

# CHAPTER 2

## A FURTHER LOOK AT FINANCIAL STATEMENTS

### CHAPTER LEARNING OBJECTIVES

1. **Identify the sections of a classified balance sheet.** In a classified balance sheet, companies classify assets as current assets; long-term investments; property, plant, and equipment; and intangibles. They classify liabilities as either current or long-term. A stockholders' equity section shows common stock and retained earnings.
2. **Use ratios to evaluate a company's profitability, liquidity, and solvency.** Ratio analysis expresses the relationship among selected items of financial statements data. Profitability ratios, such as earnings per share (EPS), measure aspects of the operating success of a company for a given period of time.

Liquidity ratios, such as the current ratio, measure the short-term ability of a company to pay its maturing obligations and to meet unexpected needs for cash. Solvency ratios, such as the debt to assets ratio, measure the ability of a company to survive over a long period.

3. **Discuss financial reporting concepts.** Generally accepted accounting principles are a set of rules and practices recognized as a general guide for financial reporting purposes. The basic objective of financial reporting is to provide information that is useful for decision-making.

To be judged useful, information should have the primary characteristics of relevance and faithful representation. In addition, useful information is comparable, consistent, verifiable, timely, and understandable.

The *monetary unit assumption* requires that companies include in the accounting records only transaction data that can be expressed in terms of money. The *economic entity assumption* states that economic events can be identified with a particular unit of accountability. The *periodicity assumption* states that the economic life of a business can be divided into artificial time periods and that meaningful accounting reports can be prepared for each period. The *going concern assumption* states that the company will continue in operation long enough to carry out its existing objectives and commitments.

The historical *cost principle* states that the companies should record assets at their cost. The fair value principle indicates that assets and liabilities should be reported at fair value. The *full disclosure principle* requires that companies disclose circumstances and events that matter to financial statement users.

The cost constraint weighs the cost that companies incur to provide a type of information against its benefit to financial statement users.

Difficulties:

Easy: 143

Medium: 101

Hard: 6

## **Question List by Section**

The Classified Balance Sheet:

Current Assets: 1, 5, 56, 57, 58, 59, 61, 67, 69, 73, 75, 80, 90, 121, 204, 236

Long-term Investments: 6, 71, 77, 82, 92

Property, Plant, and Equipment: 66, 72, 76, 81, 91

Intangible Assets: 7, 60, 62, 70

Current Liabilities: 3, 63, 65, 68

Long-term Liabilities: 64

Stockholders' Equity: 4, 87, 88, 89, 240

Analyzing the Financial Statements Using Ratios:

Ratio Analysis: 224, 225, 226, 227, 228, 229, 241, 243

Using the Income Statement: 8, 107, 235

Earnings Per Share: 9, 10, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 125, 129, 209

Using a Classified Balance Sheet

Liquidity: 11, 20, 22, 106, 108, 110, 111, 118, 120, 133, 143, 206, 214, 230, 237

Working Capital: 15, 78, 83, 93, 113, 114, 119, 122, 123, 127

Current Ratio: 14, 16, 23, 79, 84, 94, 109, 112, 124, 128, 136, 137, 138, 139, 140, 141

Solvency: 12, 17, 19, 25, 115, 116, 132, 134

Debt to Assets Ratio: 18, 21, 24, 126, 130, 131, 135, 142

Financial Reporting Concepts:

The Standard-Setting Environment: 26, 27, 28, 145, 147, 148, 149, 150, 151, 152

Qualities of Useful Information: 29, 30, 31, 32, 33, 34, 49, 51, 54, 144, 155, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 178, 198, 207, 208, 244, 247

Enhancing Qualities: 35, 36, 153, 154, 158, 169, 170, 171, 172, 173, 174, 175, 176, 199, 248

Assumptions in Financial Reporting: 37, 40, 41, 42, 43, 44, 45, 46, 48, 55, 156, 157, 179, 180, 182, 184, 185, 186, 187, 188, 189, 200, 201, 209, 210, 232, 233, 245, 246

Principles of Financial Reporting: 238

Measurement Principles: 177, 181

Historical Cost Principle: 38, 190, 191, 192, 193, 196

Fair Value Principle: 39, 53, 194, 195, 197

Full Disclosure Principle: 47, 183, 250

Cost Constraint: 50, 52, 202, 203, 234

## TRUE-FALSE STATEMENTS

1. Cash and supplies are both classified as current assets.

Ans: T, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

2. Long-term investments appear in the property, plant, and equipment section of the balance sheet.

Ans: F, LO: 1, Section: The Classified Balance Sheet: Long-term Investments, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

3. A liability is classified as a current liability if it is to be paid within the coming year.

Ans: T, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Liabilities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

4. Stockholders' equity consists of two parts: common stock and retained earnings.

Ans: T, LO: 1, Section: The Classified Balance Sheet, Subsection: Stockholders' Equity, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

5. It is possible for an asset to be a current asset even though the expected conversion of that asset into cash is to be longer than one year or the normal operating cycle.

Ans: F, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

6. The investment category on the balance sheet normally includes investments that are intended to be held for a short period of time (less than one year).

Ans: F, LO: 1, Section: The Classified Balance Sheet, Subsection: Long-term Investments, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

7. The main difference between intangible assets and property, plant and equipment is the length of the asset's life.

Ans: F, LO: 1, Section: The Classified Balance Sheet, Subsection: Intangible Assets, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

8. Profitability means having enough funds on hand to pay debts when they fall due.

Ans: F, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Using the Income Statement, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Risk Management, Analysis and Management, AICPA PC: None, IMA: Reporting

9. Earnings per share is calculated by dividing net income minus preferred stock dividends for the period by the weighted-average number of common shares outstanding during the period.

Ans: T, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

10. Earnings per share measures the net income earned on each share of common stock.

Ans: T, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

11. Liquidity ratios measure the short-term ability of a company to pay its maturing obligations and meet unexpected needs for cash.

Ans: T, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

12. Solvency ratios measure the ability of a company to survive over a short period of time.

Ans: F, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Solvency, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**13. Profitability ratios measure the operating success of a company for a given period of time.**

Ans: T, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Using the Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**14. The current ratio is computed as current liabilities divided by current assets.**

Ans: F, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**15. The excess of current assets over current liabilities is called working capital.**

Ans: T, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Working Capital, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**16. The current ratio takes into account the composition of current assets.**

Ans: F, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**17. Solvency ratios measure the short-term ability of the company to pay its maturing obligations.**

Ans: F, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Solvency, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**18. The debt to assets ratio measures the percentage of assets financed by creditors.**

Ans: T, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Debt to Assets Ratio, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**19. Solvency is a company's ability to pay interest as it comes due and to repay the balance of a debt due at its maturity.**

Ans: T, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Solvency, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Risk Management, Analysis and Management, AICPA PC: Project Management, IMA: Reporting

**20. Working capital is a better measure of liquidity than the current ratio.**

Ans: F, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**21. A high debt to asset's ratio is undesirable from a creditor's perspective.**

Ans: T, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Debt to Assets Ratio, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**22. Some current assets are more liquid than others.**

Ans: T, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**23. A current ratio of less than 1:1 means that a company has fewer current liabilities than current assets.**

Ans: F, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**24. The debt to assets ratio is computed by dividing total liabilities by total assets.**

Ans: T, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Debt to Assets Ratio, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**25. The current ratio is considered by creditors to be an indicator of solvency.**

Ans: F, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Solvency, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Risk Management, Analysis and Management, AICPA PC: None, IMA: Reporting

26. The primary accounting standard-setting body in the United States is the Securities and Exchange Commission.

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: The Standard-Setting Environment, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

27. Generally accepted accounting principles are rules and practices that are recognized as a general guide for financial reporting purposes.

Ans: T, LO: 3, Section: Financial Reporting Concepts, Subsection: The Standard-Setting Environment, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

28. GAAP stands for generally accepted accounting procedures.

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: The Standard-Setting Environment, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

29. To provide faithful representation, accounting information should predict future events, confirm prior expectations, and be reported on a timely basis.

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

30. In order for information to be relevant, it must be reported on a monthly basis.

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

31. For information to be useful, it must be both relevant and demonstrate faithful representation.

Ans: T, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

32. Consistent use of the same accounting principles and methods is necessary for meaningful analysis of trends within a company.

Ans: T, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

33. A major function of management is to provide the accountant with relevant and useful information.

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

34. The advantage of accounting information is that it provides exact and completely reliable measures.

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

35. Consistency in accounting means that a company uses the same generally accepted accounting principles from one accounting period to the next accounting period.

Ans: T, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

36. The convention of consistency pertains to the use of the same accounting principles by firms in the same industry.

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

37. The periodicity assumption states that the business will remain in operation for the foreseeable future.

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Risk Management, Analysis and Management, AICPA PC: None, IMA: Reporting

38. If a building is offered for sale at \$100,000 and the buyer pays \$95,000 cash for it, the buyer would record the building at \$100,000.

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Historical Cost Principle, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: REPORTING AND CONTROL

39. The most generally accepted value used to report assets in accounting is fair value.

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Fair Value Principle, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: REPORTING AND CONTROL

40. For accounting purposes, business transactions should be kept separate from the personal transactions of the stockholders of the business.

Ans: T, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: REPORTING AND CONTROL

41. The economic entity assumption states that economic events can be identified with a particular unit of accountability.

Ans: T, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

42. The economic entity assumption states that assets should be recorded at their cost.

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: REPORTING AND CONTROL

43. The monetary unit assumption states that transactions that can be measured in terms of money should be recorded in the accounting records.

Ans: T, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: REPORTING AND CONTROL

44. The monetary unit assumption has led to an increase in the notes to financial statements.

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

45. The going concern assumption is that the business will continue in operation long enough to carry out its existing objectives and commitments.

Ans: T, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Risk Management, Analysis and Management, AICPA PC: None, IMA: Reporting

46. When preparing financial statements, the accountant assumes that the business will stay in business for the foreseeable future.

Ans: T, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

47. Full disclosure of all important facts aids in overcoming the limitations of accounting information.

Ans: T, LO: 3, Section: Financial Reporting Concepts, Subsection: Full Disclosure, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

48. The economic entity assumption is that a company will remain in operations for the foreseeable future.

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None,

AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**49. Materiality is a company-specific aspect of faithful representation.**

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

**50. Relevance and cost are two constraints in accounting.**

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Cost Constraint, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Risk Management, Analysis and Management, AICPA PC: None, IMA: Reporting

**51. Materiality relates to whether an item is large enough to likely influence the decision of an investor or creditor.**

Ans: T, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**52. The cost constraint weighs the cost that companies incur to provide a type of information against its benefit to financial statement users.**

Ans: T, LO: 3, Section: Financial Reporting Concepts, Subsection: Cost Constraint, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**53. In general, the FASB indicates that most assets must follow the fair value principle.**

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Fair Value Principle, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**54. A material item is one that is likely to influence an investor's decision.**

Ans: T, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**55. The periodicity assumption states that every economic entity can be separately identified and accounted for.**

Ans: F, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

## MULTIPLE CHOICE QUESTIONS

56. In a classified balance sheet, assets are usually classified as
- current assets; long-term assets; property, plant, and equipment; and intangible assets.
  - current assets; long-term investments; property, plant, and equipment; and common stocks.
  - current assets; long-term investments; tangible assets; and intangible assets.
  - current assets; long-term investments; property, plant, and equipment; and intangible assets.

Ans: D, Section: The Classified Balance Sheet, Subsection: Current Assets, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

57. On a classified balance sheet, short-term investments are classified as
- intangible assets.
  - property, plant, and equipment.
  - current assets.
  - long-term investments.

Ans: C, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

58. A current asset is
- the last asset purchased by a business.
  - an asset which is currently being used to produce a product or service.
  - usually found as a separate classification in the income statement.
  - expected to be converted to cash or used in the business within one year or one operating cycle, whichever is longer.

Ans: D, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

59. Which of the following is not usually classified properly as a current asset?
- Supplies
  - Short-term debt investments
  - A fund to be used to purchase a building within the next year
  - A receivable from the sale of an asset to be collected in two years

Ans: D, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

60. An intangible asset
- derives its value from the rights and privileges it provides the owner.
  - is worthless because it has no physical substance.
  - is converted into a tangible asset during the operating cycle.
  - cannot be classified on the balance sheet because it lacks physical substance.

Ans: A, LO: 1, Section: The Classified Balance Sheet, Subsection: Intangible Assets, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting



61. Which of the following is not considered an asset?
- a. Equipment
  - b. Dividends
  - c. Accounts receivable
  - d. Inventory

Ans: B, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

62. In which balance sheet section would trademarks be reported?
- a. Intangible assets
  - b. Investments
  - c. Property, plant, and equipment
  - d. Current assets

Ans: A, LO: 1, Section: The Classified Balance Sheet, Subsection: Intangible Assets, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

63. Liabilities are generally classified on a balance sheet as
- a. small liabilities and large liabilities.
  - b. present liabilities and future liabilities.
  - c. tangible liabilities and intangible liabilities.
  - d. current liabilities and long-term liabilities.

Ans: D, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Liabilities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

64. Which of the following would not be classified as a long-term liability?
- a. Current maturities of long-term debt
  - b. Bonds payable
  - c. Mortgage payable
  - d. Lease liabilities

Ans: A, LO: 1, Section: The Classified Balance Sheet, Subsection: Long-term Liabilities, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

65. Which of the following is generally not classified as a current liability?
- a. Salaries and Wages Payable
  - b. Accounts Payable
  - c. Taxes Payable
  - d. Bonds Payable

Ans: D, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Liabilities, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

66. Buildings are classified on the balance sheet as
- a. a current asset.
  - b. property, plant, and equipment.
  - c. an intangible asset.
  - d. a long-term investment.

Ans: B, LO: 1, Section: The Classified Balance Sheet, Subsection: Property, Plant, and Equipment, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

67. It is **not** true that current assets are resources that are expected to be
- a. realized in cash within one year.
  - b. sold within one year.
  - c. consumed within one year.
  - d. acquired within one year.

Ans: D, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process

and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

68. The operating cycle of a company is the average time that is required to go from cash to
- sales in producing revenues.
  - cash in producing revenues.
  - inventory in producing revenues.
  - accounts receivable in producing revenues.

Ans: B, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Liabilities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

69. On a classified balance sheet, companies usually list current assets
- in alphabetical order.
  - with the largest dollar amounts first.
  - in the order in which they are expected to be converted into cash.
  - in the order of acquisition.

Ans: C, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

70. On a classified balance sheet, intangible assets are
- listed directly under current assets on the balance sheet.
  - not listed on the balance sheet because they do not have physical substance.
  - listed after property, plant, and equipment.
  - listed as a long-term investment on the balance sheet.

Ans: C, LO: 1, Section: The Classified Balance Sheet, Subsection: Intangible Assets, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

71. Which statement about long-term investments is not true?
- They will be held for more than one year.
  - They are not currently used in the operation of the business.
  - They include investments in stock of other companies and land held for future use.
  - They do not include long-term notes receivable.

Ans: D, LO: 1, Section: The Classified Balance Sheet, Subsection: Long-term Investments, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

72. These are selected account balances on December 31, 2025.
- |                            |           |
|----------------------------|-----------|
| Land                       | \$150,000 |
| Land (held for future use) | 225,000   |
| Buildings                  | 1,200,000 |
| Inventory                  | 300,000   |
| Equipment                  | 675,000   |
| Furniture                  | 150,000   |
| Accumulated Depreciation   | 450,000   |

What is the total amount of property, plant, and equipment that will appear on the balance sheet?

- \$2,250,000
- \$1,950,000
- \$2,700,000
- \$1,725,000

Ans: D, LO: 1, Section: The Classified Balance Sheet, Subsection: Property, Plant, and Equipment, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution: \$150,000 + \$1,200,000 + \$675,000 + \$150,000 – \$450,000 = \$1,725,000  
(Land + Build. + Equip + Furn. – Acc. dep.)

73. What is the order in which assets are generally listed on a classified balance sheet?
- Current and long-term
  - Current; property, plant and equipment; long-term investments; intangibles
  - Current; property, plant and equipment; intangibles; long-term investments
  - Current; long-term investments; property, plant and equipment, intangibles

Ans: D, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

74. What is the first classification of assets generally listed on a classified balance sheet?
- Current assets
  - Property, plant and equipment
  - Long-term investments
  - Intangibles

Ans: A, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

75. Use the following data to determine the total dollar amount of assets to be classified as current assets.

Acme Office Supplies  
Balance Sheet  
December 31, 2025

Cash	\$ 195,000	Accounts payable	\$ 210,000
Accounts receivable	150,000	Salaries and wages payable	30,000
Inventory	165,000	Mortgage payable	<u>240,000</u>
Prepaid insurance	90,000	Total liabilities	480,000
Stock investments (long-term)	255,000		
Land	270,000		
Buildings	\$315,000	Common stock	\$360,000
Less: Accumulated depreciation	(60,000)	Retained earnings	<u>750,000</u>
	255,000	Total stockholders' equity	<u>1,110,000</u>
Goodwill	<u>210,000</u>	Total liabilities and stockholders' equity	<u>\$1,590,000</u>
Total assets	<u>\$1,590,000</u>		

- \$855,000
- \$600,000
- \$510,000
- \$435,000

Ans: B, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$195,000 + \$150,000 + \$165,000 + \$90,000 = \$600,000$   
(Cash + Acc. rec. + Inven. + Prep. ins.)

76. Use the following data to determine the total dollar amount of assets to be classified as property, plant, and equipment.

Acme Office Supplies  
Balance Sheet  
December 31, 2025

Cash	\$	195,000	Accounts payable	\$	210,000
Accounts receivable		150,000	Salaries and wages payable		30,000
Inventory		165,000	Mortgage payable		<u>240,000</u>
Prepaid insurance		90,000	Total liabilities		480,000
Stock investments (noncurrent)		255,000			
Land		270,000			
Buildings	\$315,000		Common stock		360,000
Less: Accumulated depreciation	(60,000)	255,000	Retained earnings		<u>750,000</u>
Goodwill		<u>210,000</u>	Total stockholders' equity		<u>1,110,000</u>
Total assets		<u>\$1,590,000</u>	Total liabilities and stockholders' equity		<u>\$1,590,000</u>

- a. \$990,000
- b. \$525,000
- c. \$735,000
- d. \$585,000

Ans: B, LO: 1, Section: The Classified Balance Sheet, Subsection: Property, Plant, and Equipment, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$270,000 + \$255,000 = \$525,000$   
[Land + (Build. - Acc. dep.)]

77. Use the following data to determine the total dollar amount of assets to be classified as long-term investments.

Acme Office Supplies  
Balance Sheet  
December 31, 2025

Cash	\$	195,000	Accounts payable	\$	210,000
Accounts receivable		150,000	Salaries and wages payable		30,000
Inventory		165,000	Mortgage payable		<u>240,000</u>
Prepaid insurance		90,000	Total liabilities		480,000
Stock investments		255,000			
Land		270,000			
Buildings	\$315,000		Common stock		360,000
Less: Accumulated depreciation	(60,000)	255,000	Retained earnings		<u>750,000</u>
Goodwill		<u>210,000</u>	Total stockholders' equity		<u>1,110,000</u>
Total assets		<u>\$1,590,000</u>	Total liabilities and stockholders' equity		<u>\$1,590,000</u>

- a. \$0
- b. \$525,000
- c. \$255,000
- d. \$465,000

Ans: C, LO: 1, Section: The Classified Balance Sheet, Subsection: Long-term Investments, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution: Stock investments = \$255,000



78. Use the following data to determine the total amount of working capital.

Acme Office Supplies  
Balance Sheet  
December 31, 2025

Cash	\$ 195,000	Accounts payable	\$ 210,000
Accounts receivable	150,000	Salaries and wages payable	30,000
Inventory	165,000	Mortgage payable	<u>240,000</u>
Prepaid insurance	90,000	Total liabilities	480,000
Stock investments (noncurrent)	255,000		
Land	270,000		
Buildings	\$315,000	Common stock	360,000
Less: Accumulated depreciation	<u>(60,000)</u>	Retained earnings	<u>750,000</u>
	255,000	Total stockholders' equity	<u>1,110,000</u>
Goodwill	<u>210,000</u>	Total liabilities and stockholders' equity	<u>\$1,590,000</u>
Total assets	<u>\$1,590,000</u>		

- a. \$360,000
- b. \$390,000
- c. \$130,000
- d. \$180,000

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Working Capital, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $(\$195,000 + \$150,000 + \$165,000 + \$90,000) - (\$210,000 + \$30,000) = \$360,000$   
(Cash + Acc. rec. + Inv. + Prep. ins.) – (Acct. pay + Sal./wag. pay.)

79. Use the following data to calculate the current ratio.

Acme Office Supplies  
Balance Sheet  
December 31, 2025

Cash	\$ 195,000	Accounts payable	\$ 210,000
Accounts receivable	150,000	Salaries and wages payable	30,000
Inventory	165,000	Mortgage payable	<u>240,000</u>
Prepaid insurance	90,000	Total liabilities	480,000
Stock investments (noncurrent)	255,000		
Land	270,000		
Buildings	\$315,000	Common stock	360,000
Less: Accumulated depreciation	<u>(60,000)</u>	Retained earnings	<u>750,000</u>
	255,000	Total stockholders' equity	<u>1,110,000</u>
Goodwill	<u>210,000</u>	Total liabilities and stockholders' equity	<u>\$1,590,000</u>
Total assets	<u>\$1,590,000</u>		

- a. 2.13: 1
- b. 1.44: 1
- c. 2.86: 1
- d. 2.50: 1

Ans: D, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $(\$195,000 + \$150,000 + \$165,000 + \$90,000) \div (\$210,000 + \$30,000) = 2.50:1$   
(Cash + Acc. rec. + Inv. + Prep. ins.) ÷ (Acc. pay. + Sal./wag. pay.)

80. Use the following data to determine the total dollar amount of assets to be classified as current assets.

A1 Auto Supplies  
Balance Sheet  
December 31, 2025

Cash and cash equivalents	\$ 70,000	Accounts payable	\$ 130,000
Accounts receivable	100,000	Salaries and wages payable	20,000
Inventory	140,000	Bonds payable	<u>180,000</u>
Prepaid insurance	80,000	Total liabilities	330,000
Stock investments (long-term)	180,000		
Land	190,000		
Buildings	\$230,000	Common stock	240,000
Less: Accumulated depreciation	<u>(60,000)</u>	Retained earnings	<u>500,000</u>
	170,000	Total stockholders' equity	<u>740,000</u>
Trademarks	<u>140,000</u>	Total liabilities and stockholders' equity	<u>\$1,070,000</u>
Total assets	<u>\$1,070,000</u>		

- a. \$390,000
- b. \$250,000
- c. \$570,000
- d. \$330,000

Ans: A, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution: \$70,000 + \$100,000 + \$140,000 + \$80,000 = \$390,000  
(Cash + Acc. rec. + Inv. + Prep. ins.)

81. Use the following data to determine the total dollar amount of assets to be classified as property, plant, and equipment.

A1 Auto Supplies  
Balance Sheet  
December 31, 2025

Cash and cash equivalents	\$ 70,000	Accounts payable	\$ 130,000
Accounts receivable	100,000	Salaries and wages payable	20,000
Inventory	140,000	Bonds payable	<u>180,000</u>
Prepaid insurance	80,000	Total liabilities	330,000
Stock investments	180,000		
Land	190,000		
Buildings	\$230,000	Common stock	240,000
Less: Accumulated depreciation	<u>(60,000)</u>	Retained earnings	<u>500,000</u>
	170,000	Total stockholders' equity	<u>740,000</u>
Trademarks	<u>140,000</u>	Total liabilities and stockholders' equity	<u>\$1,070,000</u>
Total assets	<u>\$1,070,000</u>		

- a. \$540,000
- b. \$500,000
- c. \$360,000
- d. \$420,000

Ans: C, LO: 1, Section: The Classified Balance Sheet, Subsection: Property, Plant, and Equipment, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution: \$190,000 + \$170,000 = \$360,000



[Land + (Build. – Acc. dep.)]

82. Use the following data to determine the total dollar amount of assets to be classified as long-term investments.

A1 Auto Supplies  
Balance Sheet  
December 31, 2025

Cash and cash equivalents	\$ 70,000	Accounts payable	\$ 130,000
Accounts receivable	100,000	Salaries and wages payable	20,000
Inventory	140,000	Bonds payable	<u>180,000</u>
Prepaid insurance	80,000	Total liabilities	330,000
Stock investments (noncurrent)	180,000		
Land	190,000		
Buildings	\$230,000	Common stock	240,000
Less: Accumulated depreciation	<u>(60,000)</u>	Retained earnings	<u>500,000</u>
	170,000	Total stockholders' equity	<u>740,000</u>
Trademarks	<u>140,000</u>	Total liabilities and stockholders' equity	<u>\$1,070,000</u>
Total assets	<u>\$1,070,000</u>		

- a. \$0
- b. \$320,000
- c. \$180,000
- d. \$280,000

Ans: C, LO: 1, Section: The Classified Balance Sheet, Subsection: Long-term Investments, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution: Stock investments = \$180,000

83. Use the following data to determine the total amount of working capital.

A1Auto Supplies  
Balance Sheet  
December 31, 2025

Cash and cash equivalents	\$ 70,000	Accounts payable	\$ 130,000
Accounts receivable	100,000	Salaries and wages payable	20,000
Inventory	140,000	Bonds payable	<u>180,000</u>
Prepaid insurance	80,000	Total liabilities	330,000
Stock investments (noncurrent)	180,000		
Land	190,000		
Buildings	\$230,000	Common stock	240,000
Less: Accumulated depreciation	<u>(60,000)</u>	Retained earnings	<u>500,000</u>
	170,000	Total stockholders' equity	<u>740,000</u>
Trademarks	<u>140,000</u>	Total liabilities and stockholders' equity	<u>\$1,070,000</u>
Total assets	<u>\$1,070,000</u>		

- a. \$260,000
- b. \$240,000
- c. \$160,000
- d. \$420,000

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Working Capital, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $(\$70,000 + \$100,000 + \$140,000 + \$80,000) - (\$130,000 + \$20,000) = \$240,000$   
(Cash + Acc. rec. + Inv. + Prep. ins.) - (Acc. pay. + Sal./wag. pay.)

84. Use the following data to calculate the current ratio.

A1Auto Supplies  
Balance Sheet  
December 31, 2025

Cash and cash equivalents	\$ 70,000	Accounts payable	\$ 130,000
Accounts receivable	100,000	Salaries and wages payable	20,000
Inventory	140,000	Bonds payable	<u>180,000</u>
Prepaid insurance	80,000	Total liabilities	330,000
Stock investments (noncurrent)	180,000		
Land	190,000		
Buildings	\$230,000	Common stock	240,000
Less: Accumulated depreciation	<u>(60,000)</u>	Retained earnings	<u>500,000</u>
	170,000	Total stockholders' equity	<u>740,000</u>
Trademarks	<u>140,000</u>	Total liabilities and stockholders' equity	<u>\$1,070,000</u>
Total assets	<u>\$1,070,000</u>		

- a. 2.07: 1
- b. 1.67: 1
- c. 3.00: 1
- d. 2.60: 1

Ans: D, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $(\$70,000 + \$100,000 + \$140,000 + \$80,000) \div (\$130,000 + \$20,000) = 2.60:1$   
(Cash + Acc. rec. + Inv. + Prep. ins.)  $\div$  (Acc. pay. + Sal./wag. pay.)

85. Suppose that Old Navy has assets of \$4,200,000, common stock of \$1,092,000, and retained earnings of \$665,000. What are the creditors' claims on their assets?
- a. \$3,773,000
  - b. \$1,757,000
  - c. \$2,443,000
  - d. \$4,627,000

Ans: C, LO: 1, Section: The Classified Balance Sheet, Subsection: Liabilities, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$4,200,000 - \$1,092,000 - \$665,000 = \$2,443,000$   
(Assets - Com.st. - Ret.earn.)

86. Suppose that Forever 21 Corporation has total assets of \$3,600,000, common stock of \$936,000, and retained earnings of \$570,000 at December 31, 2025. What are the creditors' claims on their assets at that date?
- a. \$3,234,000
  - b. \$1,506,000
  - c. \$2,094,000
  - d. \$3,966,000

Ans: C, LO: 1, Section: The Classified Balance Sheet, Subsection: Liabilities, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$3,600,000 - \$936,000 - \$570,000 = \$2,094,000$   
(Assets - Com.st. - Ret.earn.)

87. Suppose that Forever 21 Corporation has total assets of \$3,600,000, common stock of \$936,000, and retained earnings of \$570,000 at December 31, 2025. What are the stockholders' claims on their assets at that date?
- a. \$3,234,000
  - b. \$1,506,000
  - c. \$2,094,000
  - d. \$3,966,000

Ans: B, LO: 1, Section: The Classified Balance Sheet, Subsection: Stockholders' Equity, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$936,000 + \$570,000 = \$1,506,000$   
(Com.st. + Ret.earn.)

88. If a company has total assets of \$1,600,000, liabilities of \$200,000, common stock of \$900,000, and retained earnings of \$500,000 at December 31, 2025. What are the stockholders' claims on their assets at that date?
- a. \$1,600,000
  - b. \$1,400,000
  - c. \$700,000
  - d. \$1,800,000

Ans: B, LO: 1, Section: The Classified Balance Sheet, Subsection: Stockholders' Equity, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$900,000 + \$500,000 = \$1,400,000$   
(Com.st. + Ret.earn.)

89. Suppose that a corporation has total assets of \$500,000, common stock of \$50,000, and retained earnings of \$200,000 at December 31, 2025. What are the stockholders' claims on their assets at that date?
- a. \$500,000
  - b. \$450,000
  - c. \$250,000
  - d. \$300,000

Ans: C, LO: 1, Section: The Classified Balance Sheet, Subsection: Stockholders' Equity, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$50,000 + \$200,000 = \$250,000$   
(Com.st. + Ret.earn.)

90. Use the following data to determine the total dollar amount of assets to be classified as current assets.

Ace Supply Company  
Balance Sheet  
December 31, 2025

Cash	\$	126,000	Accounts payable	\$	165,000
Accounts receivable		120,000	Salaries and wages payable		30,000
Inventory		210,000	Note payable (due 2028)		<u>270,000</u>
Short-term investments		90,000	Total liabilities		465,000
Land (held for future use)		255,000			
Land		285,000			
Buildings	\$339,000		Common stock		360,000
Less: Accumulated depreciation	<u>(60,000)</u>	279,000	Retained earnings		<u>750,000</u>
Franchise		<u>210,000</u>	Total stockholders' equity		<u>1,110,000</u>
Total assets		<u>\$1,575,000</u>	Total liabilities and stockholders' equity		<u>\$1,575,000</u>

- a. \$801,000
- b. \$336,000
- c. \$546,000
- d. \$456,000

Ans: C, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution: \$126,000 + \$120,000 + \$210,000 + \$90,000 = \$546,000  
(Cash + Acc. rec. + Inv. + Sht.-term inv.)

91. Use the following data to determine the total dollar amount of assets to be classified as property, plant, and equipment.

Ace Supply Company  
Balance Sheet  
December 31, 2025

Cash	\$	126,000	Accounts payable	\$	165,000
Accounts receivable		120,000	Salaries and wages payable		30,000
Inventory		210,000	Note payable (due 2028)		<u>270,000</u>
Short-term investments		90,000	Total liabilities		465,000
Land (held for future use)		255,000			
Land		285,000			
Buildings	\$339,000		Common stock		360,000
Less: Accumulated depreciation	<u>(60,000)</u>	279,000	Retained earnings		<u>750,000</u>
Franchise		<u>210,000</u>	Total stockholders' equity		<u>1,110,000</u>
Total assets		<u>\$1,575,000</u>	Total liabilities and stockholders' equity		<u>\$1,575,000</u>

- a. \$1,029,000
- b. \$774,000
- c. \$834,000
- d. \$564,000

Ans: D, LO: 1, Section: The Classified Balance Sheet, Subsection: Property, Plant, and Equipment, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution: \$285,000 + \$279,000 = \$564,000

[Land + (Build. – Acc. dep.)]

92. Use the following data to determine the total dollar amount of assets to be classified as long-term investments.

Ace Supply Company  
Balance Sheet  
December 31, 2025

Cash	\$ 126,000	Accounts payable	\$ 165,000
Accounts receivable	120,000	Salaries and wages payable	30,000
Inventory	210,000	Note payable (due 2028)	<u>270,000</u>
Short-term investments	90,000	Total liabilities	465,000
Land (held for future use)	255,000		
Land	285,000		
Buildings	\$339,000	Common stock	360,000
Less: Accumulated depreciation	<u>(60,000)</u>	Retained earnings	<u>750,000</u>
	279,000	Total stockholders' equity	<u>1,110,000</u>
Franchise	<u>210,000</u>	Total liabilities and stockholders' equity	<u>1,575,000</u>
Total assets	<u>\$1,575,000</u>		

- a. \$0
- b. \$465,000
- c. \$255,000
- d. \$585,000

Ans: C, LO: 1, Section: The Classified Balance Sheet, Subsection: Long-term Investments, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution: Land (held for future use) = \$255,000

93. Use the following data to determine the total amount of working capital.

Ace Supply Company  
Balance Sheet  
December 31, 2025

Cash	\$ 126,000	Accounts payable	\$ 165,000
Accounts receivable	120,000	Salaries and wages payable	30,000
Inventory	210,000	Note payable (due 2028)	<u>270,000</u>
Short-term investments	90,000	Total liabilities	465,000
Land (held for future use)	255,000		
Land	285,000		
Buildings	\$339,000	Common stock	360,000
Less: Accumulated depreciation	<u>(60,000)</u>	Retained earnings	<u>750,000</u>
	279,000	Total stockholders' equity	<u>1,110,000</u>
Franchise	<u>210,000</u>	Total liabilities and stockholders' equity	<u>1,575,000</u>
Total assets	<u>\$1,575,000</u>		

- a. \$606,000
- b. \$351,000
- c. \$381,000
- d. \$261,000

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Working Capital, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $(\$126,000 + \$120,000 + \$210,000 + \$90,000) - (\$165,000 + \$30,000) = \$351,000$   
(Cash + Acc. rec. + Inv. + Sht-term inv.) – (Acc. pay. + Sal./wag. pay.)

94. Use the following data to calculate the current ratio.

Ace Supply Company  
Balance Sheet  
December 31, 2025

Cash	\$ 126,000	Accounts payable	\$ 165,000
Accounts receivable	120,000	Salaries and wages payable	30,000
Inventory	210,000	Note payable (due 2028)	<u>270,000</u>
Short-term investments	90,000	Total liabilities	465,000
Land (held for future use)	255,000		
Land	285,000		
Buildings	\$339,000	Common stock	360,000
Less: Accumulated depreciation	<u>(60,000)</u>	Retained earnings	<u>750,000</u>
	279,000	Total stockholders' equity	<u>1,110,000</u>
Franchise	<u>210,000</u>	Total Liabilities and stockholders' equity	<u>\$1,575,000</u>
Total assets	<u>\$1,575,000</u>		

- a. 2.34: 1
- b. 2.80: 1
- c. 3.31: 1
- d. 1.26: 1

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $(\$126,000 + \$120,000 + \$210,000 + \$90,000) \div (\$165,000 + \$30,000) = 2.80:1$   
(Cash + Acc. rec. + Inv. + Sht.-term inv.)  $\div$  (Acc. pay. + Sal./wag. pay.)

95. A measure of profitability is
- a. the current ratio.
  - b. the debt to assets ratio.
  - c. earnings per share.
  - d. working capital.

Ans: C, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

96. For 2025, Acme Co. reported net income of \$36,000, net sales \$400,000, and weighted-average shares of common stock outstanding of 16,000. No preferred dividends were paid. Earnings per share is
- a. \$2.25
  - b. \$0.44
  - c. \$25.00
  - d. \$0.09

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $(\$36,000 - 0) \div 16,000 = \$2.25$   
[(Net inc. - Pref.div)  $\div$  Ave.sh.out.]



97. For 2025, Ace Inc. reported net income of \$42,000, had weighted-average shares of common stock outstanding of 16,000, paid preferred dividends of \$10,000 and common dividends of \$5,000. What was 2025 earnings per share?
- \$0.08
  - \$0.50
  - \$25.00
  - \$2.00

Ans: D, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $(\$42,000 - \$10,000) \div 16,000 = \$2.00$   
[(Net inc. – Pref.div) ÷ Ave.sh.out.]

98. Earnings per share is calculated by dividing
- gross profit by weighted-average common shares outstanding.
  - (net income less preferred dividends) by weighted-average common shares outstanding.
  - net income by weighted-average common shares outstanding.
  - net sales by weighted-average common shares outstanding.

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

99. Earnings per share is a
- profitability ratio.
  - liquidity ratio.
  - solvency ratio.
  - trending ratio.

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

100. Which of the following statements is true?
- Earnings per share is an internal measure and is not used by stockholders.
  - The denominator used in computing earnings per share represents the shares of common stock outstanding on the last day of the accounting period.
  - Net income is not adjusted when computing earnings per share.
  - By comparing earnings per share of a single corporation over time, a stockholder can evaluate the corporation's relative earnings performance.

Ans: D, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

101. Earnings available to common stockholders is equal to
- total revenues
  - net income + preferred dividends.
  - preferred dividends – net income.
  - net income – preferred dividends.

Ans: D, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

102. Suppose that the following information is available for Home Depot Corporation and Lowes Corporation:

(in millions)	Home Depot Corporation		Lowes Corporation	
	2025	2024	2025	2024
Preferred dividends	\$25	\$10	\$0	\$30
Net income	\$500	\$480	\$490	\$520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on this information, the earnings per share calculations (rounded to two decimals) suggest

- lower performance in 2024 than in 2025 for Home Depot Corporation.
- lower performance in 2025 than in 2024 for Home Depot Corporation.
- less earnings available to Home Depot's common stockholders in 2025 than in 2024.
- a decrease in the average number of common shares outstanding between 2024 and 2025 for Home Depot Corporation.

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: AN, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

$$2024 \text{ Home Depot EPS} = (\$480 - \$10) / ((180 + 150) / 2) = \$470 / 165 = \$2.85$$

$$2025 \text{ Home Depot EPS} = (\$500 - \$25) / ((200 + 180) / 2) = \$475 / 190 = \$2.50$$

103. Suppose that the following information is available for Home Depot Corporation and Lowes Corporation:

(in millions)	Home Depot Corporation		Lowes Corporation	
	2025	2024	2025	2024
Preferred dividends	\$25	\$10	\$0	\$30
Net income	\$500	\$480	\$490	\$520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on this information, which of the following is suggested by the earnings per share calculations (rounded to two decimals) and the information given?

- There is lower performance in 2024 than in 2025 for Lowes Corporation.
- There is higher performance in 2024 than in 2025 for Lowes Corporation.
- There is less earnings available to Lowes common stockholders in 2025 than in 2024.
- There is an increase in the average number of common shares outstanding between 2024 and 2025 for Lowes.

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: AN, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

$$2024 \text{ Loews EPS} = (\$520 - \$30) / ((200 + 220) / 2) = \$2.33$$

$$2025 \text{ Loews EPS} = (\$490 - \$0) / ((200 + 150) / 2) = \$2.80$$

104. Suppose that the following information is available for Home Depot Corporation and Lowes Corporation:

(in millions)	Home Depot Corporation		Lowes Corporation	
	2025	2024	2025	2024
Preferred dividends	\$25	\$10	\$0	\$30
Net income	\$500	\$480	\$490	\$520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on this information, what is the amount of Home Depot's earnings per share (rounded to two decimals) for 2025?

- \$2.76
- \$2.50
- \$1.25
- \$1.32

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $(\$500 - \$25) \div [(200 + 180) \div 2] = \$2.50$   
 (Net inc. – Pref. div) ÷ [End. sh. out. + Beg. sh. out.] ÷ 2]

105. Suppose that the following information is available for Home Depot Corporation and Lowes Corporation:

(in millions)	Home Depot Corporation		Lowes Corporation	
	2025	2024	2025	2024
Preferred dividends	\$25	\$10	\$0	\$30
Net income	\$500	\$480	\$490	\$520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on the information for both Home Depot and Lowes over the two-year period, the earnings per share calculations (rounded to two decimals) indicate that

- Home Depot is seeing a greater performance improvement than Lowes.
- The earnings available to common stockholders is decreasing for Lowes and increasing for Home Depot.
- The earnings per share calculations for both companies must assume that changes in shares between 2024 and 2025 occur in the middle of the year.
- Lowes is more financially stable than Home Depot.

Ans: C, LO: 2, Bloom: AN, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

2024 Lowes EPS =  $(\$520 - \$30) / ((200 + 220) / 2) = \$2.33$   
 2025 Lowes EPS =  $(\$490 - \$0) / ((200 + 150) / 2) = \$2.80$

2024 Home Depot EPS =  $(\$480 - \$10)/((180+150)/2) = 470/165 = \$2.85$   
2025 Home Depot EPS =  $(\$500 - \$25)/((200+180)/2) = 475/190 = \$2.50$

106. The relationship between current assets and current liabilities is important in evaluating a company's
- profitability.
  - liquidity.
  - market value.
  - solvency.

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

107. Ratios that measure the income or operating success of a company for a given period of time are
- liquidity ratios.
  - profitability ratios.
  - solvency ratios.
  - trending ratios.

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Using the Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

108. Which of the following is a measure of liquidity?
- Working capital
  - Profit margin
  - Earnings per share
  - Debt to assets ratio

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

109. Current assets divided by current liabilities is known as the
- working capital.
  - current ratio.
  - profit margin.
  - capital structure.

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

110. The information needed to determine if companies can pay their current obligations is the
- net income for this year.
  - projected net income for next year.
  - relationship between current assets and current liabilities.
  - relationship between short-term and long-term liabilities.

Ans: C, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

111. A short-term creditor is primarily interested in the \_\_\_\_\_ of the borrower.
- a. liquidity
  - b. profitability
  - c. consistency
  - d. solvency

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

112. The current ratio is
- a. current assets plus current liabilities.
  - b. current assets minus current liabilities.
  - c. current assets divided by current liabilities.
  - d. current assets times current liabilities.

Ans: C, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

113. Working capital is calculated by taking
- a. current assets plus current liabilities.
  - b. current assets minus current liabilities.
  - c. current assets divided by current liabilities.
  - d. current assets times current liabilities.

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Working Capital, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

114. Working capital is a measure of
- a. consistency.
  - b. liquidity.
  - c. profitability.
  - d. solvency.

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Working Capital, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

115. Long-term creditors are usually most interested in evaluating
- a. liquidity.
  - b. profitability.
  - c. solvency.
  - d. consistency.

Ans: C, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Solvency, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

116. Which of the following is a meaningful comparison to assess a company's profitability?
- a. An intracompany comparison of net income for a two-year period
  - b. Industry-average comparison of total assets
  - c. Year-to-year comparisons of liabilities with a competitor in the same industry
  - d. Intercompany comparisons of earnings per share for a two-year period

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Solvency, Bloom: K, Difficulty: Hard, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

117. Which one of the following is true?
- a. Intangible assets are current assets that do not have physical substance.
  - b. Obligations expected to be paid after one year are classified as expenses.
  - c. Current assets are assets that a company expects to convert to cash or use up within the longer of one year or its operating cycle.
  - d. Property, plant, and equipment are assets with relatively short useful lives that are used in the operations of the business.

Ans: C, LO: 1, Section: The Four Financial Statements Using Ratios, Subsection: The Classified Balance Sheet, Bloom: K, Difficulty: Hard, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

118. A liquidity ratio measures the
- a. income or operating success of a company over a period of time.
  - b. ability of a company to survive over a long period of time.
  - c. short-term ability of a company to pay its maturing obligations and to meet unexpected needs for cash.
  - d. percentage of total financing provided by creditors.

Ans: C, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

119. Working capital is
- a. calculated by dividing current assets by current liabilities.
  - b. used to evaluate a company's liquidity and short-term debt paying ability.
  - c. used to evaluate a company's solvency and long-term debt paying ability.
  - d. calculated by subtracting current assets from current liabilities.

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Working Capital, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

120. The ability of a business to pay obligations that are expected to become due within the next year or operating cycle is
- a. leverage.
  - b. liquidity.
  - c. profitability.
  - d. wealth.

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

121. Based on the following data, what is the amount of current assets?

Accounts payable.....	\$ 62,000
Accounts receivable.....	100,000
Cash.....	70,000
Intangible assets.....	100,000
Inventory.....	138,000
Long-term investments.....	160,000
Long-term liabilities.....	200,000
Short-term investments.....	80,000
Notes payable.....	56,000
Property, plant, and equipment.....	1,340,000
Prepaid insurance.....	2,000

- a. \$232,000
- b. \$390,000
- c. \$252,000
- d. \$250,000

Ans: B, LO: 1, Section: The Four Financial Statements Using Ratios, Subsection: Current Assets, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution: \$100,000 + \$70,000 + \$138,000 + \$80,000 + \$2,000 = \$390,000  
(Acc. rec. + Cash + Inven. + Sh.-term inv. + Prep. ins.)

122. Based on the following data, what is the amount of working capital?

Accounts payable.....	\$ 64,000
Accounts receivable.....	114,000
Cash.....	70,000
Intangible assets.....	100,000
Inventory.....	138,000
Long-term investments.....	160,000
Long-term liabilities.....	200,000
Short-term investments.....	80,000
Notes payable (short-term).....	56,000
Property, plant, and equipment.....	1,340,000
Prepaid insurance.....	2,000

- a. \$284,000
- b. \$332,000
- c. \$370,000
- d. \$326,000

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Working Capital, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution: (\$114,000 + \$70,000 + \$138,000 + \$80,000 + \$2,000) - (\$64,000 + \$56,000) = \$284,000  
(Acc. rec. + Cash + Inven. + Sh.-term inv. + Prep. ins.) - (Acc. pay. + Note + pay.)

123. Using the following balance sheet and income statement data, what is the total amount of working capital?

Current assets	\$ 32,000	Net income	\$42,000
Current liabilities	16,000	Stockholders' equity	78,000
Average assets	160,000	Total liabilities	42,000
Total assets	120,000		

Average common shares outstanding was 15,000.

- a. \$8,000
- b. \$32,000
- c. \$10,000
- d. \$16,000

Ans: D, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Working Capital, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$32,000 - \$16,000 = \$16,000$   
(Cur. assets – Cur. liab.)

124. Using the following balance sheet and income statement data, what is the current ratio?

Current assets	\$ 32,000	Net income	\$42,000
Current liabilities	16,000	Stockholders' equity	78,000
Average assets	160,000	Total liabilities	42,000
Total assets	120,000		

Average common shares outstanding was 15,000.

- a. 2.0: 1
- b. 2.6: 1
- c. 0.5: 1
- d. 2.9: 1

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$32,000 \div \$16,000 = 2.0:1$   
(Cur. assets – Cur. liab.)

125. Using the following balance sheet and income statement data, what is the earnings per share?

Current assets	\$ 32,000	Net income	\$42,000
Current liabilities	16,000	Stockholders' equity	78,000
Average assets	160,000	Total liabilities	42,000
Total assets	120,000		

Average common shares outstanding was 15,000.

- a. \$5.20
- b. \$8.00
- c. \$2.80
- d. \$0.36

Ans: C, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$42,000 \div 15,000 = \$2.80$   
(Net inc. ÷ Ave. sh. out.)



126. Using the following balance sheet and income statement data, what is the debt to assets ratio?

Current assets	\$ 32,000	Net income	\$42,000
Current liabilities	16,000	Stockholders' equity	78,000
Average assets	160,000	Total liabilities	42,000
Total assets	120,000		

Average common shares outstanding was 15,000.

- a. 26 percent
- b. 13 percent
- c. 65 percent
- d. 35 percent

Ans: D, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Debt to Assets Ratio, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$42,000 \div \$120,000 = 35\%$   
(Tot. liab.  $\div$  Tot. assets)

127. Using the following balance sheet and income statement data, what is the total amount of working capital?

Current assets	\$ 21,000	Net income	\$45,000
Current liabilities	12,000	Stockholders' equity	63,000
Average assets	132,000	Total liabilities	27,000
Total assets	90,000		

Average common shares outstanding was 15,000.

- a. \$7,000
- b. \$5,000
- c. \$9,000
- d. \$2,000

Ans: C, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Working Capital, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$21,000 - \$12,000 = \$9,000$   
(Cur. assets – Cur. liab.)

128. Using the following balance sheet and income statement data, what is the current ratio?

Current assets	\$ 21,000	Net income	\$45,000
Current liabilities	12,000	Stockholders' equity	63,000
Average assets	132,000	Total liabilities	27,000
Total assets	90,000		

Average common shares outstanding was 15,000.

- a. 0.78: 1
- b. 3.33: 1
- c. 0.57: 1
- d. 1.75: 1

Ans: D, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$21,000 \div \$12,000 = 1.75:1$   
(Cur. assets  $\div$  Cur. liab.)

129. Using the following balance sheet and income statement data, what is the earnings per share?

Current assets	\$ 21,000	Net income	\$45,000
Current liabilities	12,000	Stockholders' equity	63,000
Average assets	132,000	Total liabilities	27,000
Total assets	90,000		

Average common shares outstanding was 15,000.

- a. \$3.00
- b. \$4.20
- c. \$0.33
- d. \$0.50

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$45,000 \div \$15,000 = \$3.00$   
(Net inc.  $\div$  Ave. sh. out).

130. Using the following balance sheet and income statement data, what is the debt to assets ratio?

Current assets	\$ 21,000	Net income	\$45,000
Current liabilities	12,000	Stockholders' equity	63,000
Average assets	132,000	Total liabilities	27,000
Total assets	90,000		

Average common shares outstanding was 15,000.

- a. 20.5 percent
- b. 30 percent
- c. 33.3 percent
- d. 40.9 percent

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Debt to Assets Ratio, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$27,000 \div \$90,000 = 30\%$   
(Tot. liab.  $\div$  Tot. assets)

131. The debt to assets ratio is computed by dividing
- a. long-term liabilities by total assets.
  - b. long-term liabilities by average assets.
  - c. total liabilities by total assets.
  - d. total liabilities by average assets.

Ans: C, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Debt to Assets Ratio, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

132. A useful measure of solvency is the
- a. current ratio.
  - b. earnings per share.
  - c. return on assets ratio.
  - d. debt to assets ratio.

Ans: D, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Solvency, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

133. Which of the following is **not** considered a measure of liquidity?
- a. Current ratio
  - b. Working capital
  - c. Debt to assets ratio
  - d. Each of these answer choices are liquidity measures.

Ans: C, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

134. Which measure would a long-term creditor be most interested in reviewing?
- Earnings per share
  - Debt to assets ratio
  - Current ratio
  - Working capital measure

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Solvency, Bloom: C, Difficulty: Hard, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

135. A1 Motors Corporation has a debt to assets ratio of 73%. This tells the user of the company's financial statements that
- A1 is getting a 27% return on its assets.
  - there is a risk that A1 cannot pay its debts as they come due.
  - 73% of the assets are financed by the stockholders.
  - based on this measure, the user should not invest in A1.

Ans: B, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Debt to Assets Ratio, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

136. Ace Company is a retail store. Due to competition, it is having trouble selling its products. Thus, inventory has been building up. Ace's current ratio has not changed for the past three years, in spite of the inventory buildup. Which of the following statements is true?
- As long as the current ratio remains constant, there is no need for concern.
  - The composition of current assets and current liabilities does not matter.
  - The management of Ace should consider the effect of slow-moving inventory on its liquidity.
  - Since inventory is a current asset, any increases should automatically cause the current ratio to rise.

Ans: C, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: C, Difficulty: Hard, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

137. How can a company improve its current ratio?
- Work with a creditor to reclassify some current debt into long-term debt
  - Collect accounts receivable
  - Nothing can ethically be done to improve the current ratio
  - Use excess cash to buy new equipment

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

138. Suppose that Verizon Corporation has current assets of \$1,800,000 and current liabilities of \$750,000. If they pay \$350,000 of their accounts payable, what will their new current ratio be?
- 3.6:1
  - 2.4:1
  - 4.5:1
  - 2.0:1

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $(\$1,800,000 - \$350,000) \div (\$750,000 - \$350,000) = 3.6:1$   
[(Cur. assets – A/P paid) ÷ (Cur. liab. – A/P paid)]

139. Suppose that Verizon Corporation has current assets of \$1,800,000 and current liabilities of \$750,000. If they issue \$150,000 of new stock, what will their new current ratio be? (rounded)
- a. 2.6:1
  - b. 2.1:1
  - c. 2.2:1
  - d. 2.4:1

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $(\$1,800,000 + \$150,000) \div \$750,000 = 2.6:1$   
(Cur. assets + New stock)  $\div$  Cur. liab.

140. Suppose that Patagonia Corporation has current assets of \$1,600,000 and current liabilities of \$750,000. If they pay \$350,000 of their accounts payable, what will their new current ratio be?
- a. 3.1:1
  - b. 4.0:1
  - c. 1.5:1
  - d. 2.1:1

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $(\$1,600,000 - \$350,000) \div (\$750,000 - \$350,000) = 3.1:1$   
[(Cur. assets - A/P paid)  $\div$  (Cur. liab. - A/P paid)]

141. Suppose that Patagonia Corporation has current assets of \$1,600,000 and current liabilities of \$750,000. If they issue \$200,000 of new stock what will their new current ratio be? (rounded)
- a. 2.4:1
  - b. 1.9:1
  - c. 1.7:1
  - d. 2.13:1

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Current Ratio, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution:  $(\$1,600,000 + \$200,000) \div \$750,000 = 2.4:1$   
(Cur. assets + New stock)  $\div$  Cur. liab.

142. The debt to assets ratio is a
- a. liquidity ratio.
  - b. profitability ratio.
  - c. solvency ratio.
  - d. None of the answer choices is correct.

Ans: C, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Debt to Assets Ratio, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

143. Analysts determined that Amazon has the ability to pay its obligations expected to come due within the next year. What did the analysts measure?
- a. Liquidity
  - b. Profitability
  - c. Solvency
  - d. Cash on hand

Ans: A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA

BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

144. To be relevant, what characteristic must accounting information exhibit?
- a. It must be capable of making a difference in a decision.
  - b. It must be compared with other companies.
  - c. It must be verifiable.
  - d. It must be based on the U.S. monetary unit.

Ans: A, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

145. What is the role of the FASB?
- a. To regulate U.S. financial markets and accounting standard-setting bodies
  - b. To determine auditing standards in the U.S.
  - c. To establish accounting standards in the U.S.
  - d. To regulate foreign companies that do business in the U.S.

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: The Standard-Setting Environment, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

146. Which statement describes the periodicity assumption?
- a. The life of a business can be divided into artificial times periods for which useful reports can be prepared.
  - b. The business will remain in operation for the foreseeable future.
  - c. Every economic unit can be separately identified and accounted for.
  - d. Financial reports are issued on a timely basis for decision-making.

Ans: A, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions of Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

147. Which of the following organizations issues accounting standards for countries outside the United States?
- a. SEC
  - b. GAAP
  - c. IASB
  - d. FASB

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: The Standard Setting Environment, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

148. Which entity(ies) is/are responsible for establishing accounting standards in the United States?
- a. Securities and Exchange Commission
  - b. International Accounting Standards Board
  - c. Financial Accounting Standards Board
  - d. Financial Accounting Standards Board and the International Accounting Standards Board

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: The Standard Setting Environment, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

149. Which statement is **false** concerning accounting principles in the United States?
- a. The Securities and Exchange Commission oversees U.S. financial markets and accounting standard-setting bodies.
  - b. The International Accounting Standards Board issues accounting standards that must be followed by all companies that engage in international business.
  - c. The primary auditing standard-setting body in the U.S. is the Financial Accounting Standards Board.
  - d. The Public Company Accounting Oversight Board determines auditing standards.

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: The Standard Setting Environment, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

150. Generally accepted accounting principles
- a. are accounting rules formulated by the Internal Revenue Service.
  - b. are sound in theory but rarely used in real life.
  - c. are accounting rules that are recognized as a general guide for financial reporting.
  - d. have eliminated all errors in accounting.

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: The Standard Setting Environment, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

151. The agency of the United States Government that oversees the U.S. financial markets is the
- a. Internal Revenue Service.
  - b. Security Exchange Commission.
  - c. Financial Accounting Standards Board.
  - d. International Auditing Standards Committee.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: The Standard Setting Environment, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

152. What organization issues U.S. accounting standards?
- a. Securities and Exchange Commission
  - b. International Accounting Standards Committee
  - c. International Auditing Standards Committee
  - d. Financial Accounting Standards Board

Ans: D, LO: 3, Section: Financial Reporting Concepts, Subsection: The Standard Setting Environment, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

153. Which one of the following is **not** an enhancing quality of useful information?
- a. Timeliness
  - b. Understandability
  - c. Materiality
  - d. Comparability

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

154. All of the following are qualities of useful information **except**
- a. faithful representation.
  - b. materiality.
  - c. relevance.
  - d. flexibility.

Ans: D, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting



155. The two fundamental qualities of useful information are
- relevance and faithful representation.
  - verifiability and timeliness.
  - comparability and flexibility.
  - understandability and consistency.

Ans: A, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

156. The convention of consistency refers to consistent use of accounting principles
- among firms.
  - from period to period.
  - throughout the current accounting period.
  - within industries.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

157. The quality of consistency is a type of
- relevance.
  - materiality.
  - comparability.
  - faithful representation.

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

158. Information that is presented in a clear fashion, so that users of that information can interpret it, is an example of
- relevance.
  - faithful representation.
  - understandability.
  - comparability.

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

159. In order for accounting information to be relevant, it must
- have very little cost.
  - help predict future events or confirm prior expectations.
  - not be reported to the public.
  - be used by many different firms.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

160. Accounting information should be verifiable in order to enhance
- comparability.
  - faithful representation.
  - consistency.
  - relevance.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting



161. Accounting information is relevant to business decisions because it
- has been verified by external audit.
  - is prepared on an annual basis.
  - confirms prior expectations.
  - is neutral in its representations.

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

162. If accounting information has relevance, it is useful in making predictions about
- future IRS audits.
  - new accounting principles.
  - foreign currency exchange rates.
  - the future events of a company.

Ans: D, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

163. Relevant accounting information
- is information that has been audited.
  - must be reported within the operating cycle or one year, whichever is longer.
  - has been objectively determined.
  - is information that is capable of making a difference in a business decision.

Ans: D, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

164. Which of the following is **not** a quality associated with faithful representation?
- Complete
  - Consistency
  - Neutral
  - All of these answer choices are correct.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

165. Accounting information should be neutral in order to enhance
- faithful representation.
  - consistency.
  - comparability.
  - relevance.

Ans: A, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

166. Characteristics associated with relevant accounting information are
- comparability and timeliness.
  - predictive value and confirmatory value.
  - neutral and verifiable.
  - consistency and understandability.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

167. Characteristics associated with faithfully representative accounting information are
- verifiable and timely.
  - verifiable and neutral.
  - complete and neutral.
  - relevance and verifiable.

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA

BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

168. Which of the following statements is **not** true?
- Comparability means using the same accounting principles from year to year within a company.
  - Faithful representation is the quality of information that gives assurance that it is free of material error.
  - Relevant accounting information must be capable of making a difference in the decision.
  - The primary objective of financial reporting is to provide financial information that is useful to investors and creditors for making decisions.

Ans: A, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

169. Financial information is comparable if
- companies use the same accounting principles to prepare it.
  - a company uses the same accounting practices from one period to the next.
  - the benefits of preparing it outweigh the cost.
  - it is capable of making a difference in an investing decision.

Ans: A, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

170. An item is considered material if
- it does not cost a lot of money.
  - it is of a tangible good.
  - its size is likely to influence the decision of an investor or creditor.
  - the cost of reporting the item is greater than its benefits.

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

171. Information presented in a clear and concise fashion so that users can comprehend its meaning is an application of
- consistency.
  - timeliness.
  - verifiability.
  - understandability.

Ans: D, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

172. A company using the same accounting principles from year to year is an application of
- timeliness.
  - consistency.
  - full disclosure.
  - materiality.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

173. Information is \_\_\_\_\_ if independent measures, using the same methods, obtain similar results.
- Verifiable
  - Consistent
  - Understandable
  - Relevant

Ans: A, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

174. Different companies using the same accounting principles is an application of
- consistency.
  - materiality.
  - full disclosure.
  - comparability.

Ans: D, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

175. The assumption that requires that only those things that can be expressed in money are included in the accounting records is the
- economic entity assumption.
  - monetary unit assumption.
  - going concern assumption.
  - periodicity assumption.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

176. Which of the following is a constraint in accounting?
- Comparability
  - Cost
  - Consistency
  - Relevance

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

177. The accounting concept that indicates assets should be reported at the price that would be received to sell an asset is the
- economic entity assumption.
  - monetary unit assumption.
  - fair value principle.
  - historical cost principle.

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: Measurement Principles, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

178. For accounting information to have relevance, it must be
- consistent.
  - timely.
  - verifiable.
  - understandable.

Ans: B, LO: .3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: C, Difficulty: Medium Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

179. The periodicity assumption states that the economic life of a business can be divided into
- equal time periods.
  - cyclical time periods.
  - artificial time periods.
  - perpetual time periods.

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

180. Which accounting assumption requires that only those things that can be expressed in dollar values are included in the accounting records?
- a. monetary unit assumption.
  - b. historical cost principle.
  - c. periodicity assumption.
  - d. full disclosure principle.

Ans: A, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

181. The \_\_\_\_\_ indicates that assets should be reported at the price that would be received to sell the asset at the balance sheet date.
- a. historical cost principle
  - b. fair value principle
  - c. full disclosure principle
  - d. consistency principle

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Measurement Principles, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Risk Management, Analysis and Management, AICPA PC: None, IMA: Reporting

182. Which accounting assumption assumes that an enterprise will continue in operation long enough to carry out its existing objectives and commitments?
- a. Monetary unit assumption
  - b. Economic entity assumption
  - c. Periodicity assumption
  - d. Going concern assumption

Ans: D, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

183. What does the full disclosure principle require?
- a. Companies must allow investors and creditors to examine their accounting records.
  - b. Companies must disclose all circumstances and events that may affect decisions made by investors and other users.
  - c. Companies must disclose the true value of all resources owned by the company and all amounts owed to creditors.
  - d. Companies must disclose all transactions as part of their complete set of financial statements.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Full Disclosure, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Source: w34286490-05c8-4926-816f-e365eabbf59

184. It is assumed that the activities of Ford Motor company can be distinguished from those of General Motors because of the
- a. going concern assumption.
  - b. economic entity assumption.
  - c. monetary unit assumption.
  - d. periodicity assumption.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

185. The going concern assumption assumes that the business
- will be liquidated in the near future.
  - will be purchased by another business.
  - is in a growth industry.
  - will remain in operation for the foreseeable future.

Ans: D, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

186. The economic entity assumption states that economic events
- of different entities can be combined if all the entities are corporations.
  - must be reported to the Securities and Exchange Commission.
  - of a sole proprietorship cannot be distinguished from the personal economic events of its owners.
  - of every entity can be separately identified and accounted for.

Ans: D, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

187. The concept that a business has a reasonable expectation of remaining in business for the foreseeable future is called the
- economic entity assumption.
  - monetary unit assumption.
  - periodicity assumption.
  - going concern assumption.

Ans: D, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

188. Which of the following is not an accounting assumption?
- Integrity
  - Going concern
  - Periodicity
  - Economic entity

Ans: A, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

189. The periodicity assumption states
- the business will remain in operation for the foreseeable future.
  - the life of a business can be divided into artificial time periods and that useful reports covering those periods can be prepared.
  - every economic entity can be separately identified and accounted for.
  - only those things that can be expressed in money are included in the accounting records.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

190. Acme Company has five plants nationwide that cost \$300 million. The current fair value of the plants is \$500 million. The plants will be reported as assets at
- \$200 million.
  - \$800 million.
  - \$300 million.
  - \$500 million.

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: Historical Cost Principle, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA

BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

191. A1 Manufacturing Company has four plants nationwide that cost \$450 million. Accumulated depreciation on the plants is \$100 million at December 31, 2025. The current fair value of the plants at that date is \$300 million. The plants will be reported on the December 31, 2025 balance sheet at
- \$350 million.
  - \$700 million.
  - \$300 million.
  - \$600 million.

Ans: A, LO: 3, Section: Financial Reporting Concepts, Subsection: Historical Cost Principle, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$450 - \$100 = \$350$

(Cost – Accumulated depreciation = Book value of plant)

192. Suppose that Trek Company has four plants nationwide that cost \$950 million. Accumulated depreciation on the plants is \$300 million at December 31, 2025. The current fair value of the plants at that date is \$800 million. The plants will be reported on the December 31, 2025 balance sheet at
- \$950 million.
  - \$800 million.
  - \$500 million.
  - \$650 million.

Ans: D, LO: 3, Section: Financial Reporting Concepts, Subsection: Historical Cost Principle, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

Solution:  $\$950 - \$300 = \$650$

(Cost – Accumulated depreciation = Book value of plant)

193. Suppose that Patagonia Company has five manufacturing facilities nationwide that cost \$500 million. The current fair value of the plants is \$600 million. The plants will be reported as assets at
- \$100 million.
  - \$500 million.
  - \$600 million.
  - \$900 million.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Historical Cost Principle, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

194. Suppose that Target Corporation has actively-traded investment securities with a cost of \$15 million. The current fair value of the investments is \$20 million. The investment securities will be reported on the balance sheet at
- \$5 million.
  - \$15 million.
  - \$20 million.
  - \$35 million.

Ans: C, LO: 3, Financial Reporting Concepts, Subsection: Fair Value Principle, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

195. Suppose that Ralph Lauren Company has actively-traded investment securities that cost \$30 million. The current fair value of the investment securities is \$50 million. The securities will be reported on the balance sheet at
- \$20 million.
  - \$30 million.
  - \$50 million.
  - \$80 million.

Ans: C, LO: 3, Financial Reporting Concepts, Subsection: Fair Value Principle, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

196. The historical cost principle requires that when assets are acquired, they be recorded at
- fair market value.
  - the amount paid for them.
  - selling price.
  - list price.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Historical Cost Principle, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

197. Valuing assets at their fair value rather than at their cost is inconsistent with the
- economic entity assumption.
  - historical cost principle.
  - periodicity assumption.
  - full disclosure principle.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Fair Value Principle, Bloom: K, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

198. Acme Cement Corporation reported \$35 million for sales when it only had \$20 million of actual sales. Which of the following qualities of useful information has Acme most likely violated?
- Comparability
  - Relevance
  - Faithful representation
  - Consistency

Ans: C, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

199. Acme Corporation hired a new accountant. Over the next four years, the accountant used four different accounting methods to record depreciation for Acme's equipment. Which of the following qualities of useful information has Acme most likely violated?
- Comparability
  - Relevance
  - Faithful representation
  - Consistency

Ans: D, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

200. Tesla Company prepares quarterly reports, which it distributes to all stockholders and other entities that rely on its accounting information. Which of the following is the best term for the key assumption in financial reporting that Tesla is following?
- Monetary unit assumption

- b. Going concern assumption
- c. Economic entity assumption
- d. Periodicity assumption.

Ans: D, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

201. Walmart Company prepares quarterly reports, which it files with the SEC and distributes to all stockholders. Which key assumption in financial reporting is Walmart following?
- a. Monetary unit assumption
  - b. Periodicity assumption.
  - c. Economic entity assumption
  - d. Going concern assumption

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

202. Tesla Company weighs the cost of providing information to stockholders with the benefits of doing so. Tesla is considering the
- a. monetary unit assumption.
  - b. cost constraint.
  - c. economic entity assumption.
  - d. periodicity assumption.

Ans: B, LO: 3, Section: Financial Reporting Concepts, Subsection: Cost Constraint, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

203. Walmart Company prepares quarterly reports, which it files with the SEC and distributes to all stockholders. In providing this information, Walmart weighs the cost of providing information to stockholders with the benefits of doing so. Walmart is applying the
- a. cost constraint.
  - b. periodicity assumption.
  - c. quality of consistency.
  - d. historical cost principle.

Ans: A, LO: 3, Section: Financial Reporting Concepts, Subsection: Cost Constraint, Bloom: C, Difficulty: Medium, Min: 1, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting



## BRIEF EXERCISES

### BE. 204

A list of financial statement items for Acme Manufacturing Company at June 30, 2025 includes the following:

Accounts receivable	\$19,500	Prepaid insurance	\$5,400
Cash	22,400	Supplies	1,800
Short-term investments	6,200		

Prepare the current assets section of the June 30, 2025 balance sheet listing the items in the proper sequence.

Ans: N/A, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

### Solution 204

#### ACME MANUFACTURING COMPANY Balance Sheet (PARTIAL) June 30, 2025

##### Assets

Current assets		
Cash .....	\$22,400	
Debt investments .....	6,200	
Accounts receivable .....	19,500	
Supplies.....	1,800	
Prepaid insurance.....	<u>5,400</u>	
Total current assets.....		\$55,300

### BE. 205

Suppose that the following information (in millions of dollars) is available for Columbia Sportswear for 2025:

Sales revenue	\$6,300	Net income	\$588.7
Stock price per share	\$18.45	Preferred stock dividend	\$0
Average shares outstanding	336.4 million		

Compute 2025 earnings per share for Columbia Sportswear.

Ans: N/A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Earnings Per Share, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

### Solution 205

$$\text{Earnings per share} = \frac{\$588.7 - \$0}{336.4} = \$1.75$$

[(Net inc. – Pref. stock div.) ÷ Aver. sh. out.]

**BE. 206**

Suppose that these selected condensed data are taken from a recent balance sheet of Samsung Corporation (in millions of dollars).

Cash	\$ 7.2
Accounts receivable	14.4
Inventory	18.0
Other current assets	11.1
Total current liabilities	24.8

Additional information: Current liabilities at the beginning of the year were \$35.6 million.

What are (a) the working capital and (b) the current ratio?

Ans: N/A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 206**

- a. \$25.9                       $(\$50.7 - \$24.8)$  (Cash + Acc. rec. + Inv. + oth. C.A.) – Tot. cur. liab.  
 b. 2.04: 1                       $(\$50.7 \div \$24.8)$  (Cash + Acc. rec. + Inv. + oth. C.A.) ÷ Tot. cur. liab.

**BE. 207**

Insert the qualitative characteristics listed below that are associated with relevance and faithful representation.

Confirmatory value	Materiality
Free from error	Complete
Neutral	Predictive value
<u>RELEVANCE</u>	<u>FAITHFUL REPRESENTATION</u>
1. _____	1. _____
2. _____	2. _____
3. _____	3. _____

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 207**

<u>RELEVANCE</u>	<u>FAITHFUL REPRESENTATION</u>
1. Confirmatory value	1. Free from material error
2. Predictive value	2. Complete
3. Materiality	3. Neutral

**BE. 208**

The following terms relate to the fundamental qualities of useful information. Match the key letter of the correct term with the descriptive statement below.

- |    |                    |    |                         |
|----|--------------------|----|-------------------------|
| a. | Confirmatory value | e. | Faithful representation |
| b. | Neutral            | f. | Timely                  |
| c. | Predictive value   | g. | Verifiable              |
| d. | Relevant           |    |                         |

- \_\_\_\_\_ 1. Providing information that is not biased toward one position or another.
- \_\_\_\_\_ 2. Providing information before it loses its capacity to influence decisions.
- \_\_\_\_\_ 3. Providing information that is proven to be free from material error.
- \_\_\_\_\_ 4. Providing information that would make a difference in a business decision.
- \_\_\_\_\_ 5. Providing information that accurately depicts what really happened.
- \_\_\_\_\_ 6. Providing information that confirms or corrects prior decisions.

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 208**

- |      |      |      |
|------|------|------|
| 1. b | 3. g | 5. e |
| 2. f | 4. d | 6. a |

**BE. 209**

For each of the independent situations described below, list the enhancing quality of useful information that has been violated, if any. List only one term for each case.

1. Carrier Company is in its third year of operations and has yet to issue financial statements.
2. Larsen Corporation has selected the FIFO inventory costing method during the current year. Last year it used the LIFO method and next year it plans to change to the average cost method.
3. Reiser Company expenses some office equipment that is inexpensive even though it has a useful life that exceeds 1 year.

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 209**

- |                |                               |
|----------------|-------------------------------|
| 1. Timeliness  | 3. No violation (materiality) |
| 2. Consistency |                               |

**BE. 210**

Each of the following statements is justified by an accounting concept. Write the letter in the blank next to each statement corresponding to the concept involved.

- a. Consistency
- b. Materiality
- c. Full disclosure
- d. Periodicity

- \_\_\_\_\_ 1. The life of a business is divided into artificial time periods.
- \_\_\_\_\_ 2. This characteristic best enhances comparability of financial statements between years.
- \_\_\_\_\_ 3. A merger agreed on just after the balance sheet date nevertheless is reported in the notes to the financial statement.
- \_\_\_\_\_ 4. A large company rounds its financial statement figures to the nearest thousand.

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 210**

1. d      2. a      3. c      4. b

**BE. 211**

Each of the following statements is justified by a fundamental quality or an enhancing quality of accounting information. Write the letter in the blank next to each statement corresponding to the quality involved.

- |                      |                            |
|----------------------|----------------------------|
| a. Comparability     | d. Consistency             |
| b. Understandability | e. Relevance               |
| c. Verifiable        | f. Faithful representation |

- \_\_\_\_\_ 1. A company uses the same accounting principles from year to year.
- \_\_\_\_\_ 2. Information that is free from material error.
- \_\_\_\_\_ 3. Information presented in a clear and concise fashion.
- \_\_\_\_\_ 4. Information that makes a difference in a decision.
- \_\_\_\_\_ 5. Information accurately depicts what really happened.

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsections: Qualities of Useful Information, Assumptions in Financial Information, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 211**

1. d      2. c      3. b      4. e      5. f

**BE. 212**

Presented below are the basic assumptions and principles underlying financial statements.

- |                               |                             |
|-------------------------------|-----------------------------|
| a. Historical cost principle  | d. Going concern assumption |
| b. Economic entity assumption | e. Monetary unit assumption |
| c. Full disclosure principle  | f. Periodicity assumption   |

Identify the basic assumption or principle that is described below.

- \_\_\_\_\_ 1. The economic life of a business can be divided into artificial time periods.
- \_\_\_\_\_ 2. The business will continue in operation long enough to carry out its existing objectives.
- \_\_\_\_\_ 3. Assets should be recorded at their cost.
- \_\_\_\_\_ 4. Economic events can be identified with a particular unit of accountability.
- \_\_\_\_\_ 5. Circumstances and events that make a difference to financial statement users should be disclosed.
- \_\_\_\_\_ 6. Only transaction data that can be expressed in terms of money should be included in the accounting records.

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsections: Assumptions in Financial Information, Principle of Financial Reporting, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 212**

- |      |      |
|------|------|
| 1. f | 4. b |
| 2. d | 5. c |
| 3. a | 6. e |

**BE. 213**

Suppose that the balance sheet for Super Cuts Salon is as follows:

Super Cuts Salon  
Balance Sheet  
December 31, 2025

Cash	\$ 26,000	Accounts payable	\$ 3,000
Accounts receivable	20,000	Salaries and wages payable	2,000
Inventory	10,000	Note payable (due 2025)	<u>170,000</u>
Supplies	1,000	Total liabilities	175,000
Prepaid insurance	2,000		
Land	25,000		
Buildings	\$239,000	Common stock	35,000
Less: Accumulated depreciation	(100,000)	Retained earnings	<u>15,000</u>
	139,000	Total stockholders' equity	<u>50,000</u>
Trademark	<u>2,000</u>	Total liabilities and stockholders' equity	<u>\$225,000</u>
Total assets	<u>\$225,000</u>		

**Instructions:**

Compute the company's (a) total current assets and (b) total property, plant and equipment.

Ans: NA, LO: 1, Section: The Classified Balance Sheet, Subsections: Current Assets, Property, Plant, and Equipment, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 213**

(a)  $\$26,000 + \$20,000 + \$10,000 + \$1,000 + \$2,000 = \$59,000$

(b)  $\$25,000 + \$139,000 = \$164,000$

**BE. 214**

Ace Corporation reports the following account balances at December 31, 2025:

Accounts payable.....	\$ 5,000
Accounts receivable.....	6,000
Cash.....	7,000
Intangible assets.....	21,000
Inventory.....	38,000
Long-term investments.....	20,000
Long-term liabilities.....	109,000
Short-term investments.....	4,000
Notes payable (short-term).....	16,000
Property, plant, and equipment.....	240,000
Prepaid insurance.....	1,000
Salaries and wages payable.....	3,000
Land held for future use.....	63,000

**Instructions:**

Compute the company's (a) working capital and (b) current ratio.

Ans: NA, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

### Solution 214

$$(a) \quad \text{Current assets} = \$6,000 + \$7,000 + \$38,000 + \$4,000 + \$1,000 = \$56,000$$

$$\text{Current liabilities} = \$5,000 + \$16,000 + \$3,000 = \$24,000$$

$$\text{Working capital} = \$56,000 - \$24,000 = \$32,000$$

$$(b) \quad \text{Current ratio} = \$56,000 / \$24,000 = 2.33:1$$

### BE. 215

A1 Associates Inc. reports the following account balances for the year ending June 30, 2025:

Accounts payable.....	\$ 25,000
Accounts receivable.....	36,000
Cash and cash equivalents.....	17,000
Goodwill.....	121,000
Inventory.....	88,000
Notes payable (due 2028).....	100,000
Interest payable.....	4,000
Notes payable (due Jan. 2026).....	15,000
Property, plant, and equipment.....	550,000
Accumulated depreciation.....	110,000
Prepaid insurance.....	7,000
Salaries and wages payable.....	13,000
Bonds payable.....	300,000

### Instructions:

Compute the company's (a) current ratio and (b) debt to assets ratio.

Ans: NA, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsections: Current Ratio, Debt to Assets Ratio, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

### Solution 215

$$(a) \quad \text{Current assets} = \$36,000 + \$17,000 + \$88,000 + \$7,000 = \$148,000$$

$$\text{Current liabilities} = \$25,000 + \$4,000 + \$15,000 + \$13,000 = \$57,000$$

$$\text{Current ratio} = \$148,000 / \$57,000 = 2.6:1$$

$$(b) \quad \text{Total assets} = \$148,000 + \$121,000 + \$550,000 - \$110,000 = \$709,000$$

$$\text{Total liabilities} = \$57,000 + \$100,000 + \$300,000 = \$457,000$$

$$\text{Debt to assets ratio} = \$457,000 / \$709,000 = 64\%$$





**BE. 216**

Ace Construction Company reported the following balance sheet and income statement data for the year ending December 31, 2025.

Current assets	\$ 52,000	Net income	\$142,000
Current liabilities	26,000	Stockholders' equity	78,000
Preferred dividends	22,000	Total liabilities	52,000
Total assets	123,000	Common dividends	30,000

The company had average common shares outstanding during the period of 300,000.

**Instructions:**

Compute the company's (a) working capital and (b) earnings per share.

Ans: D, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsections: Working Capital, Earnings per Share, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 216**

(a) Working capital =  $\$52,000 - \$26,000 = \$26,000$

(b) Earnings per share =  $(\$142,000 - \$22,000) / 300,000 = \$0.40$

## EXERCISES

### Ex. 217

The following information is available for A1 Supply Company for the year ended December 31, 2025:

Accounts payable	\$ 4,700
Stock investments (long-term)	8,400
Accumulated depreciation, equipment	4,000
Retained earnings	16,000
Common stock	4,800
Intangible assets	2,500
Notes payable (due in 5 years)	6,000
Accounts receivable	1,500
Cash	2,600
Debt investments (short-term)	3,000
Land	10,000
Equipment	7,500

### Instructions

Use the above information to prepare a classified balance sheet for the year ended December 31, 2025.

Ans: N/A, LO: 1, Section: The Classified Balance Sheet, Subsection: NA, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

### Solution 217

#### A1 SUPPLY COMPANY Balance Sheet December 31, 2025

Assets			
Current assets			
Cash.....	\$2,600		
Debt investments .....	3,000		
Accounts receivable .....	<u>1,500</u>		
Total current assets.....			\$ 7,100
Investments			
Stock investments.....			8,400
Property, plant, and equipment			
Land .....		10,000	
Equipment.....	\$7,500		
Less Accumulated depreciation-equipment.....	<u>4,000</u>	<u>3,500</u>	13,500
Intangible assets .....			<u>2,500</u>
Total assets ...			<u>\$31,500</u>

**Solution 217** (Cont.)

## Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable .....		\$ 4,700
Long-term liabilities		
Notes payable.....		<u>6,000</u>
Total liabilities .....		10,700
Stockholders' equity		
Common stock.....	\$ 4,800	
Retained earnings.....	<u>16,000</u>	
Total stockholders' equity.....		<u>20,800</u>
Total liabilities and stockholders' equity.....		<u>\$31,500</u>

**Ex. 218**

The following lettered items represent a classification scheme for a balance sheet, and the numbered items represent data found on balance sheets. In the blank next to each account, write the letter indicating to which category it belongs.

- A. Current assets
- B. Investments
- C. Property, plant, and equipment
- D. Intangible assets
- E. Current liabilities
- F. Long-term liabilities
- G. Stockholders' equity
- H. Not on the balance sheet

Ans: N/A, LO: 1, Section: The Classified Balance Sheet, Subsection: NA, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 218**

_____ 1. Accumulated depreciation-equip.	_____ 6. Inventory
_____ 2. Common stock	_____ 7. Patents
_____ 3. Interest expense	_____ 8. Prepaid insurance
_____ 4. Salaries and wages payable	_____ 9. Mortgage payable
_____ 5. Retained earnings	_____ 10. Land (held for investment)

1. C    2. G    3. H    4. E    5. G    6. A    7. D    8. A    9. F    10. B

**Ex. 219**

These items are taken from the financial statements of Acme Manufacturing Company at December 31, 2025.

Buildings	\$95,800
Accounts receivable	15,600
Prepaid insurance	4,680
Cash	18,840
Equipment	79,400
Land	61,200
Insurance expense	780
Depreciation expense	7,300
Interest expense	2,600
Common stock	57,000
Retained earnings (January 1, 2025)	40,000
Accumulated depreciation—buildings	45,600
Accounts payable	15,500
Mortgage payable	88,600
Accumulated depreciation—equipment	18,720
Interest payable	3,600
Service revenue	17,180

**Instructions**

Prepare a classified balance sheet. Assume that \$13,600 of the mortgage payable will be paid in 2026.

Ans: N/A, LO: 1, Section: The Classified Balance Sheet, Subsection: NA, Bloom: AP, Difficulty: Hard, Min: 20, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 219**

**ACME MANUFACTURING COMPANY**  
**Balance Sheet**  
**December 31, 2025**

Assets			
<b>Current assets</b>			
Cash .....		\$18,840	
Accounts receivable .....		15,600	
Prepaid Insurance .....		<u>4,680</u>	
Total current assets.....			\$ 39,120
<b>Property, plant, and equipment</b>			
Land .....		61,200	
Buildings.....	\$95,800		
Less: Accumulated depreciation—			
buildings.....	<u>45,600</u>	50,200	
Equipment.....	79,400		
Less: Accumulated depreciation—			
equipment.....	<u>18,720</u>	<u>60,680</u>	<u>172,080</u>
Total assets.....			<u>\$211,200</u>

**Solution 219** (Cont.)

Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable.....	\$15,500		
Current portion of mortgage payable.....	13,600		
Interest payable.....	<u>3,600</u>		
Total current liabilities.....			32,700
Long-term liabilities			
Mortgage payable.....		<u>75,000</u>	
Total liabilities.....			107,700
Stockholders' equity			
Common stock.....	57,000		
Retained earnings			
(\$40,000 + \$6,500*).....	<u>46,500</u>		
Total stockholders' equity.....			<u>103,500</u>
Total liabilities and			
Stockholders' equity.....			<u>\$211,200</u>

\*Net income = \$17,180 – \$780 – \$7,300 – \$2,600 = \$6,500

**Ex. 220**

The following items are taken from the financial statements of Kardashian Company for 2025:

Accounts payable	\$ 10,000
Accounts receivable	11,000
Accumulated depreciation—equipment	38,000
Advertising expense	21,000
Cash	14,000
Common stock	90,000
Depreciation expense	12,000
Dividends on common stock	15,000
Equipment	210,000
Insurance expense	3,000
Notes payable (due in 2028)	70,000
Prepaid insurance	6,000
Rent expense	17,000
Retained earnings (beginning)	12,000
Salaries and wages expense	34,000
Salaries and wages payable	3,000
Service revenue	130,000
Supplies	4,000
Supplies expense	6,000

**Ex. 220** (Cont.)**Instructions**

- Calculate the net income.
- Calculate the retained earnings balance that would appear on a balance sheet at December 31, 2025.
- Prepare a classified balance sheet for Kardashian Company at December 31, 2025 assuming the note payable is a long-term liability.
- Compute the current ratio, debt to assets ratio, and earnings per share value. The average number of shares outstanding for 2025 was 10,000.

Ans: N/A, LO: 1, 2, Sections: The Classified Balance Sheet, Analyzing the Financial Statements Using Ratios, Subsection: NA, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 220** (20 min.)

- Net income = \$37,000: (\$130,000 – \$21,000 – \$12,000 – \$3,000 – \$17,000 – \$34,000 – \$6,000)

(b)	Retained earnings, January 1	\$12,000
	Add: Net income	<u>37,000</u>
		49,000
	Less: Dividends	<u>15,000</u>
	Retained earnings, December 31	<u>\$34,000</u>

- KARDASHIAN COMPANY**  
**Balance Sheet**  
**December 31, 2025**

Assets		
Current assets		
Cash .....	\$ 14,000	
Accounts receivable .....	11,000	
Supplies .....	4,000	
Prepaid insurance .....	<u>6,000</u>	
Total current assets .....		\$ 35,000
Property, plant, and equipment		
Equipment .....	210,000	
Less: Accumulated depreciation—equipment .....	<u>38,000</u>	<u>172,000</u>
Total assets .....		<u>\$207,000</u>

**Solution 220** (Cont.)

Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable .....	\$10,000		
Salaries and wages payable .....	<u>3,000</u>		
Total current liabilities .....			\$ 13,000
Long-term liabilities			
Notes payable .....		<u>70,000</u>	
Total liabilities .....			83,000
Stockholders' equity			
Common stock.....	90,000		
Retained earnings .....	<u>34,000</u>	<u>124,000</u>	
Total liabilities and stockholders' equity .....			<u>\$207,000</u>

- (d) Current ratio:  $\$35,000 \div \$13,000 = 2.7:1$  (Cur. assets  $\div$  Cur. liab.)  
 Debt to assets ratio:  $\$83,000 \div \$207,000 = 40.1\%$  (Tot. liab.  $\div$  Tot. assets)  
 Earnings per share:  $\$37,000 \div 10,000 = \$3.70$  (Net inc.  $\div$  Ave. sh. out.)

**Ex. 221**

The following items are taken from the financial statements of Ryan Seacrest Company for the year ending December 31, 2025:

Accounts payable	\$18,500
Accounts receivable	8,000
Accumulated depreciation-equipment	4,800
Bonds payable	18,000
Cash	24,000
Common stock	25,000
Cost of goods sold	27,000
Depreciation expense	4,800
Dividends on common stock	5,300
Equipment	44,000
Interest expense	2,500
Patents	7,500
Retained earnings, January 1, 2025	16,000
Salaries and wages expense	5,200
Sales revenue	50,500
Supplies	4,500

**Instructions**

- (a) Prepare an income statement and a classified balance sheet for Ryan Seacrest Company.
- (b) Compute the following ratios and values:
1. Current ratio
  2. Debt to assets ratio
  3. Working capital
  4. Earnings per share (the company's average number of shares outstanding during the year was 5,000.)

Ans: N/A, LO: 1, 2 Sections: The Classified Balance Sheet, Analyzing the Financial Statements Using Ratios, Subsection: NA, Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 221** (25 min.)

(a) **RYAN SEACREST COMPANY**  
**Income Statement**  
For the Year Ended December 31, 2025

Revenues		
Sales revenue	\$50,500	
Expenses		
Cost of goods sold	27,000	
Depreciation expense	4,800	
Salaries and wages expense	5,200	
Interest expense	2,500	
Total Expenses	<u>39,500</u>	
Net income		<u>\$11,000</u>

**RYAN SEACREST COMPANY**  
**Balance Sheet**  
December 31, 2025

Assets

Current assets		
Cash .....	\$24,000	
Accounts receivable .....	8,000	
Supplies .....	<u>4,500</u>	
Total current assets.....		\$36,500
Property, plant, and equipment		
Equipment .....	44,000	
Less: Accumulated depreciation—equipment .....	<u>4,800</u>	39,200
Intangible assets		
Patents .....		<u>7,500</u>
Total assets .....		<u>\$83,200</u>

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable .....		\$18,500
Long-term liabilities		
Bonds payable .....		<u>18,000</u>
Total liabilities .....		36,500
Stockholders' equity		
Common stock.....	\$25,000	
Retained earnings .....	<u>21,700*</u>	<u>46,700</u>
Total liabilities and stockholders' equity .....		<u>\$83,200</u>

\*Retained earnings = \$21,700 (\$16,000 + \$11,000 – \$5,300).

- (b) 1. Current ratio:  $\$36,500 \div \$18,500 = 1.97:1$  (Cur. assets  $\div$  Cur. liab.)  
2. Debt to assets ratio:  $\$36,500 \div \$83,200 = 43.9\%$  (Tot. liab.  $\div$  Tot assets)  
3. Working capital  $\$36,500 - \$18,500 = \$18,000$  (Cur. assets – Cur. liab.)  
4. Earnings per share ( $\$11,000 \div 5,000$ ) = \$2.20 (Net inc.  $\div$  Ave. sh. out.)



**Ex. 222**

These financial statement items are for A1 Auto Supply Corporation at year-end, July 31, 2025.

Salaries and wages payable	\$ 2,580
Salaries and wages expense	50,700
Utilities expense	22,600
Equipment	21,000
Accounts payable	4,100
Service revenue	62,100
Rent revenue	8,500
Notes payable (due 2027)	1,800
Common stock	16,000
Cash	20,200
Accounts receivable	12,780
Accumulated depreciation—equipment	6,000
Dividends	5,000
Depreciation expense	4,000
Retained earnings (beginning of the year)	35,200

**Instructions**

- (a) Prepare an income statement and a retained earnings statement for the year ended July 31, 2025. A1 Corporation did not issue any new stock during the year.
- (b) Prepare a classified balance sheet at July 31, 2025.

Ans: N/A, LO: 1, Section: The Classified Balance Sheet, Subsection: NA, Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 222**

- (a) **A1 AUTO SUPPLY CORPORATION**  
Income Statement  
For the Year Ended July 31, 2025

<b>Revenues</b>		
Service revenue.....	\$62,100	
Rent revenue.....	<u>8,500</u>	
Total revenues.....		\$70,600
<b>Expenses</b>		
Salaries and wages expense.....	50,700	
Utilities expense.....	22,600	
Depreciation expense.....	<u>4,000</u>	
Total expense.....		<u>77,300</u>
Net loss.....		<u><u>\$ ( 6,700)</u></u>

**A1 AUTO SUPPLY CORPORATION**  
Retained Earnings Statement  
For the Year Ended July 31, 2025

Retained earnings, August 1, 2024.....		\$35,200
Less: Net loss.....	\$6,700	
Dividends.....	<u>5,000</u>	<u>11,700</u>
Retained earnings, July 31, 2025.....		<u><u>\$23,500</u></u>

**Solution 222** (Cont.)(b) **A1 AUTO SUPPLY CORPORATION**  
Balance Sheet  
July 31, 2025

Assets			
Current assets			
Cash	\$20,200		
Accounts receivable	<u>12,780</u>		
Total current assets			\$32,980
Property, plant, and equipment			
Equipment	21,000		
Less: Accumulated depreciation—equipment	<u>6,000</u>	<u>15,000</u>	
Total assets			<u>\$47,980</u>
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable	\$ 4,100		
Salaries and wages payable	<u>2,580</u>		
Total current liabilities			\$6,680
Notes payable (due 2027)		<u>1,800</u>	
Total liabilities			8,480
Stockholders' equity			
Common stock	16,000		
Retained earnings	<u>23,500</u>		
Total stockholders' equity		<u>39,500</u>	
Total liabilities and stockholders' equity			<u>\$47,980</u>

**Ex. 223**

These items are taken from the financial statements of Katy Perry Corporation at December 31, 2025.

Retained earnings (beginning of year)	\$33,000
Utilities expense	2,000
Equipment	56,000
Accounts payable	15,300
Cash	15,900
Salaries and wages payable	3,000
Common stock	13,000
Dividends	14,000
Service revenue	78,000
Prepaid insurance	3,500
Maintenance and repairs expense	1,800
Depreciation expense	3,300
Accounts receivable	14,200
Insurance expense	2,200
Salaries and wages expense	47,000
Accumulated depreciation—equipment	17,600

**Instructions**

Prepare an income statement and a retained earnings statement for the year ended December 31, 2025 and a classified balance sheet as of December 31, 2025.

Ans: N/A, LO: 1, Section: The Classified Balance Sheet, Subsection: NA, Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 223**

**KATY PERRY CORPORATION**  
**Income Statement**  
For the Year Ended December 31, 2025

<b>Revenues</b>		
Service revenue.....		\$78,000
<b>Expense</b>		
Salaries and wages expense.....	\$47,000	
Depreciation expense.....	3,300	
Insurance expense.....	2,200	
Utilities expense.....	2,000	
Maintenance and repairs expense.....	<u>1,800</u>	
Total expenses.....		<u>56,300</u>
Net income.....		<u>\$21,700</u>

**KATY PERRY CORPORATION**  
**Retained Earnings Statement**  
For the Year Ended December 31, 2025

Retained earnings, January 1, 2025.....	\$33,000
Add: Net income.....	<u>21,700</u>
	54,700
Less: Dividends.....	<u>14,000</u>

Retained earnings, December 31, 2025..... \$40,700  
**Solution 223** (Cont.)

KATY PERRY CORPORATION  
 Balance Sheet  
 December 31, 2025

Assets		
Current assets		
Cash.....		\$15,900
Accounts receivable.....		14,200
Prepaid insurance.....		<u>3,500</u>
Total current assets.....		33,600
Property, plant, and equipment		
Equipment.....	\$56,000	
Less: Accumulated depreciation—equipment.....	<u>17,600</u>	<u>38,400</u>
Total assets.....		<u>\$72,000</u>
-		
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable.....	\$15,300	
Salaries and wages payable.....	<u>3,000</u>	
Total current liabilities.....		\$18,300
Stockholders' equity		
Common stock.....	13,000	
Retained earnings.....	<u>40,700</u>	
Total stockholders' equity.....		<u>53,700</u>
Total liabilities and stockholders' equity.....		<u>\$72,000</u>

**Ex. 224**

The following data are taken from the financial statements of Acme Services, Inc. as of the end of the year 2025. The data are in alphabetical order.

Accounts payable	\$ 28,000	Net income	\$ 48,000
Accounts receivable	66,000	Other current liabilities	17,000
Cash	24,000	Salaries and wages payable	5,000
Gross profit	160,000	Total assets	250,000
Income before income taxes	54,000	Total liabilities	175,000

Additional information: The average common shares outstanding during the year was 40,000.

**Instructions**

Compute the following:

- |                      |                            |
|----------------------|----------------------------|
| (a) Current ratio.   | (c) Earnings per share.    |
| (b) Working capital. | (d) Debts to assets ratio. |

Ans: N/A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Ratio Analysis, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 224**

- (a) Current ratio = Current assets\* ÷ Current liabilities\*\* = \$90,000 ÷ \$50,000 = 1.8: 1
- (b) Working capital = Current assets\* – Current liabilities\*\* = \$90,000 – \$50,000 = \$40,000
- (c) Earnings per share = (Net income – Preferred dividends) ÷ Average common shares outstanding = \$48,000 ÷ 40,000 = \$1.20
- (d) Debt to assets ratio = Total debt ÷ Total assets = \$175,000 ÷ \$250,000 = 70%
- \*(Acc. rec. + Cash) \*\*(Acc. pay. + Oth. cur. liab. + Sal./wag. pay.)

**Ex. 225**

Use the following data to calculate the liquidity and profitability ratios listed below.

Current liabilities	\$100,000		
Capital expenditures	20,000	Net income	\$ 21,000
Cash provided by operating activities	32,000	Net sales	150,000
Dividends paid on common stock	5,000	Total liabilities	126,000
Current assets	190,000	Total assets	210,000

The average common shares outstanding during the period was 10,000.

**Instructions**

Compute the following:

- |                      |                           |
|----------------------|---------------------------|
| (a) Current ratio.   | (c) Earnings per share.   |
| (b) Working capital. | (d) Debt to assets ratio. |

Ans: N/A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Ratio Analysis, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 225**

- (a) Current ratio = Current assets ÷ Current liabilities = \$190,000 ÷ \$100,000 = 1.9: 1
- (b) Working capital = Current assets – Current liabilities = \$190,000 – \$100,000 = \$90,000
- (c) Earnings per share ratio = (Net income – Preferred stock dividends) ÷ Average common share outstanding = \$21,000 ÷ 10,000 = \$2.10
- (d) Debt to assets ratio = Total debt ÷ Total assets = \$126,000 ÷ \$210,000 = 60%

**Ex. 226**

The following data are taken from the financial statements of Taylor Swift Company. The data are in alphabetical order.

Accounts payable	\$ 28,000	Net sales	\$500,000
Accounts receivable	65,000	Other current liabilities	20,000
Average common shares out.	20,000	Salaries and wages payable	7,000
Cash	56,000	Stockholders' equity	135,000
Gross profit	190,000	Total assets	300,000
Net income	50,000		

**Instructions**

Compute the following:

- (a) Current ratio. (c) Earnings per share.  
(b) Working capital. (d) Debt to assets ratio.

Ans: N/A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Ratio Analysis, Bloom: AP, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 226**

- (a) Current ratio = Current assets\* ÷ Current liabilities\*\*  
= \$121,000 ÷ \$55,000 = 2.2: 1
- (b) Working capital = Current assets\* – Current liabilities\*\*  
= \$121,000 – \$55,000 = \$66,000
- (c) Earnings per share = Net income ÷ Average common shares outstanding  
= \$50,000 ÷ 20,000 = \$2.50
- (d) Debt to assets ratio = Total debt ÷ Total assets  
= \$165,000 ÷ \$300,000 = 55%  
(Total debt = Total assets – Stockholders' equity = \$300,000 – \$135,000)  
\*(Acc. rec. + Cash) \*\*(Acc. pay. + Oth. cur. liab. + Sal./wag. pay.)



**Ex. 227**

Comparative financial statement data for Rodrigo Corporation and Carpenter Corporation, two competitors, appear below. All balance sheet data are as of December 31, 2025.

	<u>Rodrigo Corporation</u>	<u>Carpenter Corporation</u>
	<u>2025</u>	<u>2025</u>
Net sales	\$1,850,000	\$620,000
Cost of goods sold	1,225,000	365,000
Operating expenses	303,000	98,000
Interest expense	9,000	3,800
Income tax expense	85,000	36,800
Current assets	427,200	130,336
Plant assets (net)	532,000	139,728
Current liabilities	66,325	35,348
Long-term liabilities	148,500	29,620
Additional Information:		
Cash from operating activities	153,000	44,000
Capital expenditures	90,000	20,000
Dividends paid on common stock	36,000	15,000
Average number of common shares outstanding	100,000	50,000

**Instructions**

- Comment on the relative profitability of the companies by computing the net income and earnings per share for each company for 2025.
- Comment on the relative solvency of the companies by computing the debt to assets ratio for each company for 2025.

Ans: N/A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Ratio Analysis, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting



**Solution 227**

- (a) Rodrigo Company appears to be more profitable.

Its net income for 2025 is \$228,000 ( $\$1,850,000 - \$1,225,000 - \$303,000 - \$9,000 - \$85,000$ ). Its earnings per share is \$2.28 ( $\$228,000 \div 100,000$  shares outstanding). Carpenter's net income for 2025 is \$116,400 ( $\$620,000 - \$365,000 - \$98,000 - \$3,800 - \$36,800$ ). Its earnings per share is \$2.33 ( $\$116,400 \div 50,000$  shares outstanding). Earnings per share should not be compared across companies.

- (b) Rodrigo appears to be slightly more solvent. Rodrigo's 2025 debt to assets ratio of 22.4% (
- $\$214,825 \div \$959,200$
- )
- <sup>a</sup>
- is lower than Carpenter's ratio of 24.1% (
- $\$64,968 \div \$270,064$
- )
- <sup>b</sup>
- . The lower the percentage of debt to assets, the lower the risk that a company may be unable to pay its debts as they become due.

<sup>a</sup>\$214,825 ( $\$66,325 + \$148,500$ ) is Rodrigo's 2025 total liabilities  
\$959,200 ( $\$427,200 + \$532,000$ ) is Rodrigo's 2025 total assets.

<sup>b</sup>\$64,968 ( $\$35,348 + \$29,620$ ) is Carpenter's 2025 total liabilities  
\$270,064 ( $\$130,336 + \$139,728$ ) is Carpenter's 2025 total assets.

**Ex. 228**

For each of the ratios listed below, indicate by the appropriate code letter, whether it is a liquidity ratio, a profitability ratio, or a solvency ratio.

Code:

- L = Liquidity ratio  
 P = Profitability ratio  
 S = Solvency ratio

- \_\_\_\_\_ 1. Debt to assets ratio  
 \_\_\_\_\_ 2. Earnings per share  
 \_\_\_\_\_ 3. Current ratio

Ans: N/A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Ratio Analysis, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 228**

- S 1. Debt to assets ratio  
P 2. Earnings per share  
L 3. Current ratio

**Ex. 229**

The following information is available from the annual reports of Carey Company and Lopez Company.

	(amounts in millions)	
	Carey	Lopez
Sales	\$26,510	\$34,512
Gross profit	6,610	8,887
Net income	565	1,221
Current assets	13,712	28,447
Beginning total assets	17,102	33,130
Ending total assets	22,088	36,167
Current liabilities	7,966	13,950
Total liabilities	16,136	29,222
Average common shares outstanding	250	480
Preferred stock dividends paid	-0-	-0-

**Instructions**

- (a) For each company, compute the following ratios:
1. Current ratio
  2. Debt to assets ratio
  3. Earnings per share
- (b) Based on your calculations, discuss the relative liquidity, solvency, and profitability of the two companies.

Ans: N/A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Ratio Analysis, Bloom: AP, Difficulty: Medium, Min: 12, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 229**

	Carey	Lopez
1. Current ratio (Cur. assets/Cur. liab.)	1.72:1 (\$13,712 ÷ \$7,966)	2.04:1 (\$28,447 ÷ \$13,950)
2. Debt to assets ratio (Tot. liab. ÷ Tot. assets)	73% (\$16,136 ÷ 22,088)	81% (\$29,222 ÷ \$36,167)
3. Earnings per share (Net. inc. ÷ Ave. sh. out.)	\$2.26 (\$565 ÷ 250)	\$2.54 (\$1,221 ÷ 480)

- (b) Based on the current ratio, Lopez is more liquid than Carey is since its current ratio (2.04:1) is 19% higher than Carey's ratio (1.72:1). However, Carey would be considered more solvent than Lopez since its debt to assets ratio (73%) is 10% lower than Lopez's debt ratio (81%). A lower debt to assets ratio indicates a company is more solvent and better able to survive over a long period of time.

Lopez is more profitable than Carey is since its net income is higher. Earnings per share should not be compared across companies.

**Ex. 230**

The chief financial officer (CFO) of Ace Cleaning Inc. requested that the accounting department prepare a preliminary balance sheet on December 30, 2025, so that the CFO could get an idea of how the company stood. He knows that certain debt agreements with its creditors require the company to maintain a current ratio of at least 2:1. The preliminary balance sheet is as follows.

**ACE CLEANING INC.**  
**Balance Sheet**  
**December 30, 2025**

Current assets		Current liabilities	
Cash	\$25,000	Accounts payable	\$ 20,000
Accounts receivable	20,000	Sal. and wages payable	<u>20,000</u> \$ 40,000
Prepaid insurance	<u>15,000</u>	Long-term liabilities	
	\$ 60,000	Notes payable	<u>90,000</u>
		Total liabilities	130,000
Property, plant, and equipment (net)	<u>210,000</u>	Stockholders' equity	
Total assets	<u>\$270,000</u>	Common stock	100,000
		Retained earnings	<u>40,000</u> <u>140,000</u>
		Total liabilities and stockholders' equity	<u>\$270,000</u>

**Instructions**

- (a) Calculate the current ratio and working capital based on the preliminary balance sheet.
- (b) Based in the results in (a), the CFO requested that \$20,000 of cash be used to pay off the balance of the accounts payable account on December 31, 2025. Calculate the new current ratio and working capital after the company takes these actions.

