CHAPTER 1

WELCOME TO ACCOUNTING

TRUE-FALSE STATEMENTS

1. Identifying is the process of keeping a chronological diary of events measured in dollars and cents.

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Why Study Accounting?

2. Management of a business enterprise is the major external user of information.

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Who Uses Accounting Information?

3. Accounting communicates financial information about a business enterprise to both internal and external users.

   Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Who Uses Accounting Information?

4. Accounting information is used only by external users with a financial interest in a business enterprise.

   Ans: F LO1 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Who Uses Accounting Information?

5. Bookkeeping and accounting are one and the same because the bookkeeping function includes the accounting process.

   Ans: F LO1 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Why Study Accounting?

6. The origins of accounting are attributed to Luca Pacioli, a famous mathematician.

   Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Why Study Accounting?

7. The study of accounting is **not** useful for a business career unless your career objective is to become an accountant.

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Who Uses Accounting Information?

8. A working knowledge of accounting is **not** relevant to a lawyer or an architect.

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Who Uses Accounting Information?

9. Owners of business firms are the only people who need accounting information.

   Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Who Uses Accounting Information?

10. Transactions that can be measured in dollars and cents are recorded in the accounting information system.

    Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Why Study Accounting?

11. A partnership must have more than one owner.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Types of Businesses That Use Accounting

12. Even though a partnership is **not** a separate legal entity, for accounting purposes the partnership affairs should be kept separate from the personal activities of the owners.

Ans: T LO2 BT: C Difficulty; Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Types of Businesses That Use Accounting

13. The economic entity assumption requires that the activities of an entity be kept separate and distinct from the activities of its owner and all other economic entities.

Ans: T LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

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

Ans: T LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

15. Accountants rely on a fundamental business concept—ethical behavior—in reporting financial information.

Ans: T LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Ethics in Financial Reporting

16. The primary accounting standard-setting body in the United States is the International Accounting Standards Board.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Accounting Standards

17. The Financial Accounting Standards Board is a part of the Securities and Exchange Commission.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Accounting Standards

18. Accountants do **not** have to worry about issues of ethics.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Ethics AICPA PC: Professional Demeanor AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Ethics in Financial Reporting

19. At the time an asset is acquired, cost and fair value should be the same.

Ans: T LO3 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

20. The monetary unit assumption requires that all dollar amounts be rounded to the nearest dollar.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

21. The Securities and Exchange Commission oversees U.S. financial markets and accounting standard-setting bodies.

Ans: T LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Accounting Standards

22. The cost and fair market value of an asset are the same at the time of acquisition and in all subsequent periods.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

23. Financial statements are the major means of communicating accounting information to interested parties.

Ans: T LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: None

24. In the owner's equity statement, revenues are listed first, followed by expenses, and net income (or net loss).

Ans: F LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Owner's Equity Statement

25. The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments of a company during a period.

Ans: T LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Statement of Cash Flows

26. Net income for the period is determined by subtracting total expenses and drawings from total revenues.

Ans: F LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, Reporting, IMA: Reporting Subtopic: Income Statement

27. The study of accounting will be useful only if a student is interested in working for a profit-oriented business firm.

Ans: F LO5 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Private Accounting

28. Private accountants are accountants who are **not** employees of business enterprises.

Ans: F LO5 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Private Accounting

29. Expressing an opinion as to the fairness of the information presented in financial statements is a service performed by CPAs.

Ans: T LO5 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Public Accounting

30. Management consulting includes examining the financial statements of companies and expressing an opinion as to the fairness of their presentation.

Ans: F LO5 BT: K Difficulty; Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, Reporting, IMA: Reporting Subtopic: Public Accounting

MULTIPLE CHOICE QUESTIONS

31. The starting point of the accounting process is
    a. communicating information to users.
    b. identifying economic events.
    c. recording economic events.
    d. None of the above answers are correct.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Why Study Accounting?

32. Communication of economic events is the part of the accounting process that involves
    a. identifying economic events.
    b. quantifying transactions into dollars and cents.
    c. preparing accounting reports.
    d. recording and classifying information.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Why Study Accounting?

33. Which of the following is **not** an internal user of accounting information?
    a. production supervisor
    b. creditor
    c. marketing manager
    d. finance director

Ans: b LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Who Uses Accounting Information?

34. Which of the following is **not** an external user of accounting information?
    a. production supervisor
    b. creditor
    c. investor
    d. supplier

Ans: a LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Who Uses Accounting Information?

35. Which of the following questions is asked by internal users?
    a. Is the company in which we invested making money?
    b. Which company deserves more investment?
    c. Should we eliminate any product lines?
    d. Will this company be able to pay us back if we loan to them?

Ans: c LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Who Uses Accounting Information?

36. Which of the following questions is asked by external users?
    a. Is the company in which we invested making money?
    b. Do we have enough money to pay our bills?
    c. Should we eliminate any product lines?
    d. Can we give our employees raises?

Ans: a LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Who Uses Accounting Information?

37. Which of the following provides information primarily to external users?

a. Managerial accounting
b. Budgeting accounting
c. Financial accounting
d. Forecast accounting

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Who Uses Accounting Information?

38. The accounting process involves all of the following **except**
a. identifying economic transactions that are relevant to the business.
b. communicating financial information to users by preparing financial reports.
c. recording nonquantifiable economic events.
d. analyzing and interpreting financial reports.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Why Study Accounting?

39. The accounting process is correctly sequenced as
a. identification, communication, recording.
b. recording, communication, identification.
c. identification, recording, communication.
d. communication, recording, identification.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Why Study Accounting?

40. Which of the following would **not** be considered an internal user of accounting data for the LMN Company?
a. President of the company
b. Production manager
c. Merchandise inventory clerk
d. President of the employees' labor union

Ans: d LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Who Uses Accounting Information?

41. Which of the following would **not** be considered an external user of accounting data for the LMN Company?
a. Internal Revenue Service Agent
b. Management
c. Creditors
d. Customers

Ans: b LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Who Uses Accounting Information?

42. The origins of accounting are generally attributed to the work of
a. Christopher Columbus.
b. Abner Doubleday.
c. Luca Pacioli.
d. Leonardo da Vinci.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Why Study Accounting?

43. Financial accounting provides economic and financial information for all of the following **except**
a. creditors.
b. investors.
c. managers.

d. other external users.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting
Subtopic: Who Uses Accounting Information?

44. Which of the following would **not** be considered internal users of accounting data for a company?
   a. The president of a company
   b. The controller of a company
   c. Creditors of a company
   d. Salesmen of the company

Ans: c LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting
Subtopic: Who Uses Accounting Information?

45. Which of the following is an external user of accounting information?
   a. Labor unions
   b. Finance directors
   c. Company officers
   d. Managers

Ans: a LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting
Subtopic: Who Uses Accounting Information?

46. Which one of the following is **not** an external user of accounting information?
   a. Regulatory agencies
   b. Customers
   c. Investors
   d. All of these answers choices are external users.

Ans: d LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting
Subtopic: Who Uses Accounting Information?

47. Bookkeeping differs from accounting in that bookkeeping primarily involves which part of the accounting process?
   a. Identification
   b. Communication
   c. Recording
   d. Analysis

Ans: c LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting
Subtopic: Why Study Accounting?

48. Which of the following is **not** part of the accounting process?
   a. Recording
   b. Identifying
   c. Financial decision-making
   d. Communicating

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting
Subtopic: Why Study Accounting?

49. The first part of the accounting process is
   a. communicating.
   b. identifying.
   c. processing.
   d. recording.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting
Subtopic: Why Study Accounting?

50. Keeping a systematic, chronological diary of events that are measured in dollars and cents is called
    a. communicating.
    b. identifying.
    c. processing.
    d. recording.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Why Study Accounting?

51. Internal users of accounting information include all of the following **except**
    a. company officers.
    b. investors.
    c. marketing managers.
    d. production supervisors.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Who Uses Accounting Information?

52. A proprietorship is a business
    a. owned by one person.
    b. owned by two or more persons.
    c. organized as a separate legal entity under state corporation law.
    d. owned by a governmental agency.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Types of Businesses That Use Accounting

53. Which can have either one owner or thousands of owners?
    a. Proprietorship
    b. Corporation
    c. Partnership
    d. Proprietorship or partnership

Ans: b LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Types of Businesses That Use Accounting

54. An accounting firm is an example of a
    a. service company.
    b. retail company.
    c. merchandise company.
    d. manufacturing company.

Ans: a LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Business Classifications

55. The proprietorship form of business organization
    a. must have at least three owners in most states.
    b. represents the largest number of businesses in the United States.
    c. combines the records of the business with the personal records of the owner.
    d. is characterized by a legal distinction between the business as an economic unit and the owner.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Types of Businesses That Use Accounting

56. A business organized as a corporation
    a. is not a separate legal entity in most states.

b. requires that stockholders be personally liable for the debts of the business.
c. is owned by its stockholders.
d. terminates when one of its original stockholders dies.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Types of Businesses That Use Accounting

57. The partnership form of business organization
a. is a separate legal entity.
b. is a common form of organization for service-type businesses.
c. enjoys an unlimited life.
d. has limited liability.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Types of Businesses That Use Accounting

58. Which of the following is **not** an advantage of the corporate form of business organization?
a. Limited liability of stockholders
b. Transferability of ownership
c. Unlimited personal liability for stockholders
d. Unlimited life

Ans: c LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Types of Businesses That Use Accounting

59. A small neighborhood barber shop that is operated by its owner would likely be organized as a
a. joint venture.
b. partnership.
c. corporation.
d. proprietorship.

Ans: d LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Types of Businesses That Use Accounting

60. George and Ringo met at law school and decide to start a small law practice after graduation. They agree to split revenues and expenses evenly. The most common form of business organization for a business such as this would be a
a. joint venture.
b. partnership.
c. corporation.
d. proprietorship.

Ans: b LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Types of Businesses That Use Accounting

61. Which of the following is true regarding the corporate form of business organization?
a. Corporations are the most prevalent form of business organization.
b. Corporate businesses are generally smaller in size than partnerships and proprietorships.
c. The revenues of corporations are greater than the combined revenues of partnerships and proprietorships.
d. Corporations are separate legal entities organized exclusively under federal law.

Ans: c LO2 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Types of Businesses That Use Accounting

62. A business whose owners enjoy limited liability is a

a. proprietorship.
b. partnership.
c. corporation.
d. sole proprietorship.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Types of Businesses That Use Accounting

63. Which of the following events **cannot** be quantified into dollars and cents and recorded as an accounting transaction?
a. The appointment of a new CPA firm to perform an audit
b. The purchase of a new computer
c. The sale of store equipment
d. Payment of income taxes

Ans: a LO3 BT: C Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Principles and Assumptions

64. The final step in solving an ethical dilemma is to
a. identify and analyze the principal elements in the situation.
b. recognize an ethical situation.
c. identify the alternatives and weigh the impact of each alternative on stakeholders.
d. recognize the ethical issues involved.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Ethics in Financial Reporting

65. The first step in solving an ethical dilemma is to
a. identify and analyze the principal elements in the situation.
b. identify the alternatives.
c. recognize an ethical situation and the ethical issues involved.
d. weigh the impact of each alternative on various stakeholders.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Ethics AICPA PC: Professional Behavior AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Ethics in Financial Reporting

66. Ethics are the standards of conduct by which one's actions are judged as
a. right or wrong.
b. honest or dishonest.
c. fair or unfair.
d. All of these answer choices are correct.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Ethics AICPA PC: Professional Behavior AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Ethics in Financial Reporting

67. Generally accepted accounting principles are
a. income tax regulations of the Internal Revenue Service.
b. standards that indicate how to report economic events.
c. theories that are based on physical laws of the universe.
d. principles that have been proven correct by academic researchers.

Ans: b LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Accounting Standards

68. The historical cost principle requires that when assets are acquired, they are recorded at
a. appraisal value.
b. cost.
c. market price.
d. book value.

Ans: b LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

69. The historical cost of an asset and its fair value are
   a. never the same.
   b. the same when the asset is sold.
   c. irrelevant when the asset is used by the business in its operations.
   d. the same on the date of acquisition.

Ans: d LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

70. The private sector organization involved in developing accounting principles is the
   a. Feasible Accounting Standards Body.
   b. Financial Accounting Studies Board.
   c. Financial Accounting Standards Board.
   d. Financial Auditors' Standards Body.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Accounting Standards

71. The SEC and FASB are two organizations that are primarily responsible for establishing generally accepted accounting principles. It is true that
   a. they are both governmental agencies.
   b. the SEC is a private organization of accountants.
   c. the SEC often mandates guidelines when no accounting principles exist.
   d. the SEC and FASB rarely cooperate in developing accounting standards.

Ans: c LO3 BT: C Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Accounting Standards

72. GAAP stands for
   a. Generally Accepted Auditing Procedures.
   b. Generally Accepted Accounting Principles.
   c. Generally Accepted Auditing Principles.
   d. Generally Accepted Accounting Procedures.

Ans: b LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Accounting Standards

73. Financial information that is capable of making a difference in a decision is
   a. faithfully representative.
   b. relevant.
   c. convergent.
   d. generally accepted.

Ans: b LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

74. The Dulce Company has five plants nationwide that cost a total of $200 million. The current fair value of the plants is $600 million. The plants will be recorded and reported as assets at
   a. $200 million.
   b. $600 million.
   c. $400 million.
   d. $800 million.

Ans: a LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, Reporting, IMA: Reporting Subtopic: Principles and Assumptions

75. The fair value principle is applied for
  a. all assets.
  b. current assets.
  c. buildings.
  d. investment securities.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

76. The economic entity assumption requires that the activities
  a. of different entities can be combined if all the entities are corporations.
  b. must be reported to the Securities and Exchange Commission.
  c. of a sole proprietorship cannot be distinguished from the personal economic events of its owners.
  d. of an entity be kept separate from the activities of its owner.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

77. A basic assumption of accounting that requires activities of an entity be kept separate from the activities of its owner is referred to as the
  a. stand-alone concept.
  b. monetary unit assumption.
  c. corporate form of ownership.
  d. economic entity assumption.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

78. The organization(s) primarily responsible for establishing generally accepted accounting principles is(are) the

	FASB	SEC
a.	no	no
b.	yes	no
c.	no	yes
d.	yes	yes

Ans: d LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Accounting Standards

79. The primary accounting standard-setting body in the United States is the
  a. Financial Accounting Standards Board.
  b. International Accounting Standards Board.
  c. Internal Revenue Service.
  d. Securities and Exchange Commission.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Accounting Standards

80. Sam Ryo is the proprietor (owner) of Sam's, a retailer of golf apparel. When recording the financial transactions of Sam's, Sam does **not** record an entry for a car he purchased for personal use. Sam took out a personal loan to pay for the car. What accounting concept guides Sam's behavior in this situation?
  a. Pay back concept
  b. Economic entity assumption

c. Cash basis concept
d. Monetary unit assumption

Ans: b LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

81. A basic assumption of accounting assumes that the dollar is
a. unrelated to business transactions.
b. a poor measure of economic activities.
c. the common unit of measure for all business transactions.
d. useless in measuring an economic event.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

82. The assumption that the unit of measure remains sufficiently constant over time is part of the
a. economic entity assumption.
b. cost principle.
c. historical cost principle.
d. monetary unit assumption.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

83. A problem with the monetary unit assumption is that
a. the dollar has not been stable over time.
b. the dollar has been stable over time.
c. the dollar is a common medium of exchange.
d. it is impossible to account for international transactions.

Ans: a LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

84. A net loss will result during a time period when
a. liabilities exceed assets.
b. drawings exceed investments.
c. expenses exceed revenues.
d. revenues exceed expenses.

Ans: c LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Income Statement

85. Net income results when
a. Assets > Liabilities.
b. Revenues = Expenses.
c. Revenues > Expenses.
d. Revenues < Expenses.

Ans: c LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Income Statement

86. Owner's capital at the end of the period is equal to
a. owner's capital at the beginning of the period plus net income minus liabilities.
b. owner's capital at the beginning of the period plus net income minus drawings.
c. net income.
d. assets plus liabilities.

Ans: b LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Owner's Equity Statement

87. A balance sheet shows
    a. revenues, liabilities, and owner's equity.
    b. expenses, drawings, and owner's equity.
    c. revenues, expenses, and drawings.
    d. assets, liabilities, and owner's equity.

Ans: d LO4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Balance Statement

88. An income statement
    a. summarizes the changes in owner's equity for a specific period of time.
    b. reports the changes in assets, liabilities, and owner's equity over a period of time.
    c. reports the assets, liabilities, and owner's equity at a specific date.
    d. presents the revenues and expenses for a specific period of time.

Ans: d LO4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Income Statement

89. If owner's equity increases from the beginning of the year to the end of the year, then
    a. net income is less than owner drawings.
    b. a net loss is less than owner drawings.
    c. additional owner investments are less than net losses.
    d. net income plus investments is greater than owner drawings.

Ans: d LO4 BT: C Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Owner’s Equity Statement

90. Eli’s Electronic Repair Shop started the year with total assets of $300,000 and total liabilities of $200,000. During the year, the business recorded $400,000 in electronic repair revenues, $300,000 in expenses, and Eli withdrew $50,000. The net income reported by Eli's Electronic Repair Shop for the year was
    a. $100,000.
    b. $150,000.
    c. $250,000.
    d. $300,000.

Ans: a LO4 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Income Statement

Solution: $400,000 – $300,000 = $100,000
(Repair rev. – exp. = Net inc.)

91. The primary purpose of the statement of cash flows is to report
    a. a company's investing transactions.
    b. a company's financing transactions.
    c. information about cash receipts and cash payments of a company.
    d. the net increase or decrease in cash.

Ans: c LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Statement of Cash Flows

92. All of the financial statements are for a period of time **except** the
    a. income statement.
    b. owner's equity statement.
    c. balance sheet.
    d. statement of cash flows.

Ans: c LO4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Financial Statement Connections

93. The ending owner's equity amount is shown on
   a. the balance sheet only.
   b. the owner's equity statement only.
   c. both the income statement and the owner's equity statement.
   d. both the balance sheet and the owner's equity statement.

Ans: d LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Owner's Equity Statement

94. Martha Innocenzi Ito began the Innocenzi Company by investing $75,000 of cash in the business. The company recorded revenues of $555,000, expenses of $410,000, and had owner drawings of $30,000. What was Innocenzi's net income for the year?
   a. $115,000.
   b. $145,000.
   c. $175,000.
   d. $190,000.

Ans: b LO4 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Income Statement

Solution: $555,000 – $410,000 = $145,000
(Rev. – Exp. = Net inc.)

95. A net loss will result during a time period when
   a. assets exceed liabilities.
   b. assets exceed owner's equity.
   c. expenses exceed revenues.
   d. revenues exceed expenses.

Ans: c LO4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Income Statement

96. El Centro Company began the year with owner's equity of $30,000. During the year, El Centro received additional owner investments of $42,000, recorded expenses of $120,000, and had owner drawings of $12,000. If El Centro's ending owner's equity was $112,000, what was the company's revenue for the year?
   a. $164,000.
   b. $172,000.
   c. $202,000.
   d. $214,000.

Ans: b LO4 BT: AN Difficulty: Medium TOT: 2.0 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Owner's Equity Statement
Solution: $30,000 + $42,000 + (X – $120,000) – $12,000 = $112,000; X = $172,000
[Beg. owner's equity tot. + Add'l. invest. + (Rev. – Exp.) – Draws. = End. owner's equity tot.]

97. Lefty Company began the year with owner's equity of $105,000. During the year, Lefty received additional owner investments of $147,000, recorded expenses of $420,000, and had owner drawings of $28,000. If Lefty's ending owner's equity was $290,000, what was the company's revenue for the year?
   a. $458,000.
   b. $486,000.
   c. $605,000.
   d. $633,000.

Ans: b LO4 BT: AP Difficulty: Medium TOT: 2.0 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Owner's Equity Statement

Solution: $105,000 + $147,000 + (X – $420,000) – $28,000 = $290,000; X = $486,000
[Beg. owner's equity tot. + Add'l. invest. + (Rev. – Exp.) – Draws. = End. owner's equity tot.]

98. Foxes Service Shop started the year with total assets of $320,000 and total liabilities of $240,000. During the year, the business recorded $630,000 in revenues, $450,000 in expenses, and owner drawings of $60,000. The net income reported by Foxes Service Shop for the year was
    a. $140,000.
    b. $180,000.
    c. $200,000.
    d. $270,000.

Ans: b LO4 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Income Statement

Solution: $630,000 – $450,000 = $180,000
(Rev. – Exp. – Net inc.)

99. Teamboo Company's owner's equity at the beginning of August 2022 was $740,000. During the month, the company earned net income of $175,000 and owner's drawings were $80,000. At the end of August 2022, what is the balance in owner's equity?
    a. $660,000
    b. $740,000
    c. $820,000
    d. $835,000

Ans: d LO4 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Owner's Equity Statement

Solution: $740,000 + $175,000 – $80,000 = $835,000
(Beg. owner's equity + Net inc. – Draws. = End. owner's equity

100. On January 1, 2022, Utah Utility Company reported owner's equity of $705,000. During the year, the owner withdrew cash of $30,000. At December 31, 2022, the balance in owner's equity was $795,000. What amount of net income or net loss would the company report for 2022?
    a. Net loss of $60,000
    b. Net income of $90,000
    c. Net income of $120,000
    d. Net income of $150,000

Ans: c LO4 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Owner's Equity Statement

Solution: $705,000 + X – $30,000 = $795,000; X = $120,000
(End. owner's equity – Beg. owner's equity + Draws. = Net inc.)

101. Luis Consulting started the year with total assets of $60,000 and total liabilities of $17,000. During the year, the business recorded $48,000 in consulting revenues and $36,000 in expenses. Luis made an additional investment of $8,000 and withdrew cash of $9,000 during the year. The net income reported by Luis Consulting for the year was:
    a. $3,000.
    b. $12,000.
    c. $18,000.
    d. $27,000.

Ans: b LO4 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Income Statement

Solution: $48,000 – $36,000 = $12,000
(Rev. – Exp. = Net inc.)

102. During the year 2022, Dallas Company earned revenues of $90,000, had expenses of $62,000, purchased assets with a cost of $10,000 and had owner drawings of $6,000. Net income for the year is
    a. $18,000.

b. $22,000.
c. $28,000.
d. $32,000.

Ans: c LO4 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Income Statement

Solution: $90,000 − $62,000 = $28,000
(Rev. – Exp. = Net inc.)

103. At October 1, Flambo Company reported owner's equity of $70,000. During October, no additional investments were made and the company earned net income of $18,000. If owner's equity at October 31 totals $80,000, what amount of owner drawings were made during the month?
a. $0
b. $8,000
c. $10,000
d. $26,000

Ans: b LO4 BT: AN Difficulty: Medium TOT: 1.0 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Owner's Equity Statement

Solution: $70,000 + $18,000 − X = $80,000; X = $8,000
[(End. owner's equity – Beg. owner's equity = Chg. in owner's equity); (Chg. in owner's equity – Net inc. = Draws.)]

104. At October 1, Russell Company reported owner's equity of $76,000. During October, no additional investments were made and the company posted a net loss of $8,000. If owner's equity at October 31 totals $64,000, what amount of owner drawings were made during the month?
a. $0
b. $4,000
c. $8,000
d. $16,000

Ans: b LO4 BT: AN Difficulty: Medium TOT: 1.0 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Owner's Equity Statement

Solution: $76,000 − $8,000 − X = $64,000; X = $4,000
[(End. owner's equity – Beg. owner's equity = Chg. in owner's equity); (Chg. in owner's equity + Net loss = Draws.)]

105. At October 1, Finnegan Company reported owner's equity of $70,000. During October, the owner made additional investments of $4,000 and the company earned net income of $14,000. If owner's equity at October 31 totals $78,000, what amount of owner drawings were made during the month?
a. $0
b. $4,000
c. $8,000
d. $10,000

Ans: d LO4 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Owner's Equity Statement

Solution: $70,000 + $4,000 + $14,000 − X = $78,000; X = $10,000
[(End. owner's equity – Beg. owner's equity = Chg. in owner's equity); (Chg. in owner's equity – Add'l. invest. – Net inc. = Draws.)]

106. At October 1, Boisclair Company reported owner's equity of $68,000. During October, the owner made additional investments of $10,000 and the company posted a net loss of $4,000. If owner's equity at October 31 totals $70,000, what amount of owner drawings were made during the month?
a. $0
b. $4,000
c. $6,000

d. $10,000

Ans: b LO4 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Owner's Equity Statement

Solution: $68,000 + $10,000 − $4,000 − X = $70,000; X = $4,000
[(End. owner's equity – Beg. owner's equity = Chg. in owner's equity); (Chg. in owner's equity – Add'l. invest. + Net loss = Draws.)]

107. Juggernaut Company buys a $29,000 van on credit. The transaction will affect the
a. income statement only.
b. balance sheet only.
c. income statement and owner's equity statement only.
d. income statement, owner's equity statement, and balance sheet.

Ans: b LO4 BT: K Difficulty: Medium TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Income Statement and Owner's Equity Statement

108. Auditing is
a. the examination of financial statements by a CPA in order to express an opinion on their fairness.
b. a part of accounting that involves only recording of economic events.
c. an area of accounting that involves such activities as cost accounting, budgeting, and accounting information systems.
d. conducted by the Securities and Exchange Commission to ensure that registered financial statements are presented fairly.

Ans: a LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Public Accounting

109. All of the following are services offered by public accountants **except**
a. budgeting.
b. auditing.
c. tax planning.
d. consulting.

Ans: a LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Public Accounting

110. Which list below best describes the major services performed by public accountants?
a. Bookkeeping, mergers, budgets
b. Employee training, auditing, bookkeeping
c. Auditing, taxation, management consulting
d. Cost accounting, production scheduling, recruiting

Ans: c LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Public Accounting

111. Preparing tax returns and engaging in tax planning is performed by
a. public accountants only.
b. private accountants only.
c. both public and private accountants.
d. IRS accountants only.

Ans: c LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Public Accounting

112. A private accountant can perform many activities in a business organization but would **not** work in
a. budgeting.

b. accounting information systems.
c. external auditing.
d. tax accounting.

Ans: c LO5 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting
Subtopic: Private Accounting

113. Which is not one of the main job opportunities in public accounting?
a. Auditing
b. Budgeting
c. Taxation
d. Management consulting

Ans: b LO5 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting
Subtopic: Public Accounting

114. Who has the exclusive authority to issue audit opinions?
a. Tax specialists
b. Management consultants
c. Entrepreneurs
d. CPAs

Ans: d LO5 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Public Accounting

115. Which is not a typical private accounting activity?
a. Cost accounting
b. Budgeting
c. Tax planning and preparation
d. Management consulting

Ans: d LO5 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting
Subtopic: Private Accounting

116. A governmental accountant would **not** work for the
a. IRS.
b. FBI.
c. SEC.
d. SOX.

Ans: d LO5 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting
Subtopic: Governmental Accounting

117. In which area is your focus on investigating financial fraud?
a. Forensic accounting
b. Governmental accounting
c. Public accounting
d. Private accounting

Ans: a LO5 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting
Subtopic: Forensic Accounting

BRIEF EXERCISES

BE 118

Cobblepot Company performs the following accounting tasks during the year.

________ a. Summarizing economic events.

________ b. Classifying economic events.

________ c. Analyzing and interpreting information.

________ d. Keeping a systematic chronological diary of events.

________ e. Explaining uses, meaning, and limitations of data.

________ f. Preparing accounting reports.

________ g. Reporting information in a standard format.

________ h. Selecting economic activities relevant to the company.

________ i. Measuring events in dollars and cents.

Label these accounting tasks as being part of the identification (I), recording (R), or communication (C) activities of accounting

Ans: NA LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation , IMA: Reporting Subtopic: Why Study Accounting?

Solution 118

I – h; R – d, i; C – a, b, c, e, f, g

BE 119

Identify the questions below with the type of user [Internal (I) or External (E)] who would normally ask the question.

________ a. Will we have enough cash to pay our bills?

________ b. What price should we charge for our new product?

________ c. Is the company we invested in profitable?

________ d. Which company should we invest in?

________ e. Can we hire more employees?

________ f. Should we grant credit to this new customer?

________ g. Which product line should we emphasize?

Ans: NA LO1 BT: C Difficulty: Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Who Uses Accounting Information?

Solution 119

I – a, b, e, g; E – c, d, f

BE 120

Match the following external users of financial accounting information with the type of decision that user will make with the information.

a. Creditor
b. Investor
c. Regulatory Agency
d Internal Revenue Service

_______ (1) Is the company operating within prescribed guidelines?

_______ (2) Is the company complying with tax laws?

_______ (3) Is the company able to pay its debts?

_______ (4) Is the company a good investment?

Ans: NA LO1 BT: C Difficulty; Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Who Uses Accounting Information?

Solution 120

1. c
2. d
3. a
4. b

BE 121

Identify the characteristics below with the type of user [Proprietorship (SP), Partnership (P), or Corporation (C)] with which it is best associated.

________ a. Owner is manager/operator.

________ b. An agreement sets forth initial investment and withdrawal procedures.

________ c. Ownership is divided into transferable shares of stock.

________ d. Only a relatively small amount of capital is needed.

________ e. Is a separate legal entity.

________ f. No legal distinction between owner and business.

________ g. Most of the largest companies in the U. S.

Ans: NA LO2 BT: C Difficulty; Easy TOT: 5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Types of Businesses That Use Accounting

Solution 121

SP – a, d, f; P – b; C – c, e, g

BE 122

Identify each company as being service, retail, or manufacturing.

a. Jiffy Lube
b. General Motors
c. Caterpillar
d Urban Outfitters

Ans: NA LO2 BT: C Difficulty; Easy TOT: .5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Business Classifications

Solution 122

a. Jiffy Lube	Service
b. General Motors	Manufacturing
c. Caterpillar	Manufacturing
d. Urban Outfitters	Merchandising

BE 123

Fill in the chart below, identifying the meaning, and a quick description, of the five accounting abbreviations.

Abbreviation	Meaning	Quick Description
GAAP		
FASB		
SEC		

Ans: NA LO3 BT: K Difficulty: Easy TOT: 3 min. AACSB: Diversity AICPA FC: Reporting, IMA: Reporting Subtopic: Accounting Standards

Solution 123

Abbreviation	Meaning	Quick Description
GAAP	Generally accepted accounting principles	The U.S. accounting rules
FASB	Financial Accounting Standards Board	Makes the U.S. accounting rules
SEC	Securities and Exchange Commission	Enforces the U.S. accounting rules

BE 124

The following situations involve accounting principles and assumptions.

1. Bullock Company owns buildings that are worth much more than they originally cost. In an effort to provide more relevant information, Bullock reports the buildings at fair value in its accounting reports.
2. Pennyworth Corporation reports its revenues using numbers and descriptions that match what really happened.
3. Falcone Company includes in its accounting records only transaction data that can be expressed in terms of money.
4. Galavan, Inc. owns investment securities that are worth much more than they originally cost. In an effort to provide more relevant information, Galavan reports the investments at fair value in its accounting reports.
5. Butch Gilzean, the owner of Gilzean Photography, records his personal living costs as expenses of the business.
6. Dent Company does not report in its financial statements some financial information that is capable of making a difference in a decision.

For each of the six situations, indicate if the accounting method used is correct or incorrect. If correct, identify which principle or assumption supports the method used. If incorrect, identify which principle or assumption has been violated.

Ans: NA LO3 BT:C Difficulty: Medium TOT: 5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Principles and Assumptions

Solution 124
1. Incorrect; historical cost principle.
2. Correct; faithful representation.
3. Correct; monetary unit assumption.
4. Correct; fair value principle.
5. Incorrect; economic entity assumption.
6. Incorrect; relevance.

BE 125

Balance sheet amounts as of December 31, 2022, for K-12 Tutoring Service are listed below. Prepare a balance sheet in good form.

Accounts payable	$ 300
Accounts receivable	1,000
Cash	500
Owner’s capital	?

Ans: NA LO4 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Balance Sheet

Solution 125

K-12 TUTORING SERVICE
Balance Sheet
December 31, 2022

Assets		Liabilities and Owner's Equity	
Cash	$ 500	Accounts payable	$ 300
Accounts receivable	1,000	Owner's capital	1,200
Total assets	$1,500	Total liabilities and owner's equity	$1,500

BE 126

Identify whether the following items would be reported on the income statement (IS) or balance sheet (BS).

1. Cash
2. Service Revenue
3. Notes Payable
4. Interest Expense
5. Accounts Receivable

Ans: NA LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Reporting , IMA: Reporting Subtopic: Balance Sheet and Income Statement

Solution 126

1. Balance Sheet (BS)
2. Income Statement (IS)
3. Balance Sheet (BS)
4. Income Statement (IS)
5. Balance Sheet (BS)

BE 127

Use the following information to calculate for the year ended December 31, 2022 (a) net income, (b) ending owner's equity, and (c) total assets.

Supplies	$ 3,000	Revenues	$25,000
Operating expenses	11,000	Cash	15,000
Accounts payable	9,000	Drawings	1,000
Accounts receivable	3,000	Notes payable	2,000
Beginning capital	5,000	Equipment	8,000

Ans: NA LO4 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Balance Sheet, Income Statement, and Owner's Equity Statement

Solution 127

(a) $14,000 (b) $18,000 (c) $29,000

[(a) (Rev. – Oper. exp. = Net inc.); (b) (Beg. cap. + (Rev. – Oper. exp.) – Draws. = End. owner's equity); (c): (Supp. + Accts. rec. + Cash + Equip. = Tot. assets)]

BE 128

Listed below in alphabetical order are the balance sheet items of Middleton Company at December 31, 2022. Prepare a balance sheet and include a complete heading.

Accounts payable	$ 21,000
Accounts receivable	15,000
Buildings	91,000
Cash	6,000
Equipment	17,000
Owner's Capital	108,000

Ans: NA LO4 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Balance Sheet

Solution 128

MIDDLETON COMPANY
Balance Sheet
December 31, 2022

ASSETS	
Cash	$ 6,000
Accounts receivable	15,000
Equipment	17,000
Buildings	91,000
Total assets	$129,000

LIABILITIES AND OWNER'S EQUITY	
Liabilities	
Accounts payable	$ 21,000
Owner's equity	
Owner's capital	108,000
Total liabilities and owner's equity	$129,000

BE 129

Identify the tasks below with the public accounting job area [Auditing (A), Taxation (T) or Management Consulting (MC)] with which it is best associated.

________ a. Installing accounting software.

________ b. Representing clients before the IRS.

________ c. Examining financial statements and provides an opinion.

________ d. Providing tax advice.

________ e. Performing support activities for acquisitions.

Ans: NA LO5 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Public Accounting

Solution 129

A - c; T – b, d; MC – a, e

BE 130

Identify the descriptions below with the accounting career opportunity (public accounting, private accounting, governmental accounting, forensic accounting) which it is best describes.

a. Catch perpetrators of theft and fraud.
b. Often have FBI or IRS experience.
c. Perform auditing, tax services, and management consulting for clients.
d. Perform activities such as cost accounting, budgeting, and tax planning.
e. Includes working for the SEC and as an educator at a public university.

Ans: NA LO5 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Public Accounting, Private Accounting, Govermental Accounting, and Forensic Accounting

Solution 130

a. Forensic accounting.
b. Forensic accounting.
c. Public accounting.
d. Private accounting.
e. Governmental accounting.

EXERCISES

Ex. 131

Below is a list of important abbreviations widely used in business. For each abbreviation give the full designation.

1. CPA ____________________
2. IRS ____________________
3. FBI ____________________
4. FASB ____________________
5. GAAP ____________________
6. SEC ____________________

LO3, 5 BT: K Difficulty: Medium TOT: 5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Fianancial Standards and Public Accounting

Solution 131

1. Certified Public Accountant
2. Internal Revenue Service

3. Federal Bureau of Investigation
4. Financial Accounting Standards Board
5. Generally Accepted Accounting Principles
6. Securities and Exchange Commission

Ex. 132

From the following list of selected accounts taken from the records of Lori's Landscaping Center, identify those that would appear on the balance sheet.

a. Owner's capital
b. Service revenue
c. Land
d. Salaries and wages expense
e. Notes payable
f. Accounts payable
g. Cash
h. Rent expense
i. Supplies
j. Utilities expense

Ans: NA LO4 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Balance Sheet

Solution 132

a, c, e, f, g, i

Ex. 133

Two items are omitted from each of the following summaries of balance sheet and income statement data for two proprietorships for the year 2022, Black Sheep Enterprises and Cat Stevens.

	Black Sheep Enterprises	Cat Stevens
Beginning of year:		
Total assets	$ 98,000	$129,000
Total liabilities	60,000	(c)
Total owner's equity	(a)	85,000
End of year:		
Total assets	160,000	180,000
Total liabilities	100,000	50,000
Total owner's equity	60,000	130,000
Changes during year in owner's equity:		
Additional investment	(b)	25,000
Drawings	25,000	(d)
Total revenues	215,000	100,000
Total expenses	185,000	65,000

Instructions
Determine the missing amounts.

Ans: NA LO4 BT: AN Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Owner's Equity Statement and Income Statement

Solution 133

(a) Total assets (beginning of year) $98,000

	Total liabilities (beginning of year)		(60,000)
	Total owner's equity (beginning of year)		$38,000
(b)	Total owner's equity (end of year)		$60,000
	Total owner's equity (beginning of year)		(38,000)
	Increase in owner's equity		$22,000

Solution 133 (cont.)

	Total revenues		$215,000
	Total expenses		185,000
	Net income		$ 30,000
	Increase in owner's equity		$22,000
	Less: Net income	$(30,000)	
	Add: Drawings	25,000	(5,000)
	Additional investment		$17,000
(c)	Total assets (beginning of year)		$129,000
	Total owner's equity (beginning of year)		(85,000)
	Total liabilities (beginning of year)		$ 44,000
(d)	Total owner's equity (end of year)		$130,000
	Total owner's equity (beginning of year)		(85,000)
	Increase in owner's equity		$ 45,000
	Total revenues		$100,000
	Total expenses		(65,000)
	Net income		$ 35,000
	Increase in owner's equity		$45,000
	Less: Net income	$ 35,000	
	Additional investment	25,000	(60,000)
	Drawings		$(15,000)

Ex. 134

The Constantine Company had the following assets and liabilities on the dates indicated.

December 31	Total Assets	Total Liabilities
2020	$480,000	$250,000
2021	$460,000	$220,000
2022	$590,000	$300,000

Constantine began business on January 1, 2020, with an investment of $100,000.

Instructions

From an analysis of the change in owner's equity during the year, compute the net income (or loss) for:

(a) 2020, assuming Constantine's drawings were $45,000 for the year and made no additional investments.
(b) 2021, assuming Constantine made an additional investment of $50,000 and had no drawings in 2021.
(c) 2022, assuming Constantine made an additional investment of $15,000 and had drawings of $40,000 in 2022.

Ans: NA LO4 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting
Subtopic: Owner's Equity Statement and Income Statement

Solution 134

(a)	Owner's equity—12/31/20 ($480,000 – $250,000)	$230,000
	Owner's equity—1/1/20	(100,000)
	Increase in owner's equity	130,000
	Add: Drawings	45,000
	Net income for 2020	$175,000
(b)	Owner's equity—12/31/21 ($460,000 – $220,000)	$240,000
	Owner's equity—1/1/21—see (a)	(230,000)
	Increase in owner's equity	10,000
	Less: Additional investment	50,000
	Net loss for 2021	$(40,000)
(c)	Owner's equity—12/31/22 ($590,000 – $300,000)	$290,000
	Owner's equity—1/1/22—see (b)	(240,000)
	Increase in owner's equity	50,000
	Less: Additional investment	(15,000)
		35,000
	Add: Drawings	40,000
	Net income for 2022	$ 75,000

Ex. 135

Presented below is a balance sheet for Mark Bledsoe Yard Service at December 31, 2022.

MARK BLEDSOE YARD SERVICE
Balance Sheet
December 31, 2022

Assets		Liabilities and Owner's Equity	
Cash	$13,000	Liabilities	
Accounts receivable	6,000	Accounts payable	$ 8,000
Supplies	9,000	Notes payable	15,000
Equipment	11,000	Owner's equity	
		Owner's capital	16,000
Total assets	$39,000	Total liabilities & owner's equity	$39,000

The following additional data are available for the year which began on January 1: All expenses (excluding supplies expense) total $6,000. Supplies on January 1, were $11,000 and $7,000 of supplies were purchased during the year. Net income for the year was $8,000 and drawings were $9,000.

Instructions

Determine the following: (Show all computations.)

1. Supplies used during the year.
2. Total expenses for the year.
3. Service revenues for the year.
4. Owner's capital balance on January 1.

Ans: NA LO4 BT: AN Difficulty: Hard TOT: 10 min. AACSB: Analysis AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Balance Sheet, Income Statement, and Owner's Equity Statement

Solution 135

1. Computation of Supplies Used:

Beginning Supplies, Jan. 1	$11,000
Add: Purchases	7,000
Less: Ending Supplies, Dec. 31	(9,000)
Equals: Supplies Used	$ 9,000

2. Computation of Total Expenses:

All Expenses (excluding supplies expense)	$ 6,000
Plus: Supplies Used	9,000
Total Expenses	$15,000

3. Computation of Revenues:

Net Income	$ 8,000
Plus: Total Expenses	15,000
Total Revenues	$23,000

4. Computation of Owner's Capital on January 1:

Capital, December 31	$16,000
Plus: Drawings	9,000
Less: Net Income	(8,000)
Capital, January 1	$17,000

Ex. 136

Dewey, Cheatem, and Howe had the following items in their accounting records at 7/31/2022:

Owner's capital, July 1	$ 0	Owner's drawings	$2,300
Rent expense	750	Salaries & wage expense	4,500
Service revenue	10,000	Utilities expense	400

The owner made a $15,000 investment in early July.

Instructions

(a) Prepare an income statement for the month ending July 31, 2022.
(b) Prepare an owner's equity statement for the month ending July 31, 2022.

Ans: NA LO4 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Income Statement and Owner's Equity Statement

Solution 136

(a)

DEWEY, CHEATEM & HOWE.
Income Statement
For the Month Ended July 31, 2022

Revenues		
Service revenue		$10,000
Expenses		
Salaries & wages expense	$4,500	
Rent expense	750	
Utilities expense	400	
Total expenses		5,650
Net income		$ 4,350

(b)

DEWEY, CHEATEM & HOWE
Owner's Equity Statement
For the Month Ended July 31, 2022

Owner's Capital, July 1		$ 0
Add: Investments	$15,000	
Net income	4,350	19,350
		19,350
Less: Drawings		2,300
Owner's Capital, July 31		$17,050

Ex. 137

Dewey, Cheatem, and Howe had the following items in their accounting records at 7/31/2022:

Owner's capital, July 31	$17,050	Equipment	$6,000
Accounts payable	2,400	Supplies	750
Accounts receivable	6,750	Cash	5,950

Instructions
Prepare a balance sheet at July 31, 2022.

Ans: NA LO4 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Balance Sheet

Solution 137

DEWEY, CHEATEM & HOWE

Balance Sheet
July 31, 2022

Assets

Cash	$ 5,950
Accounts receivable	6,750
Supplies	750
Equipment	6,000
Total assets	$19,450

Liabilities and Owner's Equity

Liabilities	
Accounts payable	$ 2,400
Owner's equity	
Owner's capital	17,050
Total liabilities and owner's equity	$19,450

Ex. 138

The following information relates to Molly Mae Co. for the year 2022.

Owner's capital, January 1, 2022	$ 64,000	Advertising expense	$6,500
Drawings during 2022	5,700	Rent expense	8,500
Service revenue	58,500	Utilities expense	1,500
Salaries and wages expense	29,000		

Instructions

After analyzing the data, prepare an income statement and an owner's equity statement for the year ending December 31, 2022.

Ans: NA LO4 BT: AP Difficulty: Easy TOT: 7 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Income Statement and Owner's Equity Statement

Solution 138

MOLLY MAE CO.
Income Statement
For the Year Ended December 31, 2022

Revenues		
Service revenue		$58,500
Expenses		
Salaries and wages expense	$29,000	
Rent expense	8,500	
Advertising expense	6,500	
Utilities expense	1,500	
Total expenses		45,500
Net income		$13,000

MOLLY MAE CO.
Owner's Equity Statement
For the Year Ended December 31, 2022

Owner's capital, January 1	$64,000
Add: Net income	13,000
	77,000
Less: Drawings	5,700
Owner's capital, December 31	$71,300

Ex. 139

Van Occupanther is the bookkeeper for Roscoe Company. Van has been trying to get the balance sheet of Roscoe Company to balance. Roscoe 's balance sheet is as follows.

ROSCOE COMPANY
Balance Sheet
December 31, 2022

Assets		Liabilities	
Cash	$ 9,400	Accounts payable	$25,000
Supplies	7,100	Accounts receivable	(19,500)
Equipment	45,000	Owner's capital	65,200
Owner's drawings	9,200	Total liabilities and	
Total assets	$70,700	owner's equity	$70,700

Instructions
Prepare a correct balance sheet.

Ans: NA LO4 BT: AN Difficulty: Medium TOT: 5 min. AACSB: Analytical AICPA FC: Reporting, IMA: Reporting Subtopic: Balance Sheet

Solution 139

ROSCOE COMPANY
Balance Sheet
December 31, 2022

Assets	
Cash	$ 9,400
Accounts receivable	19,500
Supplies	7,100
Equipment	45,000
Total assets	$81,000
Liabilities and Owner's Equity	
Liabilities	
Accounts payable	$25,000
Owner's equity	
Owner's capital ($65,200 – $9,200)	56,000
Total liabilities and owner's equity	$81,000

Ex. 140

Presented below is information related to the sole proprietorship of Bill Gaits, Consultant.

Service revenue—2022	$320,000
Total expenses—2022	235,000
Assets, January 1, 2022	83,000
Liabilities, January 1, 2022	64,000
Assets, December 31, 2022	158,000
Liabilities, December 31, 2022	90,000
Drawings—2022	?

Instructions

Prepare the 2022 owner's equity statement for Bill Gaits' consulting company.

Ans: NA LO4 BT: AN Difficulty: Medium TOT: 7 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Owner's Equity Statement

Solution 140

BILL GAITS, CONSULTANT
Owner's Equity Statement
For the Year Ended December 31, 2022

Owner's capital, January 1	$ 19,000	(a)
Add: Net income	85,000	(b)
	104,000	
Less: Drawings	36,000	
Owner's capital, December 31	$ 68,000	(c)

Supporting Computations

(a)	Assets, January 1, 2022	$83,000
	Liabilities, January 1, 2022	(64,000)
	Capital, January 1, 2022	$19,000
(b)	Service revenue	$320,000
	Total expenses	(235,000)
	Net income	$ 85,000
(c)	Assets, December 31, 2022	$158,000
	Liabilities, December 31, 2022	(90,000)
	Capital, December 31, 2022	$ 68,000

Ex. 141

Prepare an income statement, an owner's equity statement, and a balance sheet for the acupuncture practice of Golda Bear, from the items listed below for the month of September 2022.

Owner’s capital, September 1	$47,000
Accounts payable	7,000
Equipment	35,000
Service revenue	28,000
Owner’s drawings	6,000
Insurance expense	4,500
Cash	3,000
Utilities expense	700
Supplies	4,800
Salaries and wages expense	9,000
Accounts receivable	14,000
Rent expense	5,000

GOLDA BEAR, ACUPUNCTURIST
Income Statement
For the Month Ended September 30, 2022

Revenues		$
Expenses	$	
Total expenses		
Net income		$

GOLDA BEAR, ACUPUNCTURIST
Owner's Equity Statement
For the Month Ended September 30, 2022

Owner’s capital, September 1	$
Add:	
	$
Less:	
	$

Ex. 141 (cont.)

GOLDA BEAR, ACUPUNCTURIST
Balance Sheet
September 30, 2022

Assets

	$
Total assets	$

Liabilities and Owner's Equity

Liabilities	
	$
Owner's equity	
Total liabilities and owner's equity	$

Ans: NA LO4 BT: AP Difficulty: Hard TOT: 15 min. AACSB: Reflective Thinking AICPA FN: Reporting, IMA: Reporting Subtopic: Balance Sheet, Income Statement, and Owner's Equity Statement

Solution 141

GOLDA BEAR, ACUPUNCTURIST
Income Statement
For the Month Ended September 30, 2022

Revenues		
Service revenue		$28,000
Expenses		
Salaries and wages expense	$9,000	
Rent expense	5,000	
Insurance expense	4,500	
Utilities expense	700	
Total expenses		19,200
Net income		$8,800

GOLDA BEAR, ACUPUNCTURIST
Owner's Equity Statement
For the Month Ended September 30, 2022

Owner's capital, September 1	$47,000
Add: Net income	8,800
	55,800
Less: Drawings	6,000
Owner's capital, September 30	$49,800

Solution 141 (cont.)

GOLDA BEAR, ACUPUNCTURIST
Balance Sheet
September 30, 2022

Assets	
Cash	$ 3,000
Accounts receivable	14,000
Supplies	4,800
Equipment	35,000
Total assets	$56,800
Liabilities and Owner's Equity	
Liabilities	
Accounts payable	$ 7,000
Owner's Equity	
Owner’s capital	49,800
Total liabilities and owner's equity	$56,800

Ex. 142

Indicate whether the following items would appear on the balance sheet (BS), income statement (IS), or owner's equity statement (OE).

1. Utilities expense
2. Accounts receivable
3. Owner’s drawings
4. Service revenue
5. Salaries and wages payable
6. Equipment

Ans: NA LO4 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Balance Sheet, Income Statement, and Owner’s Equity Statement

Solution 142 (5 min.)

1. Income statement (IS)
2. Balance sheet (BS)
3. Owner's equity statement (OE)
4. Income statement (IS)
5. Balance sheet (BS)
6. Balance sheet (BS)

Ex. 143

Listed below in alphabetical order are the balance sheet items of City Plaza Company at December 31, 2022. Prepare a balance sheet and include a complete heading.

Accounts payable	$ 24,000
Accounts receivable	15,000
Buildings	51,000
Cash	7,000
Owner's capital	102,000
Land	42,000
Equipment	11,000

Ans: NA LO4 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Balance Sheet

Solution 143

CITY PLAZA COMPANY
Balance Sheet
December 31, 2022

ASSETS	
Cash	$ 7,000
Accounts receivable	15,000
Land	42,000
Buildings	51,000
Equipment	11,000
Total assets	$126,000
LIABILITIES	
Accounts payable	$ 24,000
OWNER'S EQUITY	
Owner's capital	102,000
Total liabilities and owner's equity	$126,000

Ex. 144

One item is omitted in each of the following summaries of balance sheet and income statement data for three different sole proprietorships, X, Y, and Z. Determine the amounts of the missing items, identifying each proprietorship by letter.

	Proprietorship		
	X	Y	Z
Beginning of the Year:			
Assets	$390,000	$150,000	$215,000
Liabilities	240,000	105,000	168,000
End of the Year:			
Assets	450,000	175,000	195,000
Liabilities	275,000	90,000	170,000
During the Year:			
Additional investment by the owner	?	74,000	80,000
Withdrawals by the owner	95,000	83,000	?
Revenue	195,000	?	185,000
Expenses	160,000	113,000	175,000

Ans: NA LO4 BT: AN Difficulty: Hard TOT: 10 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Owner's Equity Statement

Solution 144

Proprietorship X ($85,000)

Beginning capital balance ($390,000 – $240,000)	$150,000
Additional investments ($270,000 – $150,000 – $35,000)	85,000
Net income for year ($195,000 – $160,000)	35,000
	270,000
Less withdrawals	95,000
Ending capital balance ($450,000 – $275,000)	$175,000

[(End. assets – End. liabl.) + Draws. – (Rev. – Exp.) – (Beg. assets – Beg. liabl.) = Add'l. invest.]

Proprietorship Y ($162,000)

Beginning capital balance ($150,000 – $105,000)	$ 45,000
Additional investments	74,000
Net income for year	49,000
[Revenues = $162,000 ($113,000 + $49,000)]	168,000
Less withdrawals	83,000
Ending capital balance ($175,000 – $90,000)	$ 85,000

[(End. assets – End. liabl.) + Draws. – Add'l. invest. – (Beg. assets – Beg. liabl.) = Net inc.); (Net inc. + Exp. = Rev.)]

Proprietorship Z ($112,000)

Beginning capital balance ($215,000 – $168,000)	$ 47,000
Additional investments	80,000
Net income for year ($185,000 – $175,000)	10,000
	137,000
Less withdrawals ($137,000 – $25,000)	112,000
Ending capital balance ($195,000 – $170,000)	$ 25,000

[(Beg. assets – Beg. liabl.) + Add'l. invest. + (Rev. – Exp.) – (End. assets – End. liabl.) = Draws.]

Ex. 145

Indicate in the space provided by each item whether it would appear on the Income Statement (IS), Balance Sheet (BS), or Owner's Equity Statement (OE):

a.	______	Service revenue	g.	____	Accounts receivable
b.	______	Utilities expense	h.	____	Owner's capital (ending)
c.	______	Cash	i.	_____	Equipment
d.	______	Accounts payable	j.	_____	Advertising expense
e.	______	Supplies	k.	____	Owner's drawing
f.	______	Salaries and wages expense	l.	_____	Notes payable

Ans: NA LO4 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Reporting, IMA: Reporting Subtopic: Income Statement, Balance Sheet, and Owner's Equity Statement

Solution 145

a.	IS	g.	BS
b.	IS	h.	OE, BS
c.	BS	i.	BS
d.	BS	j.	IS
e.	BS	k.	OE
f.	IS	l.	BS

Ex. 146

Gail Stocken was reviewing her business activities at the end of the year 2022 and decided to prepare an Owner's Equity Statement. At the beginning of the year, her assets were $485,000 and her liabilities were $210,000. At the end of the year, the assets had grown to $750,000 but liabilities had also increased to $380,000. The net income for the year was $220,000. Gail had withdrawn $125,000 during the year for her personal use.

Prepare an owner's equity statement in good form.

Ans: NA LO4 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Owner's Equity Statement

Solution 146

GAIL STOCKEN
Owner's Equity Statement
For the Year Ended December 31, 2022

Owner's Beginning Capital ($485,000 - $210,000)	$275,000
Add: Net Income	220,000
	495,000
Less: Drawings	125,000
Owner's Ending Capital	$370,000

Ex. 147

At September 1, 2022, the balance sheet accounts for Stanley's Restaurant were as follows:

Accounts payable	$ 3,800	Land	$33,000
Accounts receivable	9,600	Owner's capital	?
Buildings	68,000	Notes payable	48,000
Cash	10,000	Supplies	6,600
Equipment	18,700		

The following transactions occurred during the next two days:

Stanley invested an additional $22,000 cash in the business. The accounts payable were paid in full. (No payment was made on the notes payable.)

Instructions
Prepare a balance sheet at September 3, 2022.

Ans: NA LO4 BT: AN Difficulty: Hard TOT: 10 min. AACSB: Analysis AICPA PC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Balance Sheet

Solution 147

STANLEY'S RESTAURANT
Balance Sheet
September 3, 2022

ASSETS

Cash*	$ 28,200
Accounts receivable	9,600
Supplies	6,600
Land	33,000
Buildings	68,000
Equipment	18,700
Total assets	$164,100

LIABILITIES

Accounts payable**	$ -0-
Notes payable	48,000

OWNER'S EQUITY

Owner's capital***	116,100
Total liabilities and owner's equity	$164,100

*Cash ($10,000 + $22,000 – $3,800) = $28,200
**Accounts payable ($3,800 – $3,800) = $0

***Owner's capital: Beginning balance ($145,900 – $51,800)	$ 94,100
Additional investment	22,000
Ending balance	$116,100

[((Beg. cash bal. + Add'l. invest. – Accts. pay. pmt.) + Accts. rec. + Supp. + Land + Bldgs. + Equip.) = (Notes pay. + (Beg. assets – Beg. liabl.) + Add'l. invest))]

Ex. 148

Presented below are balance sheet items for Blue Lagoon Spa Service Company at December 31, 2022.

Accounts payable	$37,000
Accounts receivable	39,000
Cash	17,000
Equipment	78,000
Owner's capital	47,000
Notes payable	50,000

Compute each of the following:
1. Total assets.
2. Total liabilities.

Ans: NA LO4 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Reporting, IMA: Reporting Subtopic: Balance Sheet

Solution 148

1. Total assets = $134,000 ($39,000 + $17,000 + $78,000)
2. Total liabilities = $87,000 ($37,000 + $50,000)

(Accts. rec. + Cash + Equip. = Tot. assets)
(Accts. pay. + Notes pay. = Tot. liabl.)

COMPLETION STATEMENTS

149. Accounting is an information system that identifies, _____________, and _____________ the economic events of an organization.

150. The mere recording of economic events is called ______________, and is just one part of the _______________ process.

151. The three major services rendered by a certified public accountant are ______________, ________________, and management ________________.

152. Accountants who are employees of business enterprises are referred to as ________________ accountants.

153. A common set of standards that provides guidelines to accountants and indicates how to report economic events is called _________________.

154. The ________________ principle states that assets should be recorded at the value exchanged at the time the asset is acquired.

155. The _________________ assumption requires that the activities of an entity be kept separate from the activities of its owner.

156. The ________________ reports the assets, liabilities, and owner's equity of a business enterprise at a specific date.

Ans: NA LO1-5 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Who Study Accounting?, Public Accounting, Private Accounting, Balance Sheet, Principles and Assumptions, and Accounting Standards

Answers to Completion Statements

149. records, communicates
150. bookkeeping, accounting
151. auditing, taxation, consulting
152. private (or managerial)
153. generally accepted accounting principles
154. historical cost
155. economic entity
156. balance sheet

MATCHING

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

A.	CPA	F.	Corporation
B.	Budgeting	G.	Assets
C.	SEC	H.	Net loss
D.	Proprietorship	I.	Expenses
E.	Economic Entity Assumption	J.	Forensic accountants

_____ 1. Activities of an entity must be kept separate from its owner's activities.

_____ 2. Cost of doing business.

_____ 3. Ownership is limited to one person.

_____ 4. Offers expert accounting service to the general public.

_____ 5. The amount by which expenses exceed revenues.

_____ 6. A separate legal entity under state laws.

_____ 7. Government regulatory agency that can mandate accounting rules.

_____ 8. Quantifying goals and objectives.

_____ 9. Future economic benefits.

_____10. Often associated with the FBI.

Ans: NA LO1-5 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting: Types of Businesses That Use Accounting, Forensic Accounting, Balance Sheet, Income Statement, Principles and Assumptions, Public Accounting, Private Accounting, and Accounting Standards

Answers to Matching

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

SHORT-ANSWER ESSAY QUESTIONS

S-A-E 158

Jervis Tetch doesn't understand the difference between accounting and bookkeeping. Explain the difference to Jervis.

Ans: NA LO1 BT: C Difficulty: Medium TOT: 5 min. AACSB: None AICPA FC: Measurement Analysis and Interpretation, IMA: Reporting Subtopic: Why Study Accounting?

Solution 158

Accounting is the information system that identifies, records, and communicates the economic events of an organization to interested users.

Bookkeeping involves only the *recording* activities, whereas accounting can be used to describe *all* three activities. Bookkeepers work mainly on projects related to the recording stage. These projects may involve setting up and maintaining accounting records.

The main difference between a bookkeeper and an accountant is the ability to communicate accounting results, which requires a deeper understanding of the meaning of the numbers through analysis and interpretation by the accountant.

S-A E 159

The information needs of a specific user of financial accounting information depend upon the kinds of decisions that user makes. Identify the major users of accounting information and discuss what questions financial accounting information answers for each group of users.

Ans: NA LO1 BT: C Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA PC: Communication AICPA FC: Reporting, IMA: Reporting Subtopic: Who Uses Accounting Information?

Solution 159

The major users of accounting information are internal users and external users. Internal users are those who manage the business. External users are those outside the business who have either a present or potential financial interest.

Financial accounting information may answer the following questions for internal users:
1. Is cash sufficient to pay our debts?
2. Can we afford to give employee pay raises this year?
3. What is the cost of manufacturing each unit of product?
4. Which product line is the most profitable?

Questions answered by financial accounting information for external users include:
1. Is the company earning a satisfactory income?
2. How does the company compare in size and profitability with competitors?
3. Will the company be able to pay its debts as they come due?

S-A E 160

Your friend, Linda, made this comment:

> My major is biology and I plan to research for cures for major illnesses. Thus, I have no need to study accounting.

What is your response to Linda?

Ans: NA LO1, 5 BT: S Difficulty: Hard TOT: 5 min. AACSB: Communication AICPA PC: Communication AICPA FC: Reporting, IMA: Reporting
Subtopic: Who Uses Accounting Information?, Public Accounting, and Private Accounting

Solution 160

Linda, you are entering a dynamic profession and you have the opportunity to make important contributions to society. While science will be your profession and major concern, you will not be able to escape the need to understand accounting. Accounting staff and professionals will always be available to assist you. Here are some areas that will directly affect you:

As a manager, you will need to review accounting information (both internal and external) and make decisions. Budgets will be an important part of your research activities. As an employee, you will be concerned about the financial information of your employer. Thus, you will need to be able to read the company's financial statements. Also, as an investor, you will be interested in the financial statements of other companies.

You will probably not be a preparer of the financial statements, but you do need an understanding of how they are prepared. You also need a good understanding of how to interpret the information on the financial statements.

S-A E 161 (Communication)

Rachel Bells Havens is a friend of yours from high school. She decided to become a beautician after leaving high school. She recently opened her own shop and has contracted her services to a local hospital. She is paid a monthly fee for her services and receives a small gratuity from each of the patients.

She has just received her first set of financial statements from her accountant. She is quite upset. The statements show a cash balance of $3,600 at the end of the month, but a net income of only $500. She has written you a letter, asking you whether such a situation is possible, or whether she should find another accountant.

Required:
Write a short letter to your friend. Use proper form. Answer her question completely, but briefly.

Ans: NA LO2, 4 BT: C Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA PC: Communication AICPA FC: Reporting, IMA: Reporting
Subtopic: Types of Businesses that Use Accounting, Income Statement and Statement of Cash Flows

Solution 161

Answers will vary. The instructor's requirements concerning proper form should be followed. The letter may be either business or personal. As a minimum, the letter should be in a recognizable form, and proper grammar and spelling should be used. Neat erasures and corrections might be allowed. A suggested personal letter follows:

1245 Lily Lane
Buena Vista, AR 77661
(Date)

Dear Rachel,

Congratulations on opening your business! I am sure you will do well, combining your creative genius with your talent for serving others.

You asked about your financial statements. Of course, you realize that I am just an accounting student, but I do know that it is possible to have a large cash balance and little net income. You may have had expenses that were not paid in cash yet. These expenses reduce your income, but not your cash.

I think that you should discuss the statements with the accountant who prepared them. He or she will be in the best position to explain the results.

Thanks for the question. It really made me think.

Sincerely,
(signature)

S-A E 162 (Ethics)

Jill Bolan owns and operates Jill's Bagels, a small bakery, located at the edge of City College campus in San Diego, California. After several very profitable years, Jill's Bagels began to have problems. Most of the problems were related to Jill's expansion of the eating area in the restaurant without corresponding increases in the food preparation area. Jill does not have the cash or financial backing to expand further. She has therefore decided to sell her business.

Bonnie Meadows is interested in purchasing the business. However, she is located in another city and is unfamiliar with San Diego. She has asked Jill why she is selling Jill's Bagels. Jill replies that her elderly mother requires extra care and that her brother needs help in his manufacturing business. Both are true, but neither is her primary reason for selling. Jill reasons that Bonnie should not have asked her anyway since profitable businesses don't come up for sale.

Required:
1. Identify the stakeholders in this situation.
2. Did Jill act ethically in not revealing fully her reasons for selling the business? Why or why not?

Ans: NA LO3 BT: E Difficulty: Medium TOT: 5 min. AACSB: Ethics, Communication AICPA PC: Professional Behavior, Communication AICPA FC: Reporting, IMA: Reporting Subtopic: Ethics in Financial Reporting

Solution 162

1. The stakeholders include
   Jill Bolan
   Bonnie Meadows
   San Diego, California
   Students of City College

City College
Creditors financing the purchase of Jill's Bagels

2. Jill did not act ethically in not revealing fully her reasons for selling the business. Students might be of the opinion that a purchaser should investigate a business before purchasing it, rather than relying entirely on the seller's assertions. However, students should realize that Jill should have said something about her problems. She might ethically be allowed to put these in the best possible light, perhaps, but failure to disclose them at all is certainly unethical. This is especially true since family concerns might well cause someone to sell a business that is otherwise doing well. Jill has shown an intent to deceive that is unethical and might be actionable in court as well.

S-A E 163

Identify and briefly describe the four financial statements prepared by most companies.

Ans: NA LO4 BT: K Difficulty: Easy TOT: 4 min. AACSB: Communication AICPA PC: Communication AICPA FC: Reporting, IMA: Reporting
Subtopic: Income Statement, Balance Sheet, Owner's Equity Statement and Statement of Cash Flows

Solution 163

Companies prepare four financial statements from summarized accounting data:

1. An **income statement** presents the revenues and expenses and resulting net income or net loss for a specific period of time.
2. An **owner's equity statement** summarizes the changes in owner's equity for a specific period of time.
3. A **balance sheet** reports the assets, liabilities, and owner's equity at a specific date (a point in time rather than a period of time).
4. A **statement of cash flows** summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.

S-A E 164

The accounting profession provides many career opportunities for individuals. Identify the major fields that exist in accounting and comment on the major functions performed by individuals in each of these areas.

Ans: NA LO5 BT: K Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA PC: Communication AICPA FC: Reporting, IMA: Reporting
Subtopic: Public Accounting, Private Accounting, Governmental Accounting, and Forensic Accounting

Solution 164

The major fields that exist in accounting are in the areas of (1) public accounting, (2) private accounting, (3) governmental accounting, and (4) forensic. In public accounting, an accountant may practice as: (1) an auditor who examines the financial statements of companies and expresses an opinion as to the fairness of presentation; (2) a tax specialist who gives tax advice, prepares tax returns, and represents clients before governmental agencies; and (3) a management accountant who engages in the development of accounting and computer systems and the design of organizational systems.

Private (managerial) accountants and governmental accountants perform many different activities within a company or organization. Private accountants may be involved in cost accounting, budgeting, general financial accounting, accounting information systems, and tax accounting.

Forensic accountants use accounting, auditing, and investigative skills to conduct investigations into theft and fraud.