Student name:__________

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) The term "recognition" means to report an economic event in the financial statements.

- ⊙ true
- ⊙ false

2) Companies that use accrual accounting recognize revenues and expenses at the time that cash is received or paid, respectively.

- ⊙ true
- ⊙ false

3) The term "accrual" describes an earnings event that is recognized before cash is received or paid.

- ⊙ true
- ⊙ false

4) A company may recognize a revenue or expense without a corresponding cash collection or payment in the same accounting period.

- ⊙ true
- ⊙ false

5) A payment to an employee in settlement of salaries payable decreases an asset and decreases stockholders’ equity.

- ⊙ true
- ⊙ false

6) An increase in an expense may be accompanied by a decrease in a liability.

- ⊚ true
- ⊚ false

7) Accrual accounting usually fails to match expenses with revenues.

- ⊚ true
- ⊚ false

8) The matching concept leads accountants to select the recognition alternative that produces the lowest amount of net income.

- ⊚ true
- ⊚ false

9) The governance of a corporation includes the roles and responsibilities of the board of directors, managers, shareholders, and auditor.

- ⊚ true
- ⊚ false

10) The ethical standards for certified public accountants only require that such accountants comply with applicable laws and regulations.

- ⊚ true
- ⊚ false

11) Certified public accountants are obligated to act in a way that serves the public interest.

- ⊚ true

12) The bankruptcies of Enron and WorldCom both indicated the occurrence of major audit failures.

- ⊚ true
- ⊚ false

13) The Sarbanes-Oxley Act includes several significant reforms that affect the auditing profession, but it did not reduce an audit firm's ability to provide nonaudit services to its audit clients.

- ⊚ true
- ⊚ false

14) The internal controls of a business are designed to reduce the probability of occurrence of fraud.

- ⊚ true
- ⊚ false

15) Providing services to customers on account is an asset exchange transaction.

- ⊚ true
- ⊚ false

16) The collection of an account receivable is a claims exchange transaction.

- ⊚ true
- ⊚ false

17) The cash payment of interest is classified as a financing activity on the statement of cash flows.

⊚ true

⊚ false

18) Accrued interest expense is an asset use transaction.

⊚ true
⊚ false

19) Some claims exchange transactions increase liabilities and decrease stockholders' equity.

⊚ true
⊚ false

20) The primary difference between notes payable and accounts payable is that notes payable generally have longer terms and usually require interest charges.

⊚ true
⊚ false

21) Issuing a note is an asset use transaction.

⊚ true
⊚ false

22) The balance in accounts receivable represents the amount of cash the company is required to pay in the future.

⊚ true
⊚ false

23) Accounts receivable is an asset account on the balance sheet.

⊚ true
⊚ false

24) Accounts payable is reported on the income statement.

- ⊙ true
- ⊙ false

25) Sales on account decrease the balance in accounts receivable.

- ⊙ true
- ⊙ false

26) Expenses incurred on account increase the accounts receivable balance.

- ⊙ true
- ⊙ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

27) The balance of Accounts Receivable is shown on which of the following financial statements?

A) Income statement
B) Balance sheet
C) Statement of cash flow
D) None of these answer choices

	Balance Sheet			Income Statement			Statement of Cash Flows
	Assets =	Liabilities +	Stockholders' Equity	Revenue −	Expense =	Net income	
A.	+		+				
B.	+		+	+		+	
C.	−		−		+	−	−OA
D.	+		+	+		+	+OA

A) Option A
B) Option B
C) Option C
D) Option D

29) Pizitz Company experienced a business event that affected its financial statements as indicated below.

Balance Sheet	Income Statement	Statement of Cash Flows

Ass ets	=	Liabi litie	+	Stockh olders	Rev enu	−	Exp ens	=	Net inc

s ' e e ome
Equity

+OA

Which of the following events could have caused these effects on the company's financial statements?

A) Collecting cash from customers as payment of accounts receivable

B) Earning cash for providing services to customers

C) Paid cash to purchase land

D) Purchased supplies on account

30) Stanley Company earns $8,000 of revenue on account in Year 1. Cash collections of receivables amount to $4,500 in Year 1 with the remainder being collected in Year 2. Which of the following shows how the recognition of revenue in Year 1 will affect the company's accounting equation?

Balance Sheet

	Assets		=	Liabilities	+	Stockholders' Equity	
	Cash	+ Accounts Receivable	=	Accounts Payable	+	Common stock	+ Retained Earnings
A.	4,500						4,500
B.		4,500					4,000
C.		8,000					8,000
D.	8,000						8,000

A) Option A

B) Option B

C) Option C

D) Option D

31) Leece Company experienced an accounting event that affected its financial statements as indicated below:

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net income	
+ and −										+OA

Which of the following accounting events could have caused these effects on the company's financial statements?

A) Provided consulting services on account
B) Provided consulting services for cash
C) Collected cash in partial settlement of its account receivable
D) The information provided does not represent a completed event.

32) What happens when a company collects cash from accounts receivable?

A) The asset accounts receivable increases.
B) Stockholders' equity increases.
C) Liabilities decrease.
D) One asset increases and another asset decreases by an equal amount.

33) Stannous Company earns $10,000 of revenue on account in Year 1. Cash collections of receivables amount to $3,500 in Year 1 with the remainder being collected in Year 2. Which of the following shows how the collection of cash will affect the company's accounting equation in Year 1?

Balance Sheet				
Assets	=	Liabi	+	Stockholders' Equity

ets	bili

	Cash	+ Accounts Receivable	= Accounts Payable	+ Common Stock	+ Retained Earnings
	...ties				
A.	3,500	(3,500)			
B.	3,500				3,500
C.	10,000	10,000			(4,000)
D.		10,000			10,000

A) Option A
B) Option B
C) Option C
D) Option D

34) Frank Company earned $15,000 of cash revenue. Which of the following accurately reflects how this event affects the company's horizontal financial statements model?

	Balance Sheet			Income Statement			Statement of Cash Flows
	Assets	= Liabilities	+ Stockholders' Equity	Revenue	− Expense	= Net income	
A.	15,000		15,000				15,000 OA
B.	15,000		15,000	15,000		15,000	
C.	15,000		15,000	15,000		15,000	15,000 OA
D.	15,000	15,000		15,000		15,000	15,000 OA

A) Option A
B) Option B

C) Option C
D) Option D

35) Jackson Company paid $500 cash for salary expenses. Which of the following accurately reflects how this event affects the company's horizontal financial statements model?

Ba la nc e Sh ee t **In co me St at em en t** **Statement of Cash Flows**

A=Liabil +Stockh Reve −Expe = Net
s s e t s ities olders ' Equity nue nse income

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)
B (5 .00) (500) 50 0 (5 00)
C (5 .00) (500)
D (5 .00) (500) 50 0 (5 00)

A) Option A
B) Option B
C) Option C
D) Option D

36) Perez Company paid a $300 cash dividend. Which of the following accurately reflects how this event affects the company's horizontal financial statements model?

Ba la nc e Sh ee t **In co me St at em en t** **Statement of Cash Flows**

A= Liabi +Stockh Rev −Exp = Net

s s e t s litie s olders ' Equity enu e ens e inc ome

A. 300 (300) 30 0 (3 00)

B (3 (300 30 (3

.00) 0 00)
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C (3 (300
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D (3 (300
.00)

A) Option A
B) Option B
C) Option C
D) Option D

37) Garrison Company acquired $23,000 by issuing common stock. Which of the following accurately reflects how this event affects the company's horizontal financial statements model?

	Balance Sheet					Income Statement					Statement of Cash Flows
	Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net income	
A	23,000				23,000						
B	23,000		23,000			23,000				23,000	
C	23,000		23,000			23,000					
D	23,000		23,000			23,000				23,000	

A) Option A
B) Option B
C) Option C
D) Option D

38) Tandem Company borrowed $32,000 of cash from a local bank. Which of the following accurately reflects how this event affects the company's horizontal financial statements model?

	Balance Sheet					Income Statement					Statement of Cash Flows
	Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net income	
A.	32,000				32,000						32,000 OA
B.	32,000				32,000	32,000		32,000			32,000 FA
C.	32,000		32,000			32,000					32,000 FA
D.	32,000		32,000								32,000 FA

A) Option A
B) Option B
C) Option C
D) Option D

39) Zimmerman Company sold land for $25,000 cash. The original cost of the land was $25,000. Which of the following accurately reflects how this event affects the company's horizontal financial statements model?

	Balance Sheet			Income Statement			Statement of Cash Flows
	Assets	= Liabilities	+ Stockholders' Equity	Revenue	− Expense	= Net income	
A	25,000						
B	(25		(25	(25			
	,000)		,000)	,000)			
C	25,000	25,000	15,000				
D	25,000		25,000				25,000

A) Option A
B) Option B
C) Option C
D) Option D

40) Reynolds Company experienced an accounting event that affected its financial statements as indicated below:

Balance Sheet			Income Statement			Statement of Cash Flows
Assets	= Liabilities	+ Stockholders' Equity	Revenue	− Expense	= Net income	
+		+	+		+	+OA

Which of the following accounting events could have caused these effects on the elements of Reynolds' statements?

A) Paid a cash dividend.
B) Earned cash revenue.
C) Borrowed money from a bank.
D) The information provided does not represent a completed event.

41) Chico Company experienced an accounting event that affected its financial statements as indicated below:

Balance Sheet **Income Statement** **Statement of Cash Flows**

Ass=Liabi +Stockh Rev −Exp =Net
ets litie olders enu ens inc
s ' e e ome
Equity

\+ + +FA

Which of the following accounting events could have caused these effects on the elements of Chico's financial statements?

A) Issued common stock
B) Earned cash revenue
C) Borrowed money from a bank
D) Paid a cash dividend

42) Delta Company experienced an accounting event that affected its financial statements as indicated below:

Balance Sheet **Income Statement** **Statement of Cash Flows**

Ass=Liabi +Stockh Rev −Exp =Net
ets litie olders enu ens inc
s ' e e ome
Equity

− − + − −OA

Which of the following accounting events could have caused these effects on the elements of Delta's statements?

A) Paid a cash dividend
B) Incurred a cash expense
C) Borrowed money from a bank
D) Earned cash revenue

43) Bledsoe Company acquired $18,000 cash by issuing common stock on January 1, Year 1. During Year 1, Bledsoe earned $8,800 of revenue on account. The company collected $6,600 cash from customers in partial settlement of its accounts receivable and paid $5,700 cash for operating expenses. Based on this information alone, what was the impact on total assets during Year 1?

A) Total assets increased by $27,700.
B) Total assets increased by $900.
C) Total assets increased by $21,100.
D) Total assets did not change.

44) Bledsoe Company acquired $17,000 cash by issuing common stock on January 1, Year 1. During Year 1, Bledsoe earned $8,500 of revenue on account. The company collected $6,000 cash from customers in partial settlement of its accounts receivable and paid $5,400 cash for operating expenses. Based on this information alone, what was the impact on total assets during Year 1?

A) Total assets increased by $20,100.
B) Total assets increased by $600.
C) Total assets increased by $26,100.
D) Total assets did not change.

45) Addison Company experienced an accounting event that affected its financial statements as indicated below:

B I	**Statement of**		**n m**
a n	**Cash Flows**		**c e**
l c			**e S**
a o			**S t**

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Which of the following accounting events could have caused these effects on Addison's financial statements?

A) Issued common stock
B) Earned revenue on account
C) Earned cash revenue

D) Collected cash from customers in partial settlement of its accounts receivable.

46) In Year 1, Dale Company incurred $4,000 of utility expense on account. Dale paid cash for these expenses in Year 2. Which of the following shows how paying cash for Year 1's utility expense will affect Dale's accounting equation in Year 2?

Balance Sheet

A = L + Stockholde
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s ts ts on Earn
h Rec Pay st ings
eiv abl

abl e oc
e k

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B 4 (4,
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0)
0
0

C (4, (4,0
. 000 00)

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D (.4 ,000 (4,000)

)

A) Option A
B) Option B
C) Option C
D) Option D

47) Which of the following shows how a payment made to settle an accrued expense, such as salaries payable, will affect a company's financial statements?

	Balance Sheet					Income Statement			Statement of Cash Flows
	Assets	=	Liabilities	+	Equity	Revenue	−	Expense	= Net income	
a.	−		−		n/a	n/a		n/a	n/a	−FA
b.	−		−		n/a	n/a		n/a	n/a	n/a
c.	−		−		n/a	n/a		n/a	n/a	−OA
d.	−		−		n/a	n/a		n/a	n/a	−IA

A) Option A
B) Option B
C) Option C
D) Option D

48) During Year 1 China Enterprises experienced the following events.(1)Earned $10,000 of revenue on account(2)Incurred $9,000 of expenses on accountBased on this information, which of the following describes the combined effects of both events on the amount of total assets, net income and cash flow from operating activities shown on the Year 1 financial statements?

	Total Assets	Net Income	Net Cash Flow from Operating Activities
A	$ 1,000	$ 1,000	0
B	$10,000	$ 1,000	0
C	$10,000	$ 1,000	$1,000
D	$10,000	$10,000	$1,000

A) Option A
B) Option B
C) Option C

D) Option D

49) Which of the following correctly describes how accounts receivable will appear on the financial statements?

A) Asset on the balance sheet
B) Expense on the income statement
C) Liability on the balance sheet
D) Revenue on the income statement

50) Which of the following correctly describes how accounts payable will appear on the financial statements?

A) Expense on the income statement
B) Revenue on the income statement
C) Liability on the balance sheet
D) Asset on the balance sheet

51) Greg Company recognized revenue on account. Which of the following financial statements are affected by this accounting event?

A) Balance sheet
B) Income statement
C) Statement of cash flows
D) Income statement and the balance sheet

52) Amber Company recognized accrued salary expense. Which of the following financial statements are affected by this accounting event?

A) Statement of cash flows
B) Income statement
C) Balance sheet
D) Income statement and the balance sheet

53) Mary Company collected cash from an account receivable. Which of the following financial statements are affected by this accounting event?

A) Income statement and the statement of cash flows
B) Statement of changes in stockholders' equity
C) Balance sheet and the statement of cash flows
D) Income statement and the balance sheet

54) Paying cash to settle a salaries payable obligation will affect which section of the statement of cash flows?

A) Financing activities
B) Operating activities
C) Noncash activities
D) Investing activities

55) Which of the following choices accurately reflects how the recording of accrued salary expense affects the financial statements of a business?

Balance Sheet **Income Statement** **Statement of Cash Flows**

Assets = Liabilities + Stockholders' Equity Revenue − Expense = Net income

A.		+	−	−	+		
B.			+/−				
C.		+	−		+	−	
D.	+	+			+	−	−(

A) Option A
B) Option B
C) Option C
D) Option D

56) Janzen Company recorded employee salaries earned but not yet paid. Which of the following represents the effect of this transaction on the horizontal financial statements model?

Balance Sheet				Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net income

A.	+	+		+		+
B.		+	−		+	−
C.	−		−		+	−
D.		+	−		+	−

A) Option A
B) Option B
C) Option C
D) Option D

57) Revenue on account amounted to $5,600. Cash collections of accounts receivable amounted to $3,500. Expenses for the period were $2,900. The company paid dividends of $850. What was net income for the period?

A) $600
B) $2,650
C) $2,700
D) $1,850

58) Revenue on account amounted to $5,000. Cash collections of accounts receivable amounted to $2,300. Expenses for the period were $2,100. The company paid dividends of $450. What was net income for the period?

A) $1,200
B) $2,900
C) $2,850
D) $2,450

59) ABC Company ended Year 1 with the following account balances:**Cash 600, Common Stock 400, and Retained Earnings**

200. The following transactions occurred during Year 2:Issued common stock for $19,000 cash.ABC borrowed an additional $11,000 from Chris Bank.ABC earned $9,000 of revenue on account.ABC incurred $4,000 of operating expenses on account.Cash collections of accounts receivables were $6,000.ABC provided additional services to customers for $1,000 cash.ABC purchased land for $14,000.ABC used $3,000 in cash to make a partial payment on its accounts payable.ABC declared and paid a $200 dividend to the stockholdersOn December 31 ABC had accrued salaries of $4,000.What is the amount of net income (loss) reported on the December 31, Year 2 income statement?

A) $6,200
B) $5,800
C) $6,000
D) $2,000
E) None of these answer choices is correct

60) ABC Company ended Year 1 with the following account balances:**Cash 600, Common Stock 400, and Retained Earnings 200.**The following transactions occurred during Year 2:Issued common stock for $19,000 cash.ABC borrowed an additional $11,000 from Chris Bank.ABC earned $9,000 of revenue on account.ABC incurred $4,000 of operating expenses on account.Cash collections of accounts receivables were $6,000.ABC provided additional services to customers for $1,000 cash.ABC purchased land for $14,000.ABC used $3,000 in cash to make a partial payment on its accounts payable.ABC declared and paid a $200 dividend to the stockholdersOn December 31 ABC had accrued salaries of $4,000.What is the net cash flow from operating activities shown on the statement of cash flows for the year ending December 31, Year 2?

A) $4,000
B) $3,800
C) $6,000
D) None of these answer choices is correct.

61) ABC Company ended Year 1 with the following account balances:**Cash 600, Common Stock 400, and Retained Earnings 200.**The following transactions occurred during Year 2:Issued common stock for $19,000 cash.ABC borrowed an additional $11,000 from Chris Bank.ABC earned $9,000 of revenue on account.ABC incurred $4,000 of operating expenses on account.Cash collections of accounts receivables were $6,000.ABC provided additional services to customers for $1,000 cash.ABC purchased land for $14,000.ABC used $3,000 in cash to make a partial payment on its accounts payable.ABC declared and paid a $200 dividend to the stockholdersOn December 31 ABC had accrued salaries of $4,000.What is the amount of retained earnings that will be shown on the balance sheet prepared at the end of Year 2?

A) $2,000
B) $5,800
C) $6,000
D) $6,200

62) Recognizing an expense may be accompanied by which of the following?

A) An increase in liabilities
B) A decrease in liabilities
C) A decrease in revenue
D) An increase in assets

63) Which of the following statements is **true** regarding accrual accounting?

A) Revenue is recorded only when cash is collected.
B) Expenses are recorded when they are incurred.
C) Revenue is recorded in the period when it is earned.
D) Revenue is recorded in the period when it is earned and expenses are recorded when they are incurred.

64) Mize Company provided $45,500 of services on account, and collected $38,000 from customers during the year. The company also incurred $37,000 of expenses on account, and paid $32,400 against its payables. How do these events impact the elements of the horizontal financial statements model?

A) Total assets would increase.
B) Total liabilities would increase.
C) Total equity would increase.
D) All of these answer choices are correct.

65) The following account balances were drawn from the Year 1 financial statements of Grayson Company:

Cash	$ 5,400	**Accounts payable**	$ 1,750	**Expenses**	$ 7,750
Accounts receivable	$ 2,500	**Common stock**	?		
Land	$ 9,000	**Retained earnings, January 1**	$ 3,700		
		Revenue	$10,500		

What is the balance of the Common Stock account?

A) $11,450
B) $8,700
C) $950
D) $11,400

66) The following account balances were drawn from the Year 1 financial statements of Grayson Company:

Cash	$ 8,800	**Accounts payable**	$ 2,500	**Expenses**	$ 14,500
Accounts receivable	$ 3,000	**Common stock**	?		
Land	$16,000	**Retained earnings, January 1**	$ 5,400		
		Revenue	$19,000		

What is the balance of the Common Stock account?

A) $15,400
B) $19,900
C) $900
D) $20,800

67) Revenue on account amounted to $6,200. Cash collections of accounts receivable amounted to $5,900. Cash paid for operating expenses was $4,100. The amount of employee salaries accrued at the end of the year was $1,900. What was the net cash flow from operating activities?

A) $1,800
B) $1,900
C) $2,100
D) $7,700

68) Revenue on account amounted to $9,000. Cash collections of accounts receivable amounted to $8,100. Cash paid for operating expenses was $7,500. The amount of employee salaries accrued at the end of the year was $900. What was the net cash flow from operating activities?

A) $900
B) $600
C) $1,500
D) $8,700

69) Warren Enterprises began operations during Year 1. The company had the following events during Year 1:
The business issued $38,000 of common stock to its stockholders.The business purchased land for $30,000 cash.Services were provided to customers for $34,000 cash.Services were provided to customers for $23,000 on account.The company borrowed $34,000 from the bank.Operating expenses of $30,000 were incurred and paid in cash.Salary expense of $2,600 was accrued.A dividend of $22,000 was paid to the stockholders of Warren Enterprises.
What is the balance of the Retained Earnings account as of December 31, Year 1?

A) $57,000
B) $2,400
C) $24,400
D) $23,000

70) Warren Enterprises began operations during Year 1. The company had the following events during Year 1:The business issued $40,000 of common stock to its stockholders.The business purchased land for $24,000 cash.Services were provided to customers for $32,000 cash.Services were provided to customers for $10,000 on account.The company borrowed $32,000 from the bank.Operating expenses of $24,000 were incurred and paid in cash.Salary expense of $1,600 was accrued.A dividend of $8,000 was paid to the stockholders of Warren Enterprises.
What is the balance of the Retained Earnings account as of December 31, Year 1?

A) $10,000
B) $8,400
C) $16,400
D) $42,000

71) Rushmore Company provided services for $25,500 cash during Year 1. Rushmore incurred $19,000 of operating expenses on account during Year 1, and by the end of the year, $6,500 of that amount had been paid with cash. If these are the only accounting events that affected Rushmore during Year 1, which of the following statements is **true**?

A) The amount of net loss shown on the income statement is $6,500.
B) The amount of net income shown on the income statement is $12,500.
C) The amount of net cash flow from operating activities shown on the statement of cash flows is $13,000.
D) The amount of net income shown on the income statement is $6,500.

72) Rushmore Company provided services for $45,000 cash during Year 1. Rushmore incurred $36,000 of operating expenses on account during Year 1, and by the end of the year, $9,000 of that amount had been paid with cash. If these are the only accounting events that affected Rushmore during Year 1, which of the following statements is **true**?

A) The amount of net loss shown on the income statement is $9,000.

B) The amount of net income shown on the income statement is $27,000.

C) The amount of net income shown on the income statement is $9,000.

D) The amount of net cash flow from operating activities shown on the statement of cash flows is $18,000.

73) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $6,800 cash by issuing common stock.Provided $3,100 of services on account.Paid $1,800 cash for operating expenses.Collected $2,300 of cash from customers in partial settlement of its accounts receivable.Paid a $140 cash dividend to stockholders.What is the amount of net income that will be reported on the Year 1 income statement?

A) $940

B) $1,300

C) $1,080

D) $800

74) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $12,000 cash by issuing common stockProvided $4,600 of services on accountPaid $3,200 cash for operating expensesCollected $3,800 of cash from customers in partial settlement of its accounts receivablePaid a $200 cash dividend to stockholdersWhat is the amount of net income that will be reported on the Year 1 income statement?

A) $1,400

B) $800

C) $1,000

D) $1,200

75) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $7,400 cash by issuing common stock.Provided $3,700 of services on account.Paid

$1,950 cash for operating expenses.Collected $2,600 of cash from customers in partial settlement of its accounts receivable.Paid a $170 cash dividend to stockholders.What is the amount of net cash flows from operating activities that will be reported on the Year 1 statement of cash flows?

A) $1,750
B) $340
C) $1,580
D) $650

76) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $12,000 cash by issuing common stockProvided $4,600 of services on accountPaid $3,200 cash for operating expensesCollected $3,800 of cash from customers in partial settlement of its accounts receivablePaid a $200 cash dividend to stockholdersWhat is the amount of net cash flows from operating activities that will be reported on the Year 1 statement of cash flows?

A) $400
B) $600
C) $1,400
D) $1,200

77) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $9,200 cash by issuing common stock.Provided $5,500 of services on account.Paid $2,400 cash for operating expenses.Collected $3,500 of cash from customers in partial settlement of its accounts receivable.Paid a $260 cash dividend to stockholders.What is the amount of total assets that will be reported on the balance sheet as of December 31, Year 1?

A) $10,040
B) $10,300
C) $12,300
D) $12,040

78) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $12,000 cash by issuing common stockProvided

$4,600 of services on accountPaid $3,200 cash for operating expensesCollected $3,800 of cash from customers in partial settlement of its accounts receivablePaid a $200 cash dividend to stockholdersWhat is the amount of total assets that will be reported on the balance sheet as of December 31, Year 1?

A) $12,400
B) $12,600
C) $13,400
D) $13,200

79) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $9,200 cash by issuing common stock.Provided $5,500 of services on account.Paid $2,400 cash for operating expenses.Collected $3,500 of cash from customers in partial settlement of its accounts receivable.Paid a $260 cash dividend to stockholders.What is the balance of the retained earnings that will be reported on the balance sheet as of December 31, Year 1?

A) $10,300
B) $12,040
C) $3,100
D) $2,840

80) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $12,000 cash by issuing common stockProvided $4,600 of services on accountPaid $3,200 cash for operating expensesCollected $3,800 of cash from customers in partial settlement of its accounts receivablePaid a $200 cash dividend to stockholdersWhat is the balance of the retained earnings that will be reported on the balance sheet as of December 31, Year 1?

A) $1,200
B) $1,000
C) $1,400
D) $13,200

81) On December 31, Year 1, Gaskins Company owed $4,500 in salaries to employees who had worked during December but will not be paid until January, Year 2. If the year-end adjustment is properly recorded on December 31, Year 1, what will be the effect of this accrual on net income and cash flows from operating activities reported for Year 1?

A) No effect on net income; no effect on cash flow from operating activities
B) Decrease in net income; no effect on cash flow from operating activities
C) Increase in net income; decrease in cash flow from operating activities
D) No effect on net income; decrease in cash flow from operating activities

82) Which of the following are “matched” under the matching concept?

A) Expenses and revenues
B) Expenses and liabilities
C) Assets and stockholders’ equity
D) Assets and liabilities

83) Which of the following financial statements is impacted most significantly by the matching concept?

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

84) Which of the following is frequently used to describe the expenses that are matched in the same accounting period in which they are incurred?

A) Market expenses
B) Matching expenses
C) Period costs
D) Working costs

85) If retained earnings decreased during the year, and no dividends were paid, which of the following statements must be **true**?

A) Expenses for the year exceeded revenues.
B) The company did not have enough cash

to pay its expenses.

C) Total stockholders' equity decreased

D) Liabilities increased during the year.

86) What is the purpose of the accrual basis of accounting?

A) Recognize revenue when it is collected from customers.

B) Match assets with liabilities during the proper accounting period.

C) Recognize expenses when cash disbursements are made.

D) Recognizing revenue when it is earned and expenses when they are incurred, regardless of when cash changes hands.

87) Which of the following is not an element of the fraud triangle?

A) Reliance

B) Rationalization

C) Opportunity

D) Pressure

88) Which of the following is **not** a principle of the AICPA Code of Professional Conduct?

A) Integrity

B) Due Care

C) Internal Controls

D) Objectivity and Independence

89) Which of the following is **not** one of the common elements that are typically present when fraud occurs?

A) The capacity to rationalize

B) The existence of pressure leading to an incentive

C) The assistance of others

D) The presence of an opportunity

90) What is the term used to describe the policies and procedures that are designed to reduce the opportunities for fraud?

A) Internal controls
B) Asset source transactions
C) Accounting standards
D) Financial systems

91) What action did the U.S. Congress take because of the audit failures at Enron, WorldCom and other companies?

A) Required publicly-traded companies to be audited by a government agency
B) Passed the Sarbanes-Oxley Act
C) Required companies to begin preparing an additional financial statement
D) Passed an amendment to the Securities and Exchange Act

92) Which of the following is an asset source transaction?

A) Issued common stock
B) Paid a cash dividend to stockholders
C) Collected cash from customers in settlement of accounts receivable
D) Accrued salary expense

93) Which of the following is an asset use transaction?

A) Purchased land for cash
B) Paid cash for salary expense
C) Invested cash in an interest earning account
D) Accrued salary expense at the end of the period

94) Which of the following is an asset exchange transaction?

A) Issued common stock
B) Accrued salary expense at the end of the accounting period
C) Collected cash on accounts receivable
D) Earned cash revenue for services provided

95) If a company provides services to clients but has not yet collected any cash, how should that transaction be classified?

A) Claims exchange transaction
B) Asset use transaction
C) Asset source transaction
D) Asset exchange transaction

96) Which of the following would be included in the "cash flow from operating activities" section of the statement of cash flows?

A) Accrual of salary expense at year-end.
B) Purchase of land for cash.
C) Payments of cash dividends to the owners of the business.
D) Cash paid for interest on a note payable.

97) Chester Company began Year 2 with a note payable of $20,000 and interest payable of $800. During the year, the company accrued an additional $400 of interest expense, and paid off the note with interest. On the company's Year 2 statement of cash flows, cash flows for financing activities related to the note would be:

A) $1,200 outflow
B) $20,000 outflow
C) $20,400 outflow
D) $21,200 outflow

98) Which of the following describes the effects of a claims exchange transaction on a company's financial statements?

Balance Sheet				Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net income

A. +(
B. + + +(
C. + − + −
D. +I

A) Option A
B) Option B
C) Option C
D) Option D

99) The Merry Maids provided cleaning services to Orange Company on account. Which of the following would describe the transaction's effect on the Orange Company's financial statements?

Balance Sheet							Income Statement				
Assets		Liabilities		Stockholders' Equity							
Accounts Receivable	=	Accounts Payable	+	Common Stock	+	Retained Earnings	Revenue	−	Expense	=	Net income

A. + −
B. + + +
C. + −
D. + +

A) Option A
B) Option B
C) Option C
D) Option D

100) The Merry Maids

provided cleaning services to Orange Company on account. Which of the following would describe the transaction's effect on the Merry Maids' financial statements?

Balance Sheet				Income Statement		
Assets	Liabilities	Stockholders' Equity				
Accounts Receivable	= Accounts Payable	+ Common Stock	+ Retained Earnings	Revenue	− Expense	= Net income

A.		+	−	
B.	+		+	+
C.		+	−	
D.	+		+	

A) Option A
B) Option B
C) Option C
D) Option D

101) During Year 2, Fancy Foods Incorporated earned \$104,000 of revenue on account. The beginning balance in accounts receivable was \$26,000, and the ending balance was \$4,000. Based solely on this information, what was the amount of cash collected from accounts receivable?

A) \$74,000
B) \$82,000
C) \$126,000
D) \$134,000

102) Fancy Foods Incorporated had an ending balance in accounts payable of \$6,000. The company incurred \$72,000 of operating expenses on account and paid \$90,000 cash to settle accounts payable. Determine the beginning balance in accounts payable.

A) \$12,000
B) \$24,000
C) \$96,000
D) \$156,000

103) During Year 3, Fancy Foods Incorporated earned $54,000 of revenue on account. The beginning balance in accounts receivable was $5,000, and the ending balance was $10,000. Also, Fancy Foods Incorporated started the year with a beginning balance in accounts payable of $5,000. Fancy Foods' ending balance in account payable was $4,000. The company incurred $12,000 of operating expenses on account. Determine the amount of cash paid to settle accounts payable.

A) $13,000
B) $24,000
C) $96,000
D) $156,000

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

104) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Walker Company issued common stock for $150,000 cash.

Bal anc e She et	Inc ome Sta tem ent	Statement of Cash Flows	ts	s	' Equity
As se	= Liabi litie	+ Stockh olders	Reven ue	− Expen se	= Net Income

105) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Nguyen Company borrowed $50,000 cash from Metropolitan Bank.

Balance Sheet					Income Statement				Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income

106) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Bell Company provided consulting services for $20,000 cash.

Balance Sheet					Income Statement				Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income

107) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Pierce Company paid $40,000 cash to purchase land.

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income	

108) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Perez Company paid $220,000 cash for salaries expense.

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income	

109) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Epstein Company paid $20,000 in cash dividends to its stockholders.

Balance Sheet	Income Statement								Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income

110) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

North Company issued a note to purchase a building.

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income	

111) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Banks Company performed $5,000 of services for customers on account.

Balance Sheet	Income Statement					Statement of Cash Flows		
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	= Net Income

112) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Todd Company collected $2,000 cash from customers in partial settlement of its accounts receivable.

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income	

113) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Angstrom Company provided $2,600 of services for a customer who paid $1,000 cash immediately and promised to pay an additional $1,600 one month later.

Balance Sheet	Income Statement	Statement of Cash Flows							
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income

114) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Amity Company signed contracts for $25,000 of services to be performed in the future.

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income	

115) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

At the end of the accounting period, Signet Company recorded accrued salaries.

Balance Sheet	Income Statement	Statement of Cash Flows								
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income	

116) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Carson Company accrued $100 of interest expense.

Balance Sheet	Income Statement	Statement of Cash Flows

Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income

117) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Venture Company paid $50 of interest expense that had been previously accrued.

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income	

118) When is revenue recognized under accrual accounting?

119) What does the balance in accounts receivable represent?

120) When are expenses recognized under accrual accounting in relation to the payment of cash?

121) What is the effect on the accounting equation of a cash payment to creditors?

122) Why are adjustments necessary in an accrual accounting system? What are some common examples?

124) What effect does providing services on account have on the statement of cash flows? What effect does it have on the balance sheet?

125) Explain the meaning of the "matching concept."

126) Explain the meaning of the fraud triangle and each of its elements.

127) Discuss the importance of ethics in the accounting profession.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

128) Wheaton Company performed services for a customer on account. Indicate whether each of the following statements about this transaction is true or false.a) Assets and stockholders' equity both increase when the revenue is recognized.b) This transaction did not affect cash flows.c) The Company recorded an increase in revenue and a decrease in accounts receivable.d) Recognition of revenue would be delayed until cash was collected.e) This transaction is an example of an asset exchange transaction.

129) Wyatt Company paid $57,000 in January, Year 2 for salaries that had been earned by employees in December, Year 1. Indicate whether each of the following statements about financial statement effects of the January, Year 2 event is true or false.a) The income statement for Year 2 is not affected because the salaries expense had been recognized at the end of December, Year 1.b) Cash flows from operating activities decreased on the Year 2 statement of cash flows.c) Payment of the salaries in Year 2 increased a liability.d) The Year 2 statement of changes in stockholders' equity would not be affected because the salaries expense had been recognized at the end of December, Year 1.e) Both assets and stockholders' equity decreased in Year 2 as a result of this transaction.

130) XYZ Company used $5,000 cash to **pay off its accounts payable**. With respect to this event, indicate whether each of the following statements is true or false.a) Total assets would decrease.b) Expenses would increase.c) Total liabilities would remain the same.

131) Indicate whether each of the following statements regarding the four types of accounting events is true or false.a) Asset exchange transactions involve an increase in one asset and a decrease in another asset.b) An asset source transaction involves an increase in assets and an increase in a corresponding claims account.c) An asset use transaction cannot result in an increase in stockholders’ equity.d) Asset exchange transactions cannot affect cash flows.e) Some claims exchange transactions involve an increase in a liability account and a decrease in an stockholders’ equity account.

132) Indicate whether each of the following statements regarding preparing financial statements is true or false.a) Accounts receivable is a liability account.b) Salaries payable is on the income statement.c) Interest expense is on the income statement.d) Accounts payable is on the statement of cash flows.e) Notes payable is a liability account.f) Interest payable is an asset account.

133) Indicate whether each of the following statements about corporate governance is true or false.a) The Financial Accounting Standards

Board issues a code of ethical behavior by which public accountants must abide.b) The Sarbanes Oxley Act created the Public Company Accounting Oversight Board (PCAOB).c) Because of the Sarbanes Oxley Act, audit firms are not permitted to provide many nonaudit services to audit clients.d) The fraud triangle identifies opportunity, pressure, and rationalization as the three elements that are typically present when fraud is committed.e) An executive found guilty of falsely certifying a company's financial statements faces up to a $100,000 fine and five years in prison.

134) On January 1, Year 1, Wilson Company borrowed $70,000 from State Bank. The note stipulates a 3-year term with a 3 percent interest rate. On December 31, Year 1, Wilson recorded an adjusting entry to accrue interest expense. Based solely on these events, indicate whether each of the following statements is true or false.a) The Year 1 income statement is not affected because interest expense has been accrued but not paid.b) The Year 1 statement of cash flows will show a $70,000 cash inflow from investing activities.c) Accruing interest expense in Year 1 increased a liability.d) Accruing interest expense is a claims exchange transaction.e) Both assets and stockholders' equity decreased in Year 1 as a result of this transaction.

135) For each of the following transactions, indicate the type by entering AS for asset source transactions, AU for asset use transactions, AE for asset exchange transactions, and CE for claims exchange transactions.1) ________ Paid $2,000 in dividends to its stockholders2) ________ Recorded the accrual of $1,000 in salaries to be paid later3) ________ Issued common stock for $20,000 in cash4) ________ Earned revenue to be collected next year5) ________ Paid the salaries accrued in #2 above6) ________ Received cash from customers in #4 above7) ________ Purchased land for cash

136) Classify each of the following transactions for the purpose of the statement of cash flow as operating activities (OA), investing activities (IA), financing activities (FA), or not reported on the statement of cash flows (NA).________ Sold land________ Provided consulting services on account________ Borrowed funds from the bank________ Paid cash to settle accrued salary expense________ Collected accounts receivable

137) Maggie Stern started a consulting business, Stern Consulting, on January 1, Year 1. The following events occurred in Year 1:

1) Acquired $9,000 cash

by issuing common stock2) Provided services on account, $27,5003) Paid cash for $13,500 in operating expenses4) Collected $11,000 of the revenue that was previously recorded on account5) Paid a cash dividend of $5,000 to the stockholders

	Assets	= Liabilities +	Stockholders' Equity
1)			
2)			
3)			
4)			
5)			
Total			

Required: a) Show the effects of the above transactions on the accounting equation.

b) Prepare an income statement and statement of cash flows for Year 1.

138) Turner Company started its business by issuing $10,000 of common stock on January 1, Year 1. The company performed $38,000 of services for customers on account in Year 1. It collected $32,500 of this amount in Year 1, recorded expenses on account of $29,500, paid $21,000 of the payables owed, and paid a $500 dividend to the stockholders. **Required:**a) Determine the amount of total assets at the end of Year 1.b) Determine the amount of cash on hand at the end of Year 1.c) Determine the amount of net income for Year 1.d) Prepare a balance sheet as of December 31, Year 1.

139) The Maryland Corporation was started on January 1, Year 1, with the issuance of $50,000 of stock. During Year 1, the company provided $75,000 of services on account and collected $68,000 of that amount. Maryland incurred $63,000 of expenses, and paid $50,000 of that amount during Year 1. On December 31, Year 1, Maryland paid investors a $2,000 cash dividend and accrued $4,000 of salary expense.

Required:1) Determine the net income for year ended December 31, Year 1.2) Prepare Maryland Corporation's Statement of Cash Flows for the year ended December 31, Year 1.3) Determine the balance in Maryland's Retained Earnings account as of December 31, Year 1.

140) Consider the following independent scenarios:a) At January 1, Year 2, accounts receivable was $24,000. Cash collected on accounts receivable during Year 2 was $55,000. At December 31, Year 2, accounts receivable was $30,000. What were the revenues earned on account during Year 2?b) At January 1, Year 2, accounts payable was $19,000. During Year 2, expenses on account were $68,000. At December 31, Year 2, accounts payable was $15,000. What was the amount of cash payments on accounts payable that were made during Year 2?

141) In a company's annual report, the reader will find a company's income statement, statement of changes in stockholder's equity, balance sheet, and statement of cash flows. These financial statements can help the reader to answer specific questions. **Required:**Identify which **financial statement** would be most useful in answering the following questions. If more than one financial statement can answer the question, identify all applicable statements.

1) How much cash was collected from customers in partial settlement of accounts receivable during the current year?2) What was the total amount of land owned by the company?3) What was the total revenue earned by the company during the most recent year?4) What were the types of claims that the company has against its assets?5) What was the total amount of cash received by the issuance of common stock?6) Was the company profitable during the most recent year?7) What was the amount of cash dividends paid to the stockholders during the most recent year?8) What was the total amount of cash borrowed by the company during the most recent year?9) What was the ending balance of retained earnings?10) What was the amount of change in the cash balance during the current year?

142) The following transactions apply to Kellogg Company.1) Issued common stock for $20,000 cash2) Provided services to customers for $38,000 on account3) Purchased land for $15,000 cash4) Incurred $29,000 of operating expenses on account5) Collected $35,000 cash from customers for services provided in event #26) Paid $27,000 on accounts payable7) Paid $2,000 dividends to stockholders**Required:**a) Identify the dollar amount effect on the statement of cash flows, if any, for each of the above transactions.b) If applicable, indicate whether each transaction involves operating, investing, or financing activities.

Event	**(a) Effect on Statement of Cash Flows**	**(b) Activity Type**
1)		
2)		
3)		
4)		
5)		
6)		
7)		

143) Grant Hylton started a consulting business, Hylton Consulting, on January 1, Year 1, and the business engaged in the following transactions during the year:1) Issued $40,000 of common stock for cash2) Provided services on account, $46,5003) Incurred $37,500 of operating expense, but only paid $32,000 of this amount4) Collected $39,000 of the revenue that was previously recorded on account5) Paid a cash dividend of $4,000 to the stockholders

Required:a) Show the effects of the above transactions on the accounting equation

Event	Assets	=	Liabilities	+	SH Equity
1)					
2)					
3)					
4)					
5)					
Totals					

144) Jenna Fisk started her business by issuing $8,000 of common stock on January 1, Year 1. Jenna performed $18,500 of service on account during Year 1, and she collected $16,200 of this amount by the end of Year 1. She also paid operating expenses of $14,900 and paid a $600 dividend to the stockholders during Year 1.

Required:a) Determine the amount of total assets at the end of Year 1.b)

Determine the amount of cash on hand at the end of Year 1.c) Determine net income for Year 1.d) Prepare a balance sheet as of December 31, Year 1.

145) Cascade Corporation began business operations and experienced the following transactions during Year 1:
1) Issued common stock for $20,000 cash2) Provided services to customers for $80,000 on account3) Incurred $36,000 of operating expenses on account4) Collected $46,000 cash from customers5) Paid $30,000 on accounts payable
Required: Record the above transactions on a horizontal statements model to reflect their effect on Cascade's financial statements. In the last column, enter OA, IA, or FA for the type of cash flow activity, if applicable.

	Assets		=	Liabilities	+	Stockholders' Equity		
	Cash	Accounts Receivable		Accounts Payable		Common Stock	Retained Earnings	Cash Flows
1)								
2)								
3)								
4)								
5)								
Totals								

146) Indicate for each of the following items if the item would be reported on the income statement (IS), statement of changes in stockholders' equity (SE), balance sheet (BS), or statement of cash flows (CF). Some items may appear on more than one statement; if so, identify all applicable statements.
1) Salaries payable2) Land3) Dividends paid to stockholders4) Interest expense5) Accounts payable6) Salaries expense7) Retained earnings8) Revenue9) Cash flows from operating activities10) Beginning common stock11) Issued stock to investors for cash12) Accounts receivable

147) Classify each of the following transactions for the purpose of the statement of cash flows as operating activities (OA), investing activities (IA), financing activities (FA), or not reported on the statement of cash flows (NA).1) ________ Collected accounts receivable2) ________ Made adjusting entry to accrue salary expense at the end of the year3) ________ Borrowed funds from the bank4) ________ Paid cash to settle accounts payable5) ________ Issued common stock for $30,000 cash6) ________ Paid cash to acquire land

148) For each of the following transactions, indicate the type by entering "AS" for asset source transaction, "AU" for asset use transaction, "AE" for asset exchange transaction, and "CE" for claims exchange transaction.
1) ________ Paid $10,000 for a plot of land.2) ________ Recorded the accrual of $1,000 in salaries to be paid the following week.3) ________ Issued common stock for $20,000 in cash.4) ________ Incurred operating expense on account.5) ________ Paid off its accounts payable.6) ________ Earned revenue to be collected at a future date.7) ________ Paid $2,000 in dividends to its stockholders.8) ________ Received cash from customers in #6 above.9) ________ Paid the salaries accrued in #2 above.10) ________ Borrowed money from a local bank.

149) Determine whether each of the following events are asset source (AS), asset use (AU), asset exchange (AE), or claims exchange (CE) transactions.
1) ________ Borrowed $6,000 from creditors2) ________ Issued common

stock to investors for $8,000 cash3) ________ Accrued interest expense4) ________ Provided services to customers and collected $35,000 cash5) ________ Paid creditors $10,0006) ________ Provided services to customers on account, $12,0007) ________ Collected $2,000 from customers in partial settlement of accounts receivable8) ________ Recognized accrued salary expense of $2,000

150) Oregon Company began operations on January 1, Year 1, by issuing $10,000 in common stock to the stockholders. During the year, services in the amount of $32,000 were provided to customers on account, and 80% of this amount was collected by year-end. During the year, operating expenses incurred on account were $24,000, and 60% of this amount was paid by year-end. The company paid $1,000 of dividends to stockholders during the year. During the year, Oregon paid salaries of $3,000, and on December 31, Year 1, the company accrued salaries of $2,800.Oregon recorded all appropriate year-end adjustments.
1) What would Oregon report for service revenue for Year 1? 2) What would Oregon report for salaries expense for Year 1? 3) What would the amount be for net cash flows from operating activities for Year 1?4) What is the net income for Year 1?5) What would the balance in the retained earnings account be at December 31, Year 1?

151) Sammy Company shows the following transactions for the accounting period ending December 31, Year 1:
1) Sold books to customers for $68,000 on account2) Collected

$56,000 from customers3) Issued common stock for $16,000 cash4) Accrued salary expense of $20,000 cash5) Paid operating expenses of $8,000
Show how the above transactions and year-end adjustments affect the accounting equation. Put the amount in parentheses if the transaction reduces that section of the equation. Leave cells blank for items not affected.

	Assets		=	Liabilities	+	Stockholders' Equity	
	Cash	Accounts Receivable		Accounts Payable		Common Stock	Retained Earnings
1.							
2.							
3.							
4.							
5.							
Totals							

152) Consider the following independent scenarios:a) At January 1, Year 2 accounts receivable was $20,000. Revenue earned on account was $100,000. Cash collected on accounts receivable during Year 1 was $45,000. What was the ending balance in accounts receivable on December 31, Year 2?b) At January 1, Year 2, accounts payable was $17,000. During Year 2, expenses on account were $72,000. The amount of cash paid on accounts payable was $20,000. What was the ending balance in accounts payable on December 31, Year 2?

153) Tucker Company shows the following transactions for the accounting period ending December 31, Year 1:1) Issued common stock for $16,000 cash2) Borrowed $40,000 cash from the bank3) Performed $60,000 of services on account4) Paid operating expenses of $8,000 in cash5) Accrued salary expense of $20,0006) Accrued interest expense of $500

Show how the above transactions and year-end adjustments affect the accounting equation. Put the amount in parentheses if the transaction reduces that section of the equation. Leave cells blank for items not affected.

Assets		=	Liabilities			+	Stockholders' Equity		
	Cash	Accounts Receivable		Salaries Payable	Interest Payable	Notes Payable		Common Stock	Retained Earnings
1.									
2.									
3.									
4.									
5.									
6.									
Tot									

als

154) Thurston Company started its business on January 1, Year 1 by issuing $15,000 of common stock. On March 1, Thurston issued a $27,000, 6% five-year note to Community Bank. Customers paid Thurston $54,000 for services performed in Year 1. The company paid $33,000 for operating expenses, and paid a $900 dividend to the stockholders. At year-end, Thurston recognized interest expense on the note.

Required:a) What is the amount of interest expense Thurston will recognize in Year 1?b) What is the net income for Year 1?

155) Osage Corporation began business operations and experienced the following transactions during Year 1:

1) Issued common stock for $25,000 cash2) Issued a $20,000, 6% 4-year note to the bank on February 13) Provided services to customers for $80,000 cash4) Paid $38,000 for operating expenses5) Accrued interest expense on the note6) Paid a $4,000 dividend to shareholders

Required: Record the above transactions on a horizontal financial statements model to reflect their effect on Osage's financial statements. In the last column, enter OA, IA, FA for the type of cash flow activity, or NA if there is no activity.

	Assets		Liabilities			Stockholders' Equity		Revenue	–	Expen
	Cash	=	Notes Payment	Interest Payment	+	Common Stock	Retained Earnings			
1.										
2.										
3.										
4.										
5.										
6.										
Totals										

Answer Key

Test name: chapter 2

1) TRUE

2) FALSE

3) TRUE

4) TRUE

5) FALSE

6) FALSE

7) FALSE

8) FALSE

9) TRUE

10) FALSE

11) TRUE

12) TRUE

13) FALSE

14) TRUE

15) FALSE

16) FALSE

17) FALSE

18) FALSE

19) TRUE

20) TRUE

21) FALSE

22) FALSE

23) TRUE

24) FALSE

25) FALSE

26) FALSE

27) B

28) B

29) A

30) C

31) C

32) D

33) A

34) C

35) B

36) C

37) C

38) D

39) A

40) B

41) A

42) B

43) C

44) A

45) B

46) A

47) C

48) B

49) A

50) C

51) D

52) D

53) C

54) B

55) C

56) D

57) C

58) B

59) D

60) A

61) A

62) A

63) D

64) D

65) B

66) A

67) A

68) B

69) B

70) B

71) D

72) C

73) B

74) A

75) D

76) B

77) D

78) D

79) D

80) A

81) B

82) A

83) B

84) C

85) A

86) D

87) A

88) A
88) C

88) A
88) C

89) C

90) A

91) B

92) A

93) B

94) C

95) C

96) D

97) B

98) C

99) C

100) B

101) C

102) B

103) A

104)

Balance Sheet			Income Statement			Statement of Cash Flows
Assets =	Liabilities +	Stockholders' Equity	Revenue −	Expense =	Net Income	
I	NA	I	NA	NA	NA	I

Issuing common stock is an asset source transaction that increases the business's assets (Cash) and its stockholders' equity (Common Stock). It does not affect the income statement but is reported as a cash inflow from financing activities in the statement of cash flows.

105)

Balance Sheet			Income Statement			Statement of Cash Flows
Assets =	Liabilities +	Stockholders' Equity	Revenue −	Expense =	Net Income	
I	I	NA	NA	NA	NA	I

Borrowing cash is an asset source transaction that increases a business's assets (Cash) and its liabilities (Notes Payable). It does not affect the income statement but is reported as a cash inflow from financing activities in the statement of cash flows.

106)

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	**=**	**Liabilities**	**+**	**Stockholders' Equity**	**Revenue**	**−**	**Expense**	**=**	**Net Income**	
I		NA		I	I		NA		I	

This is an asset source transaction that increases the business's assets (Cash). When a business provides services, it earns revenue. Revenue increases net income, which increases stockholders' equity (Retained Earnings). This event is reported as a cash inflow from operating activities in the statement of cash flows.

107)

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	**=**	**Liabilities**	**+**	**Stockholders' Equity**	**Revenue**	**−**	**Expense**	**=**	**Net Income**	
I /		NA		NA	NA		NA		NA	D

D

Purchasing land for cash is an asset exchange transaction that increases one asset (Land) and decreases another asset (Cash). It does not affect the income statement, and is reported as an investing activity in the statement of cash flows.

108)

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income	
D		NA		D	NA		I		D	D

Paying expenses is an asset use transaction that decreases the business's assets (Cash) and decreases its stockholders' equity (Retained Earnings). Note that the expense decreases net income, and retained earnings. It is reported as a cash outflow from operating activities in the statement of cash flows.

109)

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income	
D		NA		D	NA		NA		NA	

Paying a cash dividend is an asset use transaction that decreases a business's assets (Cash) and its stockholders’ equity (Retained Earnings). It does not affect net income, and is reported as a cash outflow from financing activities in the statement of cash flows.

110)

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders’ Equity	Revenue	−	Expense	=	Net Income	
I		I		NA	NA		NA		NA	NA

Issuing a note to purchase a building is an asset source transaction that increases a business's assets (Building) and increases its liabilities (Notes Payable). It does not affect net income or the statement of cash flows.

111)

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders’ Equity	Revenue	−	Expense	=	Net Income	
I		NA		I	I		NA		I	NA

Performing services on account increases assets (Accounts Receivable) and stockholders' equity (Retained

Earnings). On the income statement, the increase in revenue increases net income. The collection of cash will occur in the future. Because cash is not collected or paid, the statement of cash flows is not affected for this event.

112)

Balance Sheet			Income Statement			Statement of Cash Flows
Assets =	Liabilities +	Stockholders' Equity	Revenue −	Expense =	Net Income	
I/D	NA	NA	NA	NA	NA	I

Collecting on accounts receivable increases one asset (Cash) and decreases another asset (Accounts Receivable). It is an asset exchange transaction. It does not affect the income statement but is reported as a cash inflow from operating activities on the statement of cash flows.

113)

Balance Sheet			Income Statement			Statement of Cash Flows
Assets =	Liabilities +	Stockholders' Equity	Revenue −	Expense =	Net Income	
I	NA	I	I	NA	I	

This event increases revenue, net income, and stockholders' equity (Retained Earnings) by $2,600. Cash increases by $1,000 and accounts receivable increases by $1,600, which results in an increase in assets of $2,600. It is reported as a $1,000 cash inflow from operating activities on the statement of cash flows.

114)

Balance Sheet			Income Statement			Statement of Cash Flows
Assets =	Liabilities +	Stockholders' Equity	Revenue −	Expense =	Net Income	
NA	NA	NA	NA	NA	NA	NA

This event does not affect the financial statements at all. Revenue is recorded when services are performed, not when the contract is signed.

115)

Balance Sheet			Income Statement			Statement of Cash Flows
Assets =	Liabilities +	Stockholders' Equity	Revenue −	Expense =	Net Income	
NA	I	D	NA	I	D	NA

On the balance sheet, accruing salaries expense increases liabilities (Salaries Payable) and stockholders' equity (Retained Earnings). Recognizing the salary expense decreases net income. Because cash was not paid or collected, there is no impact on the statement of cash flows.

116)

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income	
NA		I		D	NA		I		D	NA

Accruing interest expense increases liabilities (Interest Payable) and decreases stockholders' equity (Retained Earnings). It increases expenses and decreases net income. However, there is no effect on the statement of cash flows because the actual cash payment for interest will be made in the future.

117)

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net Income	
D		D		NA	NA		NA		NA	D

Paying accrued interest expense decreases assets (Cash) and decreases liabilities (Interest Payable). It does not affect the income statement because the company recognized the interest expense previously. It is reported as a cash outflow from operating activities on the statement of cash flows.

118) Recognizing revenue when it is earned and expenses when they are incurred, regardless of when cash changes hands, is commonly called *accrual accounting*.Accrual accounting requires that companies recognize revenue when the work is done regardless of when cash is collected.

119) Accounts receivable is an asset account. Its balance represents expected future cash receipts arising from permitting customers to buy now and pay later.Accounts receivable is an asset account because it represents something that is owed to the company.

120) Accrual accounting requires that companies recognize expenses in the period in which they are incurred regardless of when cash is paid. In accrual transactions, that means that expenses are recorded before cash payments.Expenses are recognized when incurred, regardless of when payment is made.

121) Assets decrease; liabilities decreaseMaking a cash payment to creditors decreases assets (Cash) and decreases liabilities (Accounts Payable).

122) An adjustment updates account balances prior to preparing financial statements. Adjustments record revenues and expenses that should be recognized in the current accounting period but have not yet been recorded. Some common adjustments include recognizing accrued salaries expense and accrued interest expense.The matching concept requires adjustments for certain transactions in order to recognize

revenues and expenses in the proper accounting period. These adjustments are made at the end of the period.

123) The recording of revenue normally has the effect of increasing total assets (usually cash or accounts receivable).If revenue is earned at the same time cash is collected, cash is increased. If revenue is earned on account, and a customer is billed, accounts receivable is increased.

124) There is no effect on the statement of cash flows when services are performed on account. Assets and stockholders' equity will increase on the balance sheet.Providing services on account does not affect the cash account; therefore, the statement of cash flows is unaffected. The asset accounts receivable increases as does stockholders' equity (retained earnings).

125) The "matching concept" refers to the process of "matching" the expenses with the revenues that they produce in the appropriate time period. This matching is largely done through the adjusting process. For example, the accrual of salary expense has the effect of matching the correct portion of salary expense to the accounting period in which the employees contributed to producing revenue. Matching means that expenses should be recognized in the same accounting period as the revenues that they helped a business to earn.The matching concept is the foundation of accrual accounting — the recognition of revenues as they are earned and expenses as they are incurred, regardless of when cash is exchanged.

126) The auditing profession has identified three elements that are typically present when fraud occurs. These three elements are often shown in the form of a triangle. The first of these

elements is the availability of opportunity without which fraud could not exist. Therefore, opportunity is at the top of the triangle. The second element recognizes pressure as a key ingredient of misconduct. Pressure can come from a variety of sources. The third element is rationalization. Few individuals think of themselves as evil. They develop rationalizations to justify their misconduct.When working with ethical dilemmas, it is helpful to identify the opportunity, pressure, and rationalization associated with that particular situation.

127) The accountant's role in society requires trust and credibility. Accounting information is worthless if the accountant is not trustworthy. Similarly, tax and consulting advice is useless if it comes from an incompetent person. The importance of ethical conduct is universally recognized across a broad spectrum of accounting organizations. Corporate management is responsible for preparing financial reports, while outside independent accountants (CPAs) audit the reports.The high ethical standards required by the accounting profession state "a certified public accountant assumes an obligation of self-discipline above and beyond requirements of laws and regulations." The AICPA Code of Professional Conduct and the IMA Standards of Ethical Conduct are among ethics regulations governing the accounting profession.

128) a) This is true. Assets (Accounts Receivable) and stockholders' equity (Retained Earnings) both increase.b) This is true. Because cash is not affected, cash flows are not affected.c) This is false. The event resulted in an increase in revenue and an increase in accounts receivable.d) This is

false. Wheaton would recognize revenue when the services are performed, not when cash is received.e) This is false. Because assets (Accounts Receivable) increase, it is an asset source transaction.

129) a) This is true. The expense is recognized in the period in which the salaries were earned by the employees, in Year 1.b) This is true. The January, Year 2 payment decreases cash flows from operating activities in Year 2.c) This is false. When the payment is made, salaries payable, a liability, is decreased, not increased.d) This is true. Because the expense was recognized in Year 1, the Year 2 statement of changes in stockholders' equity is unaffected.e) This is false. The January, Year 2 payment decreases assets (Cash) and liabilities (Salaries Payable), but not stockholders' equity.

130) a) This is true. This event reduces assets (Cash) and liabilities (Accounts Payable).b) This is false. This event does not affect the income statement because the expense associated with the accounts payable was previously recognized.c) This is false. This event reduces assets (Cash) and liabilities (Accounts Payable).

131) a) This is true. An asset exchange transaction involves an increase in one asset and a decrease in another asset.b) This is true. An asset source transaction involves an increase in assets and an increase in liabilities or stockholders' equity.c) This is true. An asset use transaction involves a decrease in assets and either a decrease in liabilities or stockholders' equity. Therefore, it cannot result in an increase in stockholders' equity.d) This is false. Because an asset exchange

transaction involves an increase in one asset and a decrease in another, it often affects cash.e) This is true. Some claims exchange transactions, including accruing salaries, involve an increase in a liability and a decrease in stockholders' equity.

132) a) This is false. Accounts receivable is an asset account.b) This is false. Salaries payable is a liability account on the balance sheet.c) This is true. Interest expense is reported on the income statement.d) This is false. Accounts payable is a liability account on the balance sheet. It represents the amount of cash a company is required to pay in the future.e) This is true. Notes payable is a liability account on the balance sheet.f) This is false. Interest payable is a liability account on the balance sheet.

133) a) This is false. The AICPA, not FASB, issues a code of professional behavior for CPAs.b) This is true. The PCAOB is a result of the Sarbanes-Oxley Act.c) This is true. The Sarbanes-Oxley Act restricts nonaudit services that audit firms can provide to audit clients.d) This is true. Opportunity, pressure, and rationalization make up the fraud triangle.e) This is false. A $5 million fine and 20-year prison sentence are possible penalties for executives who falsely certify a company's financial statements.

134) a) This is false. Accrued interest expense is recognized as an expense on the income statement even though there has not been a cash payment for the interest.b) This is false. Borrowing money is a financing activity. There will be a cash inflow of $70,000 reported as a financing activity on the statement of cash flows.c) This is true. Accruing interest expense increases the liability account, Interest Payable.d) This is true.

Accruing interest expense is a claims exchange transaction. Liabilities increase and stockholders' equity decreases. There is no net effect on total claims.e) This is false. Liabilities and assets increase and stockholders’ equity decreases in Year 1.

135) 1) AU 2) CE 3) AS 4) AS 5) AU 6) AE 7) AE1) Assets (Cash) decreased, stockholders’ equity (Retained Earnings) decreased2) Liabilities (Salaries Payable) increased, stockholders’ equity (Retained Earnings) decreased3) Assets (Cash) increased, stockholders’ equity (Common Stock) increased4) Assets (Accounts Receivable) increased, stockholders’ equity (Retained Earnings) increased5) Assets (Cash) decreased, liabilities (Salaries Payable) decreased6) Assets (Cash) increased, assets (Accounts Receivable) decreased7) Assets (Land) increased, assets (Cash) decreased

136) **1.** IA **2.** NA **3.** FA **4.** OA **5.** OAPurchasing and selling long-lived assets is an investing activityBecause cash was not collected or paid, the statement of cash flows is not affectedBorrowing cash is a financing activityPaying salaries is an operating activityCollecting cash from customers is an operating activity

137) a)

	Assets	**=**	**Liabilities**	**+ Stockholders' Equity**
1)	9,000			9,000
2)	27,500			27,500
3)	(13,500)			(13,500)
4)	11,000			

(11,000)

5) (5, (5,

000) 000)

b)

Tot al

Stern Consulting
Income Statement
For the Year Ended December 31, Year 1

Service revenue	$ 27,500
Operating expense	(13,500)
Net income	$ 14,000

Stern Consulting
Statement of Cash Flows
For the Year Ended December 31, Year 1

Cash flows from operating activities		
Cash receipts from revenue	$ 11,000	
Cash payments for operating expenses	(13,500)	
Net cash flow for operating activities		$ (2,500)
Cash flows for investing activities		0
Cash flows from financing activities		
Cash receipt stock issuance	9,000	
Cash payment for dividends	(5,000)	
Net cash flow from financing activities		4,000
Net increase in cash		1,500
Plus: Beginning cash balance		0
Ending cash balance		$ 1,500

138) a) $26,500b) $21,000

c) $8,500

d)

Turner Company
Balance Sheet
As of December 31, Year 1

Assets		
Cash	$ 21,000	
Accounts receivable	5,500	$ 26,500
Liabilities		
Accounts payable		$ 8,500
Stockholders' equity		
Common stock	10,000	
Retained earnings	8,000	18,000
Total liabilities and stockholders' equity		$ 26,500

a) Total assets = $10,000 + $38,000 − $21,000 − $500 = $26,500b) Cash on hand at end of Year 1 = $10,000 + $32,500 − $21,000 − $500 = $21,000c) Net income = $38,000 − $29,500 = $8,500

139) 1) Net income = $75,000 − 63,000 − 4,000 = $8,000

2)

Maryland Corporation
Statement of Cash Flows
For the Year Ended December 31, Year 1

Cash flows from operating activities		
Cash receipts from revenue	$ 68,000	
Cash payments for operating expenses	(50,000)	
Net cash flow from operating activities		$ 18,000
Cash flows from investing activities		0
Cash flows from financing activities		
Cash receipt stock issuance	50,000	
Cash payment for dividends	(2,000)	
Net cash flow from financing activities		48,000
Net increase in cash		66,000
Plus: Beginning cash balance		0
Ending cash balance		$ 66,000

3) Ending retained earnings = Beginning retained earnings of $0 + Net income of $8,000 net income − Dividends of $2,000 = $6,000

140) a) Beginning accounts receivable of $24,000 + Revenues earned on account − Cash collections on account of $55,000 = Ending accounts receivable of $30,000; Revenues earned on account = $61,000b) Beginning accounts payable of $19,000 + Expenses incurred on account of $68,000 − Cash payments made on accounts payable = Ending accounts payable of $15,000; Cash payments made on accounts payable = $72,000

141) 1) Statement of cash flows2) Balance sheet3) Income statement4) Balance sheet5) Statement of cash flows and statement of changes in stockholder's equity6) Income

statement and statement of changes in stockholder's equity7) Statement of cash flows and statement of changes in stockholder's equity8) Statement of cash flows9) Balance sheet and statement of changes in stockholder's equity10) Statement of cash flows

142)

Event	a. Effect on Statement of Cash Flows	b. Transaction Type
1)	20,000	FA
2)	NA	
3)	(15,000)	IA
4)	NA	
5)	35	OA
6)	(	OA
7)	2	FA

143) a)

Event	Assets	=	Liabilities	+	SH Equity
1)	40,000				40,000
2)	46,500				46,500
3)			37,500		(37,500)
	(32,000)		(32,000)		
4)	39,000				
	(39,000)				
5)	(4,000)				(4,000)
Totals	50,500		5,500		45,000

b)

Hylton Consulting
Income Statement
For the Year Ended December 31, Year 1

Service revenue	$ 46,500
Operating expense	(37,500)
Net income	$ 9,000

Hylton Consulting
Statement of Cash Flows
For the Year Ended December 31, Year 1

Cash flows from operating activities

Cash receipts from customers	$ 39,0

	00	
Cash payments for operating expenses	(32,000)	
Net cash flow from operating activities		$ 7,000
Cash flows from investing activities		0
Cash flows from financing activities		
Cash receipt stock issuance	40,000	
Cash payment for dividends	(4,000)	
Net cash flow from financing activities		36,000
Net increase in cash		43,000
Plus: Beginning cash balance		0
Ending cash balance		$ 43,000

Balance Sheet
As of December 31, Year 1

Assets		
Cash	$ 8,700	
Accounts receivable	2,300	$ 11,000
Liabilities		$ 0
Stockholders' equity		
Common stock	8,000	
Retained earnings	3,000	11,000
Total liabilities and stockholders' equity		$ 11,000

144) a) Total assets = $8,000 + $18,500 − $14,900 − $600 = $11,000

b) Cash balance = $8,000 + $16,200 − $14,900 − $600 = $8,700

c) Net income = $18,500 − $14,900 = $3,600

d)

145)

Assets	=	Liabilities	+	Stockholders' Equit	Cash Flows
Cash	Accounts Recei				
		Accounts Payab			

y

		vable	le		ngs	
1)	20,000			20,000		20,000 FA
2)		80,000			80,000	
3)			36,000		(36,000)	
4)	46,000	(46,000)				46,000 OA
5)	(30,000)		(30,000)			(30,000) OA

Totals	36,000	34,000	6,000	20,000

146) 1) BS, 2) BS, 3) SE and CF, 4) IS, 5) BS, 6) IS, 7) BS and SE, 8) IS, 9) CF, 10) SE, 11) SE and CF, 12) BS

147) 1) OA, 2) NA, 3) FA, 4) OA, 5) FA, 6) IA

148) 1) AE, 2) CE, 3) AS, 4) CE, 5) AU, 6) AS, 7) AU, 8) AE, 9) AU, 10) AS

149) 1) AS 2) AS 3) CE 4) AS 5) AU 6) AS 7) AE 8) CE
1) Borrowing cash is an asset source transaction that increases cash2) Issuing common stock is an asset source transaction that increases cash3) Accruing interest expense is a claims exchange transaction that increases interest payable and decreases retained earnings4) Providing services for cash is an asset source transaction that increases cash5) Paying creditors is an asset use transaction that decreases cash6) Providing services on account is an asset source transaction that increases accounts receivable7) Collecting on accounts receivable is an asset exchange transaction that increases cash and decreases accounts receivable8) Accruing salary expense is a claims exchange transaction that increases accounts payable and decreases retained earnings

150) 1) $32,000 Service Revenue (from services provided

during the year)2) $3,000 salaries expense paid + $2,800 accrued salaries at year end = $5,800 Salaries Expense.3) $25,600 ($32,000 × 0.80) − $14,400 ($24,000 × 0.60) − $3,000 = $8,200 CF from OA4) $32,000 revenue − $24,000 operating expense − $5,800 salaries expense = $2,200 NI5) $0 beginning + $2,200 NI − $1,000 Dividend = $1,200 RE balance?

151)

	Assets		=	Liabilities	+	Stockholders' Equity	
	Cash	Accounts Receivable		Accounts Payable		Common Stock	Retained Earnings
1.		68,000					68,000
2.	56,000	(56,000)					
3.	16,000					16,000	
4.				20,000			(20,000)
5.	(8,000)						(8,000)
Totals	64,000	12,000		20,000		16,000	40,000

152) a) $20,000 beginning AR + $100,000 revenue on account − $45,000 cash collected on AR = $75,000 ending ARb) $17,000 beginning AP + $72,000 expenses on account − $20,000 cash paid on AP = $69,000 ending AP

153)

Assets	=	Liabilities			+	Stockholders' Equity	
Cash	Accounts Receivable	Salaries Payable	Interest Payable	Notes Payable		Common Stock	Retained Earnings
1.							
2.							
3.							
4.							
5.							
6.							
Totals							

154) a) Year 1 Interest expense = Principal of $27,000 × 6% × 10/12 = $1,350b) Net income = $54,000 − ($33,000 + $1,350) = $19,650

155)

Assets	=	Liabilities		+	Stockholders' Equity		Revenue	−
Cash	=	Notes Pay	Interest Pay	+	Common Stock	Retained Earnings		
1.	25,000							
2.	20,000				20,000			
3.	80,000							

4.	(38,000)				(38,000)
5.			1,100		(1,100)
6.	(4,000)				(4,000)
Totals	83,000	20,000	1,100	25,000	36,900

Accrued Interest Expense = \$20,000 note × 6% interest rate = \$1,200 accrued interest per year / 12 months = \$100 of interest accrues per month. \$100 per month × 11 months (Feb through Dec) = \$1,100 accrued interest expense