Ans: N/A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

**Solution 230**

$$(a) \quad \text{Current ratio} = \frac{\$60,000}{\$40,000} = 1.50:1 \quad (\text{Cash} + \text{Acc. rec.} + \text{Prep. ins.} \div \text{Cur. liab.})$$

$$\text{Working capital} = \$60,000 - \$40,000 = \$20,000 \quad (\text{Cash} + \text{Acc. rec.} + \text{Prep. ins.} - \text{Cur. liab.})$$

$$(b) \quad \text{Current ratio} = \frac{\$40,000^*}{\$20,000^{**}} = 2.0:1$$

$$\text{Working capital} = \$40,000 - \$20,000 = \$20,000$$

$$^*\$60,000 - \$20,000 \quad ^{**}\$40,000 - \$20,000$$

## COMPLETION STATEMENTS

231. The rules and practices that are recognized as general guides for financial reporting are called \_\_\_\_\_.

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: The Financial Reporting Environment, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

232. In accounting, \_\_\_\_\_ results when different companies use the same accounting principles.

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

233. \_\_\_\_\_ is a company-specific aspect of relevance where size is likely to influence the decision of an investor or creditor.

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

234. The \_\_\_\_\_ constraint relates to the fact that providing information is costly.

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: Cost Constraint, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

235. The earnings per share value is calculated by dividing net income – preferred stock dividends by \_\_\_\_\_.

Ans: N/A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Using the Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

236. Assets that are expected to be converted to cash or used in the business within a relatively short period of time are called \_\_\_\_\_.

Ans: N/A, LO: 1, Section: The Classified Balance Sheet, Subsection: Current Assets, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

237. The \_\_\_\_\_ is current assets divided by current liabilities.

Ans: N/A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Liquidity, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

238. The \_\_\_\_\_ principle states that an asset should be reported on the balance sheet at the amount that would be received if the asset was sold on that date.

Ans: N/A, LO: 2, Section: Financial Reporting Concepts, Subsection: Principles of Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

### Answers to Completion Statements

231. generally accepted accounting principles

232. comparability

233. materiality

234. cost

235. weighted-average common shares outstanding

236. current assets

237. current ratio

238. fair value

## MATCHING

239. Match the items below by entering the appropriate code letter in the space provided.

- |                            |                               |
|----------------------------|-------------------------------|
| A. Relevance               | G. Working capital            |
| B. Liquidity ratios        | H. Current ratio              |
| C. Comparability           | I. Earnings per share         |
| D. Consistency             | J. Solvency ratios            |
| E. Intangible assets       | K. Economic entity assumption |
| F. Faithful representation | L. Materiality                |

- \_\_\_\_\_ 1. Measures of the ability of the company to survive over a long period of time.
- \_\_\_\_\_ 2. Current assets divided by current liabilities.
- \_\_\_\_\_ 3. Information that has a bearing on a decision.
- \_\_\_\_\_ 4. Economic events can be identified with a particular unit of accountability.
- \_\_\_\_\_ 5. An item important enough to influence the decision of an investor or creditor.
- \_\_\_\_\_ 6. Same accounting principles and methods used from year to year within a company.
- \_\_\_\_\_ 7. Information that accurately depicts what really happened.
- \_\_\_\_\_ 8. Noncurrent resources that do not have physical substance.
- \_\_\_\_\_ 9. (Net income – preferred stock dividends) divided by weighted-average common shares outstanding.
- \_\_\_\_\_ 10. Different companies using the same accounting principles.
- \_\_\_\_\_ 11. Measures of the short-term ability of the enterprise to pay its maturing obligations.
- \_\_\_\_\_ 12. The excess of current assets over current liabilities.

Ans: N/A, LO: 1-3, Section: NA, Subsection: NA, Bloom: K, Difficulty: Easy, Min: 6, AACSB: Analytic, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting

### Answers to Matching

- |      |       |       |       |
|------|-------|-------|-------|
| 1. J | 2. H  | 3. A  | 4. K  |
| 5. L | 6. D  | 7. F  | 8. E  |
| 9. I | 10. C | 11. B | 12. G |

## SHORT-ANSWER ESSAY QUESTIONS

### S-A E 240

Identify the two parts of stockholders' equity in a corporation and indicate the purpose of each.

Ans: N/A, LO: 1, Section: The Classified Balance Sheet, Subsection: Stockholders' Equity, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting

### Solution 240

The two parts of stockholders' equity and the purpose of each are: (1) Common stock is used to record investments of assets in the business by the owners (stockholders). (2) Retained earnings is used to record net income retained in the business.

### S-A E 241

What do these classes of ratios measure?

- (a) Liquidity ratios.
- (b) Profitability ratios.
- (c) Solvency ratios.

Ans: N/A, LO: 2, Section: Analyzing the Financial Statements Using Ratios, Subsection: Ratio Analysis, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting

### Solution 241

- (a) Liquidity ratios measure the short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash.
- (b) Profitability ratios measure the income or operating success of a company for a given period of time.
- (c) Solvency ratios measure the company's ability to survive over a long period of time.

### S-A E 242

Give the definition of current assets, current liabilities and the current ratio.

Ans: N/A, LO: 1, 2, Section: The Classified Balance Sheet, Analyzing the Financial Statements Using Ratios, Subsections: Current Assets, Current Liabilities, Ratio Analysis, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting

### Solution 242

Current assets are cash or other resources that are reasonably expected to be realized in cash, sold, or consumed in the business within one year or the operating cycle, whichever is longer. Current liabilities are obligations reasonably expected to be paid from the existing current assets or through the creation of other current liabilities within the next year or operating cycle, whichever is longer. The current ratio is a measure used to evaluate a company's liquidity and short-term debt paying ability, computed by dividing current assets by current liabilities.

**S-A E 243**

Are short-term creditors, long-term creditors, and stockholders primarily interested in the same characteristics of a company? Explain.

Ans: N/A, Section: Analyzing the Financial Statements Using Ratios, Subsection: Ratio Analysis, LO: 2, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution 243**

The three parties are not primarily interested in the same characteristics of a company. Short-term creditors are primarily interested in the liquidity of the enterprise. In contrast, long-term creditors and stockholders are primarily interested in the profitability and solvency of the company.

**S-A E 244**

Relevance and faithful representation are the fundamental qualities of useful information.

(a) Briefly define each term.

(b) Why are these characteristics important to users of financial statements?

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution 244**

(a) Relevance is the quality of information that makes a difference in a business decision. Information is considered relevant if it provides information that provides accurate expectations about the future, and confirms or corrects prior expectations.

Faithful representation means that information accurately depicts what really happened. Information must be complete, neutral and free from material error to provide a faithful representation.

(b) Relevance and faithful representation are important to the users of financial statements because these users do not have first-hand knowledge of the operations of the business. In order for these users to make decisions, they must have assurances that the information provided by the company is relevant – (makes a difference) and faithfully representative – (means what the company says). Without these assurances, the users cannot have confidence in the information provided to them.

**S-A E 245**

You and the CEO of your company are waiting on an elevator. You are going to the 5<sup>th</sup> floor and the CEO is going to the 35<sup>th</sup> floor. The CEO says, “What is the difference between consistency and comparability?” You have two minutes to respond. What will you say?

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Communication, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution 245**

You have asked an excellent question and I am glad to respond. Consistency means that a company uses the same accounting principles and methods each year. Decision-makers can work with accounting information, knowing that the company is consistently applying the principles and methods it has chosen. This is why it is so important that we carefully make these choices. There are procedures for making changes and communicating those changes to financial statement users.

Comparability results when different companies use the same accounting principles and methods. Comparability allows users to compare accounting information of different companies. The financial statement footnotes identify many of the principles and procedures that companies use. Comparisons can be made for companies within certain industries or other groupings.

**S-A E 246**

Comparability and consistency are enhancing qualities that make accounting information useful for decision-making purposes. Briefly explain the difference between these two qualities and explain how they are related to each other.

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: Assumptions in Financial Reporting, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution 246**

Comparability results when different companies use the same accounting principles and methods, while consistency results when one company uses the same principles and methods from year to year. The two qualities are related because information must possess relevance, faithful representation, comparability, and consistency to achieve the highest level of decision usefulness. In addition, accounting information for two entities cannot be comparable unless both companies practice consistency in their choice of principles and methods.

**S-A E 247**

Identify and briefly explain the two fundamental qualities of useful information.

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: Qualities of Useful Information, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution 247**

Relevance and faithful representation are the two fundamental qualities of useful information. Relevance is the quality of information that indicates the information makes a difference in a decision. Faithful representation is information that is complete, neutral, and free from material



error.

**S-A E 248**

What are three of the five enhancing qualities of useful information?

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: Enhancing Qualities, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution 248**

The FASB and IASB describe the following enhancing qualities of useful information: comparability, consistency, verifiability, timeliness, and understandability.

**S-A E 249 (Ethics)**

Many bonus plans are based upon the attainment of some specified short-term goal. For example, sales personnel at Metal Crafters are given a bonus of 5% of the amount by which their sales exceed \$100,000. Sometimes the attainment of these goals is achieved by methods detrimental to the long-term needs of the company. Sales representative Sara Crown, for example, finds herself tempted to court certain customers that place large orders, even though she knows they may not be able to pay. She complains that the bonus system itself is unethical.

**Required:**

Is a bonus system like the one at Metal Crafters unethical? Explain.

Ans: N/A, LO: 2, Section: NA, Subsection: NA, Bloom: E, Difficulty: Medium, Min: 5, AACSB: Ethics, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Decision Modeling, AICPA PC: Communication, IMA: Strategy, Planning & Performance

**Solution 249**

The bonus system described is not necessarily unethical, but it may be shortsighted. When employees are able to identify and address larger concerns (such as Sara's identification of the problem regarding the ability of a customer to pay) then such issues should probably become part of the system of bonuses. However, it is very difficult to set a bonus plan that allows for all contingencies. Since sales representatives are hired to generate sales, they most often are rewarded based on generating sales. Some of the future events, such as customers defaulting on payments, may not be the fault of the sales representative. For Sara Crown to create sales by soliciting customers with a poor payment record would be unethical on her part. She is required to use integrity, even when the possibility exists of her not using it, and even when she might gain by not using it.

**S-A E 250** (Communication)

Sunshine Sugar grows sugar cane in Florida, California, and Hawaii. Its investment in land to grow sugar exceeds \$5 million. Currently, land whose original cost was more than \$3 million in Florida is threatened by plans to flood the Everglades to reclaim the wetlands. Sunshine plans to fight vigorously to keep its land in production, particularly because most of the rest of its land is in California, which is threatened by water shortages. The land in Florida is also significantly more productive than that in California, and the wages paid to workers to process the sugar cane are substantially less. Current plans include litigation to prevent government seizure of the land, an extensive public education campaign, and intense lobbying efforts.

**Required:**

Sunshine has determined that a footnote disclosure should be made in the financial statements to alert the investors of the threat to the land. Carefully consider how much of the above information is appropriate for inclusion in the footnote. Write the footnote.

Ans: N/A, LO: 3, Section: Financial Reporting Concepts, Subsection: Full Disclosure Principle, Bloom: E, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BC: Process and Resource Management Perspectives, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution 250**

NOTE: A portion of the most valuable land owned by the company is the subject of plans by the Environmental Protection Agency to flood the Florida Everglades to "reclaim" the so-called wetlands. The company is working with the United States Department of Agriculture and other agencies to prevent this result. The company will be spending money to educate the public about this issue. Currently, land costing around \$3 million is at risk.

Usually the details of exactly why the land is so valuable to the company are not appropriate for inclusion. Footnotes need not be emotional or dramatic, either. There should be a systematic listing of at least the minimum amount the public has a right to know—how much land is at risk, and the nature of the risk.

## IFRS QUESTIONS

1. The classified balance sheet is
  - a. required under GAAP but not under IFRS.
  - b. required under IFRS in the same format as under GAAP.
  - c. required under IFRS but not under GAAP.
  - d. required under IFRS with certain variations in format as compared to GAAP.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

2. IFRS requires the use of
  - a. the term balance sheet.
  - b. the term statement of financial position.
  - c. neither the term balance sheet nor the term statement of financial position, but recommends use of the term balance sheet.
  - d. neither the term balance sheet nor the term statement of financial position, but recommends use of the term statement of financial position.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Reporting, AICPA PC: None,

IMA: Reporting

## 3. IFRS

- a. requires a specific format for the balance sheet (statement of financial position) that is identical to U.S. GAAP.
- b. requires a specific format for the balance sheet (statement of financial position) that is different from U.S. GAAP.
- c. requires no specific format for the balance sheet (statement of financial position) but most companies that follow IFRS prepare the statement identical to U.S. GAAP .
- d. requires no specific format for the balance sheet (statement of financial position) but most companies that follow IFRS prepare the statement in a different format from U.S. GAAP.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

4. Most companies that follow IFRS present balance sheet (statement of financial position) information in this order.
- a. current assets; investments; property; plant and equipment; intangible assets; current liabilities; long-term liabilities; owners' equity.
  - b. intangible assets; property; plant and equipment; investments; current assets; current liabilities; owners' equity; long-term liabilities.
  - c. current assets; noncurrent assets; current liabilities; noncurrent liabilities; equity.
  - d. noncurrent assets; current assets; equity; noncurrent liabilities; current liabilities.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

5. Under IFRS and under GAAP, current assets are listed in

- | <u>IFRS</u>                   | <u>GAAP</u>                |
|-------------------------------|----------------------------|
| a. order of liquidity         | order of liquidity         |
| b. reverse order of liquidity | order of liquidity         |
| c. order of liquidity         | reverse order of liquidity |
| d. reverse order of liquidity | reverse order of liquidity |

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

6. The subtotal net assets is used in
- a. both GAAP and IFRS.
  - b. GAAP but not IFRS.
  - c. IFRS but not GAAP.
  - d. neither IFRS nor GAAP.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

7. Both IFRS and GAAP require disclosure about
- a. accounting policies followed.
  - b. judgements that management has made in the process of applying the entity's accounting policies.
  - c. the key assumptions and estimation uncertainty.
  - d. all of the above.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

8. Under IFRS
- a. comparative prior-period information must be presented, but financial statements need not be provided annually.
  - b. comparative prior-period information must be presented, and financial statements must be provided annually.
  - c. comparative prior-period information is not required, but financial statements need not be provided annually.
  - d. comparative prior-period information is not required, but financial statements must be provided annually.

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

9. The use of fair value to report assets
- a. is not allowed under GAAP or IFRS.
  - b. is required by GAAP and IFRS.
  - c. is increasing under GAAP and IFRS, but GAAP has adopted it more broadly.
  - d. is increasing under GAAP and IFRS, but IFRS has adopted it more broadly.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

10. Under IFRS
- a. companies can apply fair value to property, plant, and equipment and natural resources.
  - b. companies can apply fair value to property, plant, and equipment but not to natural resources.
  - c. companies can apply fair value to neither property, plant, and equipment nor natural resources.
  - d. companies can apply fair value to natural resources but not to property, plant, and equipment.

Ans: A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting