities

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: equity

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

340) The accounting equation is _____.

Answer: $\text{Assets} = \text{Liabilities} + \text{Equity}$

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: payable

Difficulty: 1 Easy

Topic: The Accounting Equation

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: assets minus liabilities

Difficulty: 2 Medium

Topic: The Accounting Equation

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

Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: Record-keeping or Bookkeeping

Difficulty: 1 Easy

Topic: Importance of Accounting

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

Bloom's: Remember

AACSB: Communications

AICPA: BB Industry; FN Reporting

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

Answer: Return on assets

Difficulty: 1 Easy

Topic: Return on Assets

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: uncertainty

Difficulty: 1 Easy

Topic: Return and Risk

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Risk Analysis

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

Answer: The statement of retained earnings

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

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

Answer: income statement

Difficulty: 1 Easy

Topic: Financial Statements

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

Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting