Chapter 1: Introduction to Business Activities and Overview of Financial Statements and the Reporting Process

Student: ____

1. The activities of a business include establishing goals and strategies, obtaining financing, making investments and conducting operations.
True False

2. Goals are the end results toward which the firm directs its energies, and strategies are the means for achieving those results.
True False

3. Each firm makes financing decisions about the proportion of funds to obtain from owners, long-term creditors, and short-term creditors.
True False

4. A firm makes investments to obtain productive capacity to carry out its business activities.
True False

5. Patents, licenses, and other contractual rights are tangible, in the sense that the rights have a physical existence.
True False

6. Firms communicate the results of their business activities in the annual report to shareholders.
True False

7. Assets are economic resources with the potential to provide future economic benefits to a firm.
True False

8. Liabilities are creditors' claims for funds, usually because they have provided funds, or goods and services, to the firm.
True False

9. Retained earnings represent the net assets (total assets - total liabilities) a firm derives from its earnings that exceed the dividends.
True False

10. The amounts of individual assets that make up total assets, represented by accounts receivable, inventories, equipment, and other assets, reflect a firm's financing decisions, each measured at the balance sheet date.
True False

11. The mix of liabilities plus shareholders' equity reflects a firm's investing decisions, each measured at the balance sheet date.
True False

12. Current liabilities represent obligations a firm expects to pay within one year.
True False

13. Current assets, typically held and used for several years, include land, buildings, equipment, patents; and long-term investments in securities.
True False

14. Current liabilities and shareholders' equity are sources of funds where the supplier of funds does **not** expect to receive them all back within the next year.
True False

15. The current replacement cost of an asset is the amount a firm would have to pay to obtain another asset with identical service potential; it is an entry value that reflects economic conditions at the measurement date.
True False

16. The same asset can have different measurements for tax purposes, for financial reporting purposes, and for internal managerial decision-making purposes.
True False

17. A natural business year ends when most activities in an operating cycle have been substantially concluded.
True False

18. The managers of a business prepare financial statements to present meaningful information about that business's activities to external users.
True False

19. The independent external auditors of a business prepare financial statements to present meaningful information about that business's activities to external users.
True False

20. Management operates the productive capacity of the firm to generate earnings.
True False

21. The historical amount reflects the acquisition cost of assets or the amount of funds originally obtained from creditors or owners.
True False

22. To assist users of financial reports in making over-time comparisons, both U.S. GAAP and IFRS require firms to include results for multiple reporting periods in each report.
True False

23. U.S. GAAP and IFRS contain broad guidance on what the financial statements must contain, but neither completely specifies the level of detail or the names of accounts.
True False

24. The cash basis separates the recognition of revenue from the process of earning those revenues.
True False

25. The accrual basis does **not** match the cost of the efforts required to generate inflows with the inflows themselves.
True False

26. Performance measured using the cash basis is **not** sensitive to the timing of cash expenditures.
True False

27. Which of the following is **not** a business activity?
A. Establishing goals and strategies.
B. Obtaining financing.
C. Making investments.
D. Conducting operations.
E. All of these choices are business activities.

28. _____ are the end results toward which the firm directs its energies.
A. Goals
B. Strategies
C. Objectives
D. Activities
E. Milestones

29. _____ are the means for achieving goals.
A. Targets
B. Strategies
C. Objectives
D. Milestones
E. Tasks

30. Management, under the oversight of the firm's governing board (or boards), sets the firm's strategies. Such strategies might include:
A. determining the firm's lines of business.
B. determining the firm's geographic locations.
C. degree to which a given business unit will engage in new product development.
D. all of the above.
E. none of the above.

31. Examples of factors from the operating environment that would affect a firm's goals and strategies include which of the following?
A. goals and strategies of the firm's competitors
B. barriers to entry of the firm's industry, such as patents or large investments in buildings and equipment
C. nature of the demand for the firm's products and services
D. existence and nature of government regulation
E. all of the above

32. To carry out their plans, firms require financing, that is, funds from owners and creditors. Owners provide funds to a firm and in return receive ownership interests. For a corporation, the ownership interests are:
A. Common Stock Shares
B. Corporate Bonds
C. Notes Receivable
D. Notes Payable
E. Certificates of Deposit

33. To carry out their plans, firms require financing, that is, funds from owners and creditors. When the firm raises funds from owners, which of the following is true?
A. There is no obligation to repay these funds.
B. There is an obligation to repay these funds.
C. Firms must distribute cash dividends to that firm's shareholders at least annually.
D. Firm must distribute stock dividends to that firm's shareholders at least annually.
E. None of the above are true.

34. When creditors provide funds to a firm, which of the following is/are true?
A. The firm must repay, usually with interest, in specific amounts at specific dates.
B. Long-term creditors require repayment from the borrower over a period of time that exceeds one year.
C. One common form of long-term financing is bonds.
D. Suppliers of raw materials or merchandise that do not require payment for 30 days provide short-term funds.
E. All of the above are true.

35. A firm makes investments to obtain productive capacity to carry out its business activities. Investing activities involve acquiring all of the following **except**:
A. land, buildings, and equipment.
B. patents, licenses, and other contractual rights.
C. common shares or bonds of other firms.
D. long-term notes receivable of other firms.
E. common shares or bonds of the firm.

36. Management operates the productive capacity of the firm to generate earnings. Operating activities include the following **except** for:
A. Purchasing.
B. Research and development.
C. Marketing and administration.
D. Production.
E. Dividend payments.

37. Firms communicate the results of their business activities in the _____.
A. annual report to shareholders
B. weekly press releases
C. monthly press releases
D. annual press releases
E. annual income tax returns

38. Which of the following is/are true regarding setting goals and strategies for a charitable organization?
A. obtain sufficient resources to fund operations
B. not pursue profits or wealth increases as goals.
C. direct efforts toward providing services to constituencies
D. all of the above are true
E. none of the above are true

39. Which of the following is/are true regarding the financing of a charitable organization?
A. may obtain some or all of its financing from donations (contributions)
B. does not issue common stock or other forms of shareholders' equity
C. does not have retained earnings
D. all of the above are true
E. none of the above are true

40. Which of the following is true regarding the investing activities of charitable organizations?
A. are not similar to business firms
B. acquire productive capacity (for example, buildings) to carry out their activities
C. issue common stock
D. issue bonds
E. issue preferred stock

41. Which of the following is/are **not** true regarding the operations of a charitable organization?
A. might prepare financial statements that compare inflows (for example, contributions) with outflows
B. there would be no calculation of net income
C. purpose is to provide services to its constituents
D. purpose is to seek profits.
E. all of the above

42. The number of days between when the employees and suppliers provide goods and services and when the firm pays cash to those employees and suppliers is called the _____ period.
A. financing
B. grace
C. float
D. funds flow
E. cash disbursement

43. The _____ shows assets, liabilities and shareholders' equity as of a specific date, similar to a snapshot.
A. balance sheet
B. income statement
C. statement of cash flows
D. statement of sources and uses of funds
E. statement of cash receipts and disbursements

44. The _____ report changes in assets and liabilities over a period of time, similar to a motion picture.
A. balance sheet and income statement
B. income statement and statement of cash flows
C. balance sheet and statement of cash flows
D. statement of cash flows and funds flow statement
E. balance sheet and statement of cash receipts and disbursements

45. _____ represent amounts owed by customers for goods and services they have already received. The customer, therefore, has the benefit of the goods and services before it pays cash.
A. Accounts Payable
B. Accounts Receivable
C. Notes Receivable
D. Notes Payable
E. Uncollected Sales

46. Investments in long-lived assets, with useful lives (or service lives) that can extend for several or many years such as land, buildings, and equipment represent _____ capital.
A. sunk
B. hard
C. physical
D. intangible
E. soft

47. A _____ year ends on a date that is determined by the firm, perhaps based on its business model (for example, many retailers choose the end of January).
A. physical
B. natural
C. fiscal
D. business cycle
E. normal

48. Most firms report the amounts in their financial statements using _____.
A. Euro's
B. United States Dollars
C. Japanese Yen
D. currency of the country where they are incorporated and conduct most of their business activities
E. Swiss Francs

49. A _____ item is expected to result in a cash receipt or a cash payment within approximately one year or less.
A. illiquid
B. long-term
C. current
D. noncurrent
E. liquid

50. A(n) _____ item is expected to generate cash over periods longer than a year or use cash over periods longer than a year.
A. illiquid
B. appropriated
C. liquid
D. current
E. noncurrent

51. _____ are the amounts at which items entered the firm's balance sheet and reflect economic conditions at the time the firm obtained assets or obtained financing.
A. Past amounts
B. Present amounts
C. Valuation amounts
D. Historical amounts
E. Current amounts

52. _____ reflect values at the balance sheet date, so they reflect that day's economic conditions.
A. Historical amounts
B. Current amounts
C. Present amounts
D. Liquidation amounts
E. Discounted cash flow amounts

53. An income statement connects two successive _____ through its effect on retained earnings.
A. balance sheets
B. cash flow statements
C. cash receipts and disbursement statements
D. funds flow statements
E. financing statements

54. Net income that is **not** paid to shareholders as dividends increases _____.
A. cash receipts
B. retained earnings
C. cash disbursements
D. long-term liabilities
E. current liabilities

55. A _____ connects two successive balance sheets because it explains the change in cash from operating, financing, and investing activities.
A. statement of cash receipts and disbursements
B. income statement
C. funds flow statement
D. statement of cash flows
E. statement of retained earnings

56. The _____ shows the relation between net income and cash flows from operations, and changes in assets and liabilities that involve cash flows.
A. balance sheet
B. statement of cash flows
C. income statement
D. funds flow statement
E. cash receipts and cash disbursement statement

57. Revenues are:
A. cash payments from customers.
B. outflows of assets to customers.
C. cash receipts from customers.
D. inflows of assets from customers.
E. sensitive to the timing of cash receipts from customers.

58. Expenses are:
A. inflows of assets from customers.
B. cash receipts from customers.
C. outflows of assets from generating revenues.
D. cash payments.
E. sensitive to the timing of expenditures.

59. The balance sheet of Allhear, a communications firm, for the year ended December 31, 20x1, showed current assets of $20 million, current liabilities of $16 million, shareholders' equity of $17 million, and noncurrent assets of $29 million.

Compute the amount of noncurrent liabilities on Allhear's balance sheet at the end of 20x1.
A. $5 million
B. $10 million
C. $12 million
D. $13 million
E. $16 million

60. The balance sheet of Old Gold Mines, a gold mining company, for the year ended June 30, 20x1, showed current assets of $6 million, noncurrent assets of $49 million, noncurrent liabilities of $14 million, and current liabilities of $4 million. Compute the amount of shareholders' equity on Old Gold Mines' balance sheet at the end of 20x1.
A. $14 million
B. $27 million
C. $33 million
D. $37 million
E. $41 million

61. The income statement of Ride-on Motors, an automotive manufacturer, for the year ended December 31, 20x1, reported revenues $7,400 million and cost of sales of $6,000 million. In addition, it reported other operating expenses of $900 million, a loss of $2 million on the sale of a business, and net financing income of $200 million. Tax expense for the year was $100 million. Compute the amount of net income or loss that Ride-on Motors reported for 20x1.
A. net income of $198 million
B. net income of $698 million
C. net loss of $698 million
D. net income of $598 million
E. net loss of 598 million

62. The income statement of Peoples Motors Corporation, a U.S. automotive manufacturer, for the year ended December 31, 20x1, reported revenues of $207,000, cost of sales of $165,000, other operating expenses, including income taxes of $50,000, and net financing income, after taxes, of $6,000. Compute the amount of net income or loss that Peoples Motors reported for 20x1.
A. net income of $0
B. net income of $2,000
C. net loss of $2,000
D. net income of $8,000
E. net loss of $8,000

63. The balance sheet of Old Gold Mines for the year ended June 30, 20x2, showed a balance in retained earnings of $6,000 million at the end of 20x2 and $4,600 million at the end of 20x1. Net income for 20x2 was $2,400, million. Compute the amount of dividends Old Gold Mines declared during 20x2.
A. $500 million
B. $1,000 million
C. $1,500 million
D. $2,000 million
E. $2,500 million

64. The balance sheet of Copper Industries, a producer of copper, showed retained earnings of $26,000 million at March 31, 20x1. At March 31, 20x2, the balance in retained earnings was $70,500 million . Copper declared dividends during the year ended March 31, 20x2, of $3,500 million. Compute Copper's net income for the year ended March 31, 20x2 (fiscal 20x1).
A. $41.000 million
B. $44.500 million
C. $48.000 million
D. $53.500 million
E. $58.000 million

65. The statement of cash flows for Goal Corporation, a U.S. retailer, for the year ended February 2, 20x2 (fiscal 20x1), showed a net cash inflow from operations of $4,100 million, a net cash outflow for investing of $6,200 million, and a net cash inflow for financing of $3,700 million. The balance sheet at February 3, 20x1, showed a balance in cash of $800 million. Compute the amount of cash on the balance sheet at February 2, 20x2.
A. $800 million.
B. $1,600 million.
C. $2,400 million.
D. $3,200 million.
E. $4,700 million.

66. The statement of cash flows for Lights-On, a leading electric utility for the year ended December 31, 20x2, showed a net cash inflow from operations of $427,000 million and a net cash outflow for financing of $21,800 million. The comparative balance sheets showed a balance in cash of $32,700 at December 31, 20x1, and $101,200 at December 31, 20x2. Compute the net amount of cash provided or used by Lights-On's investing activities for 20x2.
A. $68,500 million provided
B. $271,300 million used
C. $372,500 million provided
D. $336,700 million used
E. $236,700 million used

67. In the United States, regulatory requirements applicable to publicly traded firms require the inclusion of a(n) _____, in which management discusses operating results, liquidity (sources and uses of cash), capital resources, and reasons for changes in profitability and risk during the past year.
A. Balance sheet or statement of financial position
B. Management's Discussion and Analysis
C. Income statement or statement of profit and loss
D. Statement of cash flows.
E. Statement of shareholders' equity.

68. _____ are economic resources with the potential to provide future economic benefits to a firm.
A. Revenues
B. Expenses
C. Liabilities
D. Assets
E. Shareholder Equity

69. _____ are creditors' claims for funds, usually because they have provided funds, or goods and services, to the firm.
A. Revenues
B. Expenses
C. Liabilities
D. Assets
E. Shareholder Equity

70. _____ measure the inflows of assets (or reductions in liabilities) from selling goods and providing services to customers.
A. Revenues
B. Expenses
C. Cash inflows
D. Cash-outflows
E. Shareholder equity

71. _____ measure the outflow of assets (or increases in liabilities) used in generating revenues.
A. Revenues
B. Expenses
C. Cash inflows
D. Cash-outflows
E. Shareholder equity

72. The income statement and statement of cash flows provide information about the _____, respectively, of a firm during a period.
A. asset and equity position at a moment in time and profitability
B. asset and equity position at a moment in time and liquidity
C. liquidity and profitability
D. profitability and liquidity
E. none of the above

73. _____ reports information about cash generated from (or used by) operating, investing, and financing activities during specified time periods.
A. Statement of sources and uses of cash
B. Statement of cash flows
C. Statement of cash receipts and disbursements
D. Funds flow statement
E. Balance sheet

74. The financial statements present aggregated information, for example, the total amount of land, buildings, and equipment. Financial reports provide more detail for some of the items reported in the financial statements, and they provide additional explanatory material to help the user to understand the information in the financial statements. This information appears in _____ that are an integral part of the financial reports.
A. management's discussion and analysis
B. external auditors report
C. internal auditors report
D. press releases
E. schedules and notes

75. To increase the margin between selling price and manufacturing cost, a manufacturing company might:
A. negotiate a lower purchase price with suppliers of raw materials.
B. substitute more efficient manufacturing equipment for work now done by employees.
C. increase selling prices.
D. all of the above
E. none of the above

76. What is the best definition of an accounting period?
A. Any 12-month period
B. The calendar year
C. The period between any two balance sheet dates
D. The period in which the major income-producing activity occurs
E. The period between any two income statement dates

77. A natural business year
A. is the calendar year.
B. records activities for a period less than a year.
C. refers to an interim accounting period.
D. ends when most activities in an operating cycle have been substantially concluded.
E. none of the above

78. The _____ is the government agency that enforces the securities laws of the U.S., including those that apply to financial reporting.
A. Government Accountability Office (GAO)
B. Public Company Accounting Oversight Board (PCAOB)
C. International Accounting Standards Board (IASB)
D. Financial Accounting Standards Board (FASB)
E. U.S. Securities and Exchange Commission (SEC)

79. Who evaluates the accounting system, including its ability to record transactions properly and its operational effectiveness, and also determines whether the financial reports prepared conform to the requirements of the applicable authoritative guidance?
A. management
B. general counsel
C. independent auditor
D. financial vice-president
E. controller

80. Who under the oversight of the firm's governing board, prepares the financial statements?
A. independent auditor
B. Securities and Exchange Commission
C. Public Companies Accounting Oversight Board
D. general counsel
E. management

81. Who provides an opinion that reflects their professional conclusions regarding the financial statements and for most publicly traded firms in the U.S. also provides a separate opinion on the effectiveness of the firm's internal controls over financial reporting?
A. management
B. controller
C. financial vice-president
D. independent auditor
E. general counsel

82. The managers of a business prepare financial statements to present meaningful information about that business's activities to external users. Who are the external users?
A. owners
B. lenders
C. regulators
D. tax authorities
E. all of the above

83. Regulatory bodies generally require firms whose securities trade publicly (for example, common shares) to obtain an audit of their financial reports by _____.
A. the audit committee
B. the vice-president for finance
C. an internal auditor.
D. an independent external auditor.
E. the controller

84. An audit by an independent external auditor usually does **not** involve which of the following?
A. an assessment of the capability of a firm’s accounting system to accumulate, measure, and synthesize transactional data properly.
B. an assessment of the operational effectiveness of the accounting system
C. a determination of whether the financial report complies with the requirements of the applicable authoritative guidance
D. an assessment of the operational economy, efficiency, and effectiveness of the company’s operations
E. an assessment of the effectiveness of a firm’s internal control system for financial reporting.

85. FASB board members make standard-setting decisions guided by a conceptual framework that addresses the qualitative characteristics of accounting information. Which of the qualitative characteristics of accounting information holds that the information should be pertinent to the decisions made by users of financial statements, in the sense of having the capacity to affect their resource allocation decisions?
A. Relevance
B. Reliability
C. Comparability.
D. Subjective
E. all of the above

86. FASB board members make standard-setting decisions guided by a conceptual framework that addresses the qualitative characteristics of accounting information. Which of the qualitative characteristics of accounting information holds that the information should represent what it is supposed to represent, in the sense that the information should correspond to the phenomenon being reported, and it should be verifiable and free from bias?
A. Relevance
B. Reliability
C. Comparability.
D. Subjective
E. all of the above

87. FASB board members make standard-setting decisions guided by a conceptual framework that addresses the qualitative characteristics of accounting information. Which of the qualitative characteristics of accounting information holds that the information should facilitate comparisons across firms and over time?
A. Relevance
B. Reliability
C. Comparability.
D. Subjective
E. all of the above

88. Concerns over the quality of financial reporting have led, and continue to lead, to government initiatives in the United States. For example, the _____, among other things, established the Public Company Accounting Oversight Board (PCAOB), which is responsible for monitoring the quality of audits of SEC registrants. This Act requires the PCAOB to register firms conducting independent audits of SEC registrants; establish or adopt acceptable auditing, quality control, and independence standards; and provide for periodic inspections of the registered auditors.
A. Securities and Exchange Act of 1933
B. Securities and Exchange Act of 1934
C. Investment Advisors Act of 1940
D. Sarbanes-Oxley Act of 2002
E. Investment Company Act of 1940

89. _____ items are depicted in words and numbers on the face of the financial statements, with amounts included in the totals.
A. Recognized
B. Realized
C. Actualized
D. Objective
E. Relevant

90. _____ captures the qualitative notion that financial reports need **not** include items that are so small as to be meaningless to users of the reports.
A. Maximization
B. Realization
C. Recognition
D. Materiality
E. Minimization

91. The _____ is the private-sector financial accounting standard setter in the U.S., but has **no** enforcement powers.
A. Financial Accounting Standards Board (FASB)
B. Government Accountability Office (GAO)
C. International Accounting Standards Board (IASB)
D. Public Company Accounting Oversight Board (PCAOB)
E. Accounting Standards Board

92. _____ must be used by U.S. Securities and Exchange Commission (SEC) registrants.
A. U.S. GAAP
B. International Financial Reporting Standards (IFRS)
C. U.S. GAAS
D. International GAAP
E. International GAAS

93. The purpose of the conceptual framework developed by the Financial Accounting Standards Board (FASB) is to guide?
A. alternative rule making decisions
B. enforcement decisions
C. academic research and study
D. Congressional decision-makers
E. standard setting decisions

94. _____ is a private-sector financial accounting standard setter that promulgates accounting standards that are required or permitted to be used in over 100 countries, but has no enforcement powers.
A. Financial Accounting Standards Board (FASB)
B. International Accounting Standards Board (IASB)
C. Public Company Accounting Oversight Board (PCAOB)
D. U.S. Securities and Exchange Commission (SEC)
E. Governmental Accountability Office (GAO)

95. As of 2011, the _____ is an independent accounting standard-setting entity with 15 voting members from a number of countries.
A. Public Companies Accounting Oversight Board (PCAOB)
B. International Accounting Standards Board (IASB)
C. American Institute of Certified Public Accountants (AICPA)
D. World Institute of Certified Public Accountants (WICPA)
E. International Institute of Certified Public Accountants (IICPA)

96. In 2007 the U.S. SEC adopted new rules that permit _____ that list and trade their securities in the United States to apply IFRS in their financial reports filed with the SEC without any reconciliation to U.S. GAAP.
A. U.S. SEC registrants
B. non-U.S. SEC registrants
C. EU SEC registrants
D. Chinese SEC registrants
E. all of the above

97. Which of the following is true?
A. A firm without sufficient cash will not survive.
B. A firm operating profitably will always survive.
C. Examining the cash receipts and disbursements during each month can identify the reasons for any deterioration of the cash balance.
D. a and c
E. all of the above

98. To reduce the lag on collection of accounts receivable, a company might
A. offer a discount if customers pay quickly.
B. charge interest if customers delay payment.
C. use the accounts receivable as a basis for external financing.
D. sell only for cash.
E. all of the above

99. To increase cash flow, a manufacturer might:
A. delay paying its suppliers.
B. borrow from a bank using the inventory as collateral.
C. institute a just-in-time inventory system.
D. all of the above
E. none of the above

100. _____ refers to converting a noncash item to cash, for example, collecting an account receivable.
A. Actualization
B. Recognition
C. Realization
D. Materialization
E. Transformation

101. The cash basis of accounting, as a basis for measuring performance for a particular accounting period, has/have which of the following weakness(es)?
A. does not adequately match the cost of the efforts required to generate inflows with the inflows themselves
B. separates the recognition of revenue from the process of earning those revenues.
C. sensitive to the timing of cash expenditures
D. all of the above
E. none of the above

102. The _____ basis of accounting typically recognizes revenue when a firm sells goods (manufacturing and retailing firms) or renders services (service firms), and recognizes expenses in the period when the firm recognizes the revenues that the costs helped produce.
A. cash
B. accrual
C. funds flow
D. tax
E. none of the above

103. The _____ matches revenues with the costs associated with earning those revenues and is **not** sensitive to the timing of expenditures.
A. tax basis of accounting
B. modified accrual basis of accounting
C. cash basis of accounting
D. accrual basis of accounting
E. present value basis of accounting

104. Broke Inc is experiencing a cash flow problem finding that its cash decreases, even though net income increases. Which of the following is/are a possible reason(s)?
A. Lag between cash expenditures incurred in producing goods and cash collections from customers once the firm sells those goods.
B. The firm must generally produce more units than it sells during a period of growth if it is to have sufficient quantities of inventory on hand for future sales.
C. Cash needed for a higher level of production exceeds the cash received from the prior period's sale.
D. all of the above
E. none of the above

105. The accrual basis of accounting is often contrasted with the cash basis of accounting. Which of the following is/are true of the cash basis of accounting?
A. The cash basis is not subject to manipulation.
B. Most larger companies use the cash basis of accounting.
C. The cash basis of accounting provides a strong basis to determine the total assets of the company.
D. The cash basis provides an inferior picture of operating performance.
E. All of the above are true.

106. The intermingling of performance of one period with that of preceding or succeeding periods is characteristic of which basis of accounting?

	Cash basis	Accrual basis
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

107. Education Power is a charitable organization that promotes educational opportunities for inner city children and adults. Describe how the four common key activities would differ for this organization as opposed to a for-profit business entity.

108. Selected balance sheet amounts for Puff Group International Limited, a diversified electronics firm, appears next, as of December 31, 2014, and December 31, 2013. Compute the missing amounts for the two years.

	December 31	
	2014	2013
Total Assets	$200,000	?
Noncurrent Liabilities	10,000	?
Noncurrent Assets	?	$ 18,000
Total Liabilities and Shareholders’ Equity	?	?
Current Liabilities	140,000	127,000
Shareholders’ Equity	?	54,000
Total Liabilities	?	?
Current Assets	170,000	170,000

109. Use the abbreviations below to classify the following balance sheet items.

CA - Current assets
NA - Noncurrent assets
CL - Current liabilities
NL - Noncurrent liabilities
SE - Shareholders' equity
X - Item generally not appearing on a balance sheet

Balance Sheet Items Example Corporation, Inc. January 1, Year 1

a.	________	Accounts payable
b.	________	Accounts receivable
c.	________	Bank loan payable, due April 5, Year 2
d.	________	Bonds payable, due Year 17
e.	________	Building, net of accumulated depreciation
f.	________	Supplies inventory
g.	________	Commissions paid to sales staff
h.	________	Common stock
i.	________	Equipment, net of accumulated depreciation
j.	________	Income taxes expense
k.	________	Land
l.	________	Merchandise inventory
m.	________	Note payable, due in March, Year 1
n.	________	Note receivable, due June 1, Year 2
o.	________	Note receivable, due December 2, Year 10
p.	________	Retained earnings
q.	________	Salaries expense

110. Compute the missing balance sheet amounts in each of the three independent cases that follow:

	CASE A	*CASE B*	*CASE C*
Noncurrent assets	$460,000	$ 90,000	$280,000
Shareholders' equity	**A**	870,000	340,000
Total assets	**B**	**E**	500,000
Current liabilities	270,000	20,000	**I**
Current assets	250,000	**F**	**J**
Noncurrent liabilities	100,000	**G**	**K**
Total liabilities and shareholders' equity	**C**	990,000	**L**
Current assets minus current liabilities	**D**	**H**	200,000

111. Use the abbreviations below to classify the following income statement items.

R	Revenues
E	Expenses
X	Item generally not appearing on an income statement

Income Statement Items Example Corporation, Inc. For the year ended December 31, Year 1

a.	__________	Accounts payable
b.	__________	Sales
c.	__________	Dividends paid
d.	__________	Cost of goods sold
e.	__________	Cash from operating activities
f.	__________	Supplies inventory
g.	__________	Commissions earned by sales staff
h.	__________	Common stock
i.	__________	Yearly depreciation on equipment
j.	__________	Administrative office space rent on a month-to-month lease
k.	__________	Sales from services
l.	__________	Sales from products
m.	__________	Note payable, due in March, Year 1
n.	__________	Note receivable, due June 1, Year 2
o.	__________	Acquisition of common stock
p.	__________	Retained earnings
q.	__________	Officer salaries

112. Compute the missing amounts affecting the net income for Year 1 in each of the five independent cases that follow. Amounts shown are in thousands.

	CASE A	*CASE B*	*CASE C*	*CASE D*	*CASE E*
Sales revenue	$650	**B**	$400	$800	$390
Cost of goods sold	300	$110	**C**	400	200
Selling and administrative expenses	150	150	120	65	**E**
Income tax expense	56	30	55	**D**	0
Net income	**A**	10	75	235	(15)

113. Compute the missing amount affecting retained earnings for Year 2 in each of the five independent cases that follow. Amounts shown are in millions.

	CASE A	CASE B	CASE C	CASE D	CASE E
Retained earnings, Dec. 31, Year 1	$95	**B**	$75	$ 87	$175
Net income	30	$450	45	**D**	(50)
Dividends declared and paid	10	120	**C**	35	**E**
Retained earnings, Dec. 31, Year 2	**A**	670	60	105	75

114. Accountants classify various items on the balance sheet or the income statement in one of the following ways:

CA	- Current assets
NA	- Noncurrent assets
CL	- Current liabilities
NL	- Noncurrent liabilities
CC	- Contributed capital
RE	- Retained earnings
IS	- Income statement item (revenue or expense)
X	- Item generally not appearing on a balance sheet

Using the abbreviations above, indicate the classification of each of the following items:

a.	__________	Factory
b.	__________	Note payable, due in 7 years
c.	__________	Interest revenue
d.	__________	Common stock issued by the corporation
e.	__________	Trucks used for deliveries
f.	__________	Cash on hand
g.	__________	Unsettled damage suit against the corporation, probability and amount of settlement uncertain
h.	__________	Commissions earned by the sales staff
i.	__________	Employee taxes payable

115. Compute the missing amounts affecting the change in cash for Year 1 in each of the 5 independent cases that follow. Amounts are in thousands.

	CASE A	*CASE B*	*CASE C*	*CASE D*	*CASE E*
INFLOWS OF CASH:					
Operations	$600	$450	$650	$(390)	**E**
New financing	200	120	**C**	400	$400
Sale of noncurrent assets	190	50	0	160	50
OUTFLOWS OF CASH:					
Dividends	150	150	300	0	175
Reduction in financing	110	0	100	70	75
Acquisition of noncurrent assets	650	**B**	900	180	200
Change in cash	**A**	50	(60)	**D**	100

116. Determine the missing amount "X" for each of the following:

Assets	Liabilities	Shareholders' Equity
a. $85,700	$40,000	X
b. X	$66,570	$145,000
c. $57,900	X	$34,000

117. Compute the missing information in each of the four independent cases below. The letters in parentheses refer to the following:

BS - Balance sheet
IS - Income statement
SCF - Statement of cash flows

a.	Accounts Receivable, Jan. 1, Year 2 (BS)	$ 500
	Sales on Account for Year 2 (IS)	1900
	Collections from Customers on Account during Year 2 (SCF)	1,350
	Accounts Receivable, Dec. 31, Year 2 (BS)	-?-
b.	Salaries Payable, Jan. 1, Year 2 (BS)	$ 175
	Salary Expense for Year 2	-?-
	Payments to Salaried Employees during Year 2 (SCF)	725
	Salaries Payable, Dec. 31, Year 2 (BS)	100
c.	Equipment (net of depreciation), Jan. 1, Year 2(BS)	$ 900
	Depreciation Expense for Year 2 (IS)	-?-
	Sales of Equipment during Year 2 (SCF)	-0-
	Acquisition of Equipment during Year 2 (SCF)	330
	Equipment (net of depreciation), Dec. 31, Year 2 (BS)	910
d.	Retained Earnings, Jan. 1, Year 2 (BS)	$1,550
	Net Income for Year 2 (IS)	400
	Dividends Declared and Paid during Year 2 (SCF)	-?-
	Retained Earnings, Dec. 31, Year 2 (BS)	1,350

118. (CMA adapted, Jun 94 #6) Accounting systems vary widely from one business to another, depending on the size of the firm, the volume of data to be handled, and the nature of the business. An accounting system should provide information for management decision-making and generate reports on the enterprise's financial condition and operations. The accounting profession relies on general-purpose financial statements to provide information to users; the intent of these general-purpose statements is to provide the most useful information possible to diverse user groups at minimal cost. The principal financial statements used for public reporting purposes are the statement of earnings (income statement), statement of financial position (balance sheet), and statement of cash flows.

Required:

a. Financial statements should provide information that is useful to users. Describe the level of sophistication expected of the external users of financial statements.

b. For each of the financial statements listed below, define its purpose and briefly explain how it meets the needs of external users.

1. Statement of earnings.
2. Statement of financial position.
3. Statement of cash flows.

c. Footnotes and responsibility for the financial statements

1. Explain the role of the notes to the financial statements.
2. Explain management's responsibility for the financial statements.
3. Explain the auditor's responsibility for the financial statements.

119. Here is data from Cellular Communications, Inc.

	December 31	
BALANCE SHEET ITEMS	***Year 7***	***Year 6***
Accounts Payable	$ 5,219	$ 7,873
Accounts Receivable	58,363	48,645
Bonds Payable (due Year 20)	10,313	4,602
Cash	821	668
Common Stock	560	540
Income Taxes Payable	414	580
Inventories	33,305	30,752
Other Current Assets	2,681	742
Other Current Liabilities	185	1,115
Other Noncurrent Assets	90	152
Property, Plant, and Equipment	21,881	15,972
Retained Earnings	99,969	81,627
Salaries Payable	481	594

INCOME STATEMENT ITEMS	***Year 7***
Administrative Expense	$ 20,588
Cost of Goods Sold	246,864
Income Tax Expense	7,267
Interest Expense	1,803
Sales Revenue	361,026
Salary and Wage Expense	21,367
Selling Expense	44,795

Required:

a. Prepare a comparative balance sheet for Cellular Communications Inc. as of December 31, Year 6 and Year 7. Classify each balance sheet item into one of the following categories: current assets, noncurrent assets, current liabilities, noncurrent liabilities, and shareholders' equity.

b. Prepare an income statement for Cellular Communications Inc. for Year 7.

c. Prepare a schedule explaining the change in retained earnings between the beginning and the end of Year 7.

d. Compare the amounts on Cellular Communications Inc. balance sheet on December 31, Year 6, and December 31, Year 7. Identify the major changes and suggest possible explanations for the changes.

120. Presented below are several statement regarding the roles of participants in the financial reporting process. Identify these as either true or false. If false, explain why the statement is false.

1. Auditors are the agents of the shareholders and have responsibility for safeguarding and properly using the firm's resources.

2. The Sarbanes-Oxley Act of 2002 established the Public Company Accounting Oversight Board (PCAOB), which is responsible for monitoring the quality of audits of SEC registrants.

3. The Sarbanes-Oxley Act of 2002 requires the AICPA to register firms conducting independent audits.

4. The FASB is an agency of the federal government that has the authority to establish accounting standards.

5. The governing board, or board of directors, is responsible for selecting, compensating, and overseeing managers; for establishing dividend policy; and for making decisions on major issues such as acquisitions of other firms and divestitures of lines of business.

121. The balance sheet of Parler, a European Union communications firm, shows current assets of €21,000 million, current liabilities of €16,849 million, shareholders' equity of €17,654 million, and noncurrent assets of €30,402 million. What is the amount of noncurrent liabilities on Parler's balance sheet?

122. Maeve Irwin is the CEO of Maeve's Spa. At the end of its accounting period, December 31, 2013, Maeve's Spa has assets of £450,000 and liabilities of £125,000. Using the equation that holds for equality of assets to liabilties and shareholders' equity, determine the following amounts:

a) Shareholders' Equity as of December 31, 2013.
b) Shareholders' Equity as of December 31, 2014, assuming that assets increased by £65,000 and liabilities increased by £35,000 during 2014£.

123. Hemd Company has liabilities equal to one fourth of the total assets. Hemd's shareholders'equity is €60,000. Using the accounting equation, what is the amount of liabilities for Hemd?

124. The following information is based on the financial statements of Hadley Company, a large manufacturer. Annual revenues are $65,387 million and net expenses (including income taxes) are $62,313 million. During the year, the firm collected $64,995 million in cash from customers and had cash outflows associated with payments to suppliers and vendors of $56,411 million.

REQUIRED:
a. Calculate net income and net cash flow for the year.
b. How can cash collected from customers be less than revenues?
c. How can cash payments to suppliers and vendors be less than expenses?

125. The following information is reported by ComCo, a Singapore company; all figures are in millions of Singapore dollars ($). The firm reported revenues of $15,882, cost of goods sold of $13,671, interest and other expenses of $2,113, and tax expense of $67. It also reported $14,894 in cash receipts from customers, $102 in miscellaneous cash receipts, $6,447 in cash payments to employees and creditors, $6,861 in cash payments for milk, $402 in cash payments for interest, and $64 in cash payments for taxes.

Required:
1. Calculate net income and its net cash flow.
2. Explain why ComCo's net income is so much different than its net cash flow.

126. Describe some of the factors that would affect a firm's goals and strategies.

127. Understanding financial reports requires an understanding of the activities of the business. Describe at least four investing activities that firms use to obtain the productive capacity to carry out its business activities.

128. Understanding financial reports requires an understanding of the activities of the business. Describe at least three operating activities that firms use to generate earnings.

129. Briefly list and describe the principal financial statements.

130. Explain the roles, duties, and responsibilities of managers and governing boards of reporting entities.

131. FASB board members make standard-setting decisions guided by a conceptual framework
that addresses the objectives of financial reporting and qualitative characteristics of accounting information..
Briefly describe the objectives of financial reporting and qualitative characteristics of accounting information

132. Discuss internal and external users of accounting information. What areas of accounting provide them with information? Give an example of the type of report each type of user might use.

133. What are the roles, duties, and responsibilities of the independent auditor?

134. Who are the users of financial statements and what do they need?

135. What is US GAAP?

136. Concerns over the quality of financial reporting have led, and continue to lead, to government initiatives in the United States including, the Sarbanes-Oxley Act of 2002. Briefly describe the Sarbanes-Oxley Act of 2002.

137. Briefly describe the International Accounting Standards Board (IASB) and who can use IFRS in the United States?

138. As a basis for measuring performance for a particular accounting period, the cash basis of accounting has three weaknesses. Briefly describe the three weaknesses.

139. Describe the accrual basis of accounting.

Chapter 1: Introduction to Business Activities and Overview of Financial Statements and the Reporting Process Key

1. The activities of a business include establishing goals and strategies, obtaining financing, making investments and conducting operations.
TRUE

2. Goals are the end results toward which the firm directs its energies, and strategies are the means for achieving those results.
TRUE

3. Each firm makes financing decisions about the proportion of funds to obtain from owners, long-term creditors, and short-term creditors.
TRUE

4. A firm makes investments to obtain productive capacity to carry out its business activities.
TRUE

5. Patents, licenses, and other contractual rights are tangible, in the sense that the rights have a physical existence.
FALSE

6. Firms communicate the results of their business activities in the annual report to shareholders.
TRUE

7. Assets are economic resources with the potential to provide future economic benefits to a firm.
TRUE

8. Liabilities are creditors' claims for funds, usually because they have provided funds, or goods and services, to the firm.
TRUE

9. Retained earnings represent the net assets (total assets - total liabilities) a firm derives from its earnings that exceed the dividends.
FALSE

10. The amounts of individual assets that make up total assets, represented by accounts receivable, inventories, equipment, and other assets, reflect a firm's financing decisions, each measured at the balance sheet date.
FALSE

11. The mix of liabilities plus shareholders' equity reflects a firm's investing decisions, each measured at the balance sheet date.
FALSE

12. Current liabilities represent obligations a firm expects to pay within one year.
TRUE

13. Current assets, typically held and used for several years, include land, buildings, equipment, patents; and long-term investments in securities.
FALSE

14. Current liabilities and shareholders' equity are sources of funds where the supplier of funds does **not** expect to receive them all back within the next year.
FALSE

15. The current replacement cost of an asset is the amount a firm would have to pay to obtain another asset with identical service potential; it is an entry value that reflects economic conditions at the measurement date.
TRUE

16. The same asset can have different measurements for tax purposes, for financial reporting purposes, and for internal managerial decision-making purposes.
TRUE

17. A natural business year ends when most activities in an operating cycle have been substantially concluded.
TRUE

18. The managers of a business prepare financial statements to present meaningful information about that business's activities to external users.
TRUE

19. The independent external auditors of a business prepare financial statements to present meaningful information about that business's activities to external users.
FALSE

20. Management operates the productive capacity of the firm to generate earnings.
TRUE

21. The historical amount reflects the acquisition cost of assets or the amount of funds originally obtained from creditors or owners.
TRUE

22. To assist users of financial reports in making over-time comparisons, both U.S. GAAP and IFRS require firms to include results for multiple reporting periods in each report.
TRUE

23. U.S. GAAP and IFRS contain broad guidance on what the financial statements must contain, but neither completely specifies the level of detail or the names of accounts.
TRUE

24. The cash basis separates the recognition of revenue from the process of earning those revenues.
TRUE

25. The accrual basis does **not** match the cost of the efforts required to generate inflows with the inflows themselves.
FALSE

26. Performance measured using the cash basis is **not** sensitive to the timing of cash expenditures.
FALSE

27. Which of the following is **not** a business activity?
A. Establishing goals and strategies.
B. Obtaining financing.
C. Making investments.
D. Conducting operations.
E. All of these choices are business activities.

28. _____ are the end results toward which the firm directs its energies.
A. Goals
B. Strategies
C. Objectives
D. Activities
E. Milestones

29. _____ are the means for achieving goals.
A. Targets
B. Strategies
C. Objectives
D. Milestones
E. Tasks

30. Management, under the oversight of the firm's governing board (or boards), sets the firm's strategies. Such strategies might include:
A. determining the firm's lines of business.
B. determining the firm's geographic locations.
C. degree to which a given business unit will engage in new product development.
D. all of the above.
E. none of the above.

31. Examples of factors from the operating environment that would affect a firm's goals and strategies include which of the following?
A. goals and strategies of the firm's competitors
B. barriers to entry of the firm's industry, such as patents or large investments in buildings and equipment
C. nature of the demand for the firm's products and services
D. existence and nature of government regulation
E. all of the above

32. To carry out their plans, firms require financing, that is, funds from owners and creditors. Owners provide funds to a firm and in return receive ownership interests. For a corporation, the ownership interests are:
A. Common Stock Shares
B. Corporate Bonds
C. Notes Receivable
D. Notes Payable
E. Certificates of Deposit

33. To carry out their plans, firms require financing, that is, funds from owners and creditors. When the firm raises funds from owners, which of the following is true?
A. There is no obligation to repay these funds.
B. There is an obligation to repay these funds.
C. Firms must distribute cash dividends to that firm's shareholders at least annually.
D. Firm must distribute stock dividends to that firm's shareholders at least annually.
E. None of the above are true.

34. When creditors provide funds to a firm, which of the following is/are true?
A. The firm must repay, usually with interest, in specific amounts at specific dates.
B. Long-term creditors require repayment from the borrower over a period of time that exceeds one year.
C. One common form of long-term financing is bonds.
D. Suppliers of raw materials or merchandise that do not require payment for 30 days provide short-term funds.
E. All of the above are true.

35. A firm makes investments to obtain productive capacity to carry out its business activities. Investing activities involve acquiring all of the following **except**:
A. land, buildings, and equipment.
B. patents, licenses, and other contractual rights.
C. common shares or bonds of other firms.
D. long-term notes receivable of other firms.
E. common shares or bonds of the firm.

36. Management operates the productive capacity of the firm to generate earnings. Operating activities include the following **except** for:
A. Purchasing.
B. Research and development.
C. Marketing and administration.
D. Production.
E. Dividend payments.

37. Firms communicate the results of their business activities in the _____.
A. annual report to shareholders
B. weekly press releases
C. monthly press releases
D. annual press releases
E. annual income tax returns

38. Which of the following is/are true regarding setting goals and strategies for a charitable organization?
A. obtain sufficient resources to fund operations
B. not pursue profits or wealth increases as goals.
C. direct efforts toward providing services to constituencies
D. all of the above are true
E. none of the above are true

39. Which of the following is/are true regarding the financing of a charitable organization?
A. may obtain some or all of its financing from donations (contributions)
B. does not issue common stock or other forms of shareholders' equity
C. does not have retained earnings
D. all of the above are true
E. none of the above are true

40. Which of the following is true regarding the investing activities of charitable organizations?
A. are not similar to business firms
B. acquire productive capacity (for example, buildings) to carry out their activities
C. issue common stock
D. issue bonds
E. issue preferred stock

41. Which of the following is/are **not** true regarding the operations of a charitable organization?
A. might prepare financial statements that compare inflows (for example, contributions) with outflows
B. there would be no calculation of net income
C. purpose is to provide services to its constituents
D. purpose is to seek profits.
E. all of the above

42. The number of days between when the employees and suppliers provide goods and services and when the firm pays cash to those employees and suppliers is called the _____ period.
A. financing
B. grace
C. float
D. funds flow
E. cash disbursement

43. The _____ shows assets, liabilities and shareholders' equity as of a specific date, similar to a snapshot.
A. balance sheet
B. income statement
C. statement of cash flows
D. statement of sources and uses of funds
E. statement of cash receipts and disbursements

44. The _____ report changes in assets and liabilities over a period of time, similar to a motion picture.
A. balance sheet and income statement
B. income statement and statement of cash flows
C. balance sheet and statement of cash flows
D. statement of cash flows and funds flow statement
E. balance sheet and statement of cash receipts and disbursements

45. _____ represent amounts owed by customers for goods and services they have already received. The customer, therefore, has the benefit of the goods and services before it pays cash.
A. Accounts Payable
B. Accounts Receivable
C. Notes Receivable
D. Notes Payable
E. Uncollected Sales

46. Investments in long-lived assets, with useful lives (or service lives) that can extend for several or many years such as land, buildings, and equipment represent _____ capital.
A. sunk
B. hard
C. physical
D. intangible
E. soft

47. A _____ year ends on a date that is determined by the firm, perhaps based on its business model (for example, many retailers choose the end of January).
A. physical
B. natural
C. fiscal
D. business cycle
E. normal

48. Most firms report the amounts in their financial statements using _____.
A. Euro's
B. United States Dollars
C. Japanese Yen
D. currency of the country where they are incorporated and conduct most of their business activities
E. Swiss Francs

49. A _____ item is expected to result in a cash receipt or a cash payment within approximately one year or less.
A. illiquid
B. long-term
C. current
D. noncurrent
E. liquid

50. A(n) _____ item is expected to generate cash over periods longer than a year or use cash over periods longer than a year.
A. illiquid
B. appropriated
C. liquid
D. current
E. noncurrent

51. _____ are the amounts at which items entered the firm's balance sheet and reflect economic conditions at the time the firm obtained assets or obtained financing.
A. Past amounts
B. Present amounts
C. Valuation amounts
D. Historical amounts
E. Current amounts

52. _____ reflect values at the balance sheet date, so they reflect that day's economic conditions.
A. Historical amounts
B. Current amounts
C. Present amounts
D. Liquidation amounts
E. Discounted cash flow amounts

53. An income statement connects two successive _____ through its effect on retained earnings.
A. balance sheets
B. cash flow statements
C. cash receipts and disbursement statements
D. funds flow statements
E. financing statements

54. Net income that is **not** paid to shareholders as dividends increases _____.
A. cash receipts
B. retained earnings
C. cash disbursements
D. long-term liabilities
E. current liabilities

55. A _____ connects two successive balance sheets because it explains the change in cash from operating, financing, and investing activities.
A. statement of cash receipts and disbursements
B. income statement
C. funds flow statement
D. statement of cash flows
E. statement of retained earnings

56. The _____ shows the relation between net income and cash flows from operations, and changes in assets and liabilities that involve cash flows.
A. balance sheet
B. statement of cash flows
C. income statement
D. funds flow statement
E. cash receipts and cash disbursement statement

57. Revenues are:
A. cash payments from customers.
B. outflows of assets to customers.
C. cash receipts from customers.
D. inflows of assets from customers.
E. sensitive to the timing of cash receipts from customers.

58. Expenses are:
A. inflows of assets from customers.
B. cash receipts from customers.
C. outflows of assets from generating revenues.
D. cash payments.
E. sensitive to the timing of expenditures.

59. The balance sheet of Allhear, a communications firm, for the year ended December 31, 20x1, showed current assets of $20 million, current liabilities of $16 million, shareholders' equity of $17 million, and noncurrent assets of $29 million.

Compute the amount of noncurrent liabilities on Allhear's balance sheet at the end of 20x1.
A. $5 million
B. $10 million
C. $12 million
D. $13 million
E. $16 million

60. The balance sheet of Old Gold Mines, a gold mining company, for the year ended June 30, 20x1, showed current assets of $6 million, noncurrent assets of $49 million, noncurrent liabilities of $14 million, and current liabilities of $4 million. Compute the amount of shareholders' equity on Old Gold Mines' balance sheet at the end of 20x1.
A. $14 million
B. $27 million
C. $33 million
D. $37 million
E. $41 million

61. The income statement of Ride-on Motors, an automotive manufacturer, for the year ended December 31, 20x1, reported revenues $7,400 million and cost of sales of $6,000 million. In addition, it reported other operating expenses of $900 million, a loss of $2 million on the sale of a business, and net financing income of $200 million. Tax expense for the year was $100 million. Compute the amount of net income or loss that Ride-on Motors reported for 20x1.
A. net income of $198 million
B. net income of $698 million
C. net loss of $698 million
D. net income of $598 million
E. net loss of 598 million

62. The income statement of Peoples Motors Corporation, a U.S. automotive manufacturer, for the year ended December 31, 20x1, reported revenues of $207,000, cost of sales of $165,000, other operating expenses, including income taxes of $50,000, and net financing income, after taxes, of $6,000. Compute the amount of net income or loss that Peoples Motors reported for 20x1.
A. net income of $0
B. net income of $2,000
C. net loss of $2,000
D. net income of $8,000
E. net loss of $8,000

63. The balance sheet of Old Gold Mines for the year ended June 30, 20x2, showed a balance in retained earnings of $6,000 million at the end of 20x2 and $4,600 million at the end of 20x1. Net income for 20x2 was $2,400, million. Compute the amount of dividends Old Gold Mines declared during 20x2.
A. $500 million
B. $1,000 million
C. $1,500 million
D. $2,000 million
E. $2,500 million

64. The balance sheet of Copper Industries, a producer of copper, showed retained earnings of $26,000 million at March 31, 20x1. At March 31, 20x2, the balance in retained earnings was $70,500 million . Copper declared dividends during the year ended March 31, 20x2, of $3,500 million. Compute Copper's net income for the year ended March 31, 20x2 (fiscal 20x1).
A. $41.000 million
B. $44.500 million
C. $48.000 million
D. $53.500 million
E. $58.000 million

65. The statement of cash flows for Goal Corporation, a U.S. retailer, for the year ended February 2, 20x2 (fiscal 20x1), showed a net cash inflow from operations of $4,100 million, a net cash outflow for investing of $6,200 million, and a net cash inflow for financing of $3,700 million. The balance sheet at February 3, 20x1, showed a balance in cash of $800 million. Compute the amount of cash on the balance sheet at February 2, 20x2.
A. $800 million.
B. $1,600 million.
C. $2,400 million.
D. $3,200 million.
E. $4,700 million.

66. The statement of cash flows for Lights-On, a leading electric utility for the year ended December 31, 20x2, showed a net cash inflow from operations of $427,000 million and a net cash outflow for financing of $21,800 million. The comparative balance sheets showed a balance in cash of $32,700 at December 31, 20x1, and $101,200 at December 31, 20x2. Compute the net amount of cash provided or used by Lights-On's investing activities for 20x2.
A. $68,500 million provided
B. $271,300 million used
C. $372,500 million provided
D. $336,700 million used
E. $236,700 million used

67. In the United States, regulatory requirements applicable to publicly traded firms require the inclusion of a(n) _____, in which management discusses operating results, liquidity (sources and uses of cash), capital resources, and reasons for changes in profitability and risk during the past year.
A. Balance sheet or statement of financial position
B. Management's Discussion and Analysis
C. Income statement or statement of profit and loss
D. Statement of cash flows.
E. Statement of shareholders' equity.

68. _____ are economic resources with the potential to provide future economic benefits to a firm.
A. Revenues
B. Expenses
C. Liabilities
D. Assets
E. Shareholder Equity

69. _____ are creditors' claims for funds, usually because they have provided funds, or goods and services, to the firm.
A. Revenues
B. Expenses
C. Liabilities
D. Assets
E. Shareholder Equity

70. _____ measure the inflows of assets (or reductions in liabilities) from selling goods and providing services to customers.
A. Revenues
B. Expenses
C. Cash inflows
D. Cash-outflows
E. Shareholder equity

71. _____ measure the outflow of assets (or increases in liabilities) used in generating revenues.
A. Revenues
B. Expenses
C. Cash inflows
D. Cash-outflows
E. Shareholder equity

72. The income statement and statement of cash flows provide information about the _____, respectively, of a firm during a period.
A. asset and equity position at a moment in time and profitability
B. asset and equity position at a moment in time and liquidity
C. liquidity and profitability
D. profitability and liquidity
E. none of the above

73. _____ reports information about cash generated from (or used by) operating, investing, and financing activities during specified time periods.
A. Statement of sources and uses of cash
B. Statement of cash flows
C. Statement of cash receipts and disbursements
D. Funds flow statement
E. Balance sheet

74. The financial statements present aggregated information, for example, the total amount of land, buildings, and equipment. Financial reports provide more detail for some of the items reported in the financial statements, and they provide additional explanatory material to help the user to understand the information in the financial statements. This information appears in _____ that are an integral part of the financial reports.
A. management's discussion and analysis
B. external auditors report
C. internal auditors report
D. press releases
E. schedules and notes

75. To increase the margin between selling price and manufacturing cost, a manufacturing company might:
A. negotiate a lower purchase price with suppliers of raw materials.
B. substitute more efficient manufacturing equipment for work now done by employees.
C. increase selling prices.
D. all of the above
E. none of the above

76. What is the best definition of an accounting period?
A. Any 12-month period
B. The calendar year
C. The period between any two balance sheet dates
D. The period in which the major income-producing activity occurs
E. The period between any two income statement dates

77. A natural business year
A. is the calendar year.
B. records activities for a period less than a year.
C. refers to an interim accounting period.
D. ends when most activities in an operating cycle have been substantially concluded.
E. none of the above

78. The _____ is the government agency that enforces the securities laws of the U.S., including those that apply to financial reporting.
A. Government Accountability Office (GAO)
B. Public Company Accounting Oversight Board (PCAOB)
C. International Accounting Standards Board (IASB)
D. Financial Accounting Standards Board (FASB)
E. U.S. Securities and Exchange Commission (SEC)

79. Who evaluates the accounting system, including its ability to record transactions properly and its operational effectiveness, and also determines whether the financial reports prepared conform to the requirements of the applicable authoritative guidance?
A. management
B. general counsel
C. independent auditor
D. financial vice-president
E. controller

80. Who under the oversight of the firm's governing board, prepares the financial statements?
A. independent auditor
B. Securities and Exchange Commission
C. Public Companies Accounting Oversight Board
D. general counsel
E. management

81. Who provides an opinion that reflects their professional conclusions regarding the financial statements and for most publicly traded firms in the U.S. also provides a separate opinion on the effectiveness of the firm's internal controls over financial reporting?
A. management
B. controller
C. financial vice-president
D. independent auditor
E. general counsel

82. The managers of a business prepare financial statements to present meaningful information about that business's activities to external users. Who are the external users?
A. owners
B. lenders
C. regulators
D. tax authorities
E. all of the above

83. Regulatory bodies generally require firms whose securities trade publicly (for example, common shares) to obtain an audit of their financial reports by _____.
A. the audit committee
B. the vice-president for finance
C. an internal auditor.
D. an independent external auditor.
E. the controller

84. An audit by an independent external auditor usually does **not** involve which of the following?
A. an assessment of the capability of a firm's accounting system to accumulate, measure, and synthesize transactional data properly.
B. an assessment of the operational effectiveness of the accounting system
C. a determination of whether the financial report complies with the requirements of the applicable authoritative guidance
D. an assessment of the operational economy, efficiency, and effectiveness of the company's operations
E. an assessment of the effectiveness of a firm's internal control system for financial reporting.

85. FASB board members make standard-setting decisions guided by a conceptual framework that addresses the qualitative characteristics of accounting information. Which of the qualitative characteristics of accounting information holds that the information should be pertinent to the decisions made by users of financial statements, in the sense of having the capacity to affect their resource allocation decisions?
A. Relevance
B. Reliability
C. Comparability.
D. Subjective
E. all of the above

86. FASB board members make standard-setting decisions guided by a conceptual framework that addresses the qualitative characteristics of accounting information. Which of the qualitative characteristics of accounting information holds that the information should represent what it is supposed to represent, in the sense that the information should correspond to the phenomenon being reported, and it should be verifiable and free from bias?
A. Relevance
B. Reliability
C. Comparability.
D. Subjective
E. all of the above

87. FASB board members make standard-setting decisions guided by a conceptual framework that addresses the qualitative characteristics of accounting information. Which of the qualitative characteristics of accounting information holds that the information should facilitate comparisons across firms and over time?
A. Relevance
B. Reliability
C. Comparability.
D. Subjective
E. all of the above

88. Concerns over the quality of financial reporting have led, and continue to lead, to government initiatives in the United States. For example, the _____, among other things, established the Public Company Accounting Oversight Board (PCAOB), which is responsible for monitoring the quality of audits of SEC registrants. This Act requires the PCAOB to register firms conducting independent audits of SEC registrants; establish or adopt acceptable auditing, quality control, and independence standards; and provide for periodic inspections of the registered auditors.
A. Securities and Exchange Act of 1933
B. Securities and Exchange Act of 1934
C. Investment Advisors Act of 1940
D. Sarbanes-Oxley Act of 2002
E. Investment Company Act of 1940

89. _____ items are depicted in words and numbers on the face of the financial statements, with amounts included in the totals.
A. Recognized
B. Realized
C. Actualized
D. Objective
E. Relevant

90. _____ captures the qualitative notion that financial reports need **not** include items that are so small as to be meaningless to users of the reports.
A. Maximization
B. Realization
C. Recognition
D. Materiality
E. Minimization

91. The _____ is the private-sector financial accounting standard setter in the U.S., but has **no** enforcement powers.
A. Financial Accounting Standards Board (FASB)
B. Government Accountability Office (GAO)
C. International Accounting Standards Board (IASB)
D. Public Company Accounting Oversight Board (PCAOB)
E. Accounting Standards Board

92. _____ must be used by U.S. Securities and Exchange Commission (SEC) registrants.
A. U.S. GAAP
B. International Financial Reporting Standards (IFRS)
C. U.S. GAAS
D. International GAAP
E. International GAAS

93. The purpose of the conceptual framework developed by the Financial Accounting Standards Board (FASB) is to guide?
A. alternative rule making decisions
B. enforcement decisions
C. academic research and study
D. Congressional decision-makers
<u>E.</u> standard setting decisions

94. _____ is a private-sector financial accounting standard setter that promulgates accounting standards that are required or permitted to be used in over 100 countries, but has no enforcement powers.
A. Financial Accounting Standards Board (FASB)
<u>B.</u> International Accounting Standards Board (IASB)
C. Public Company Accounting Oversight Board (PCAOB)
D. U.S. Securities and Exchange Commission (SEC)
E. Governmental Accountability Office (GAO)

95. As of 2011, the _____ is an independent accounting standard-setting entity with 15 voting members from a number of countries.
A. Public Companies Accounting Oversight Board (PCAOB)
<u>B.</u> International Accounting Standards Board (IASB)
C. American Institute of Certified Public Accountants (AICPA)
D. World Institute of Certified Public Accountants (WICPA)
E. International Institute of Certified Public Accountants (IICPA)

96. In 2007 the U.S. SEC adopted new rules that permit _____ that list and trade their securities in the United States to apply IFRS in their financial reports filed with the SEC without any reconciliation to U.S. GAAP.
A. U.S. SEC registrants
<u>B.</u> non-U.S. SEC registrants
C. EU SEC registrants
D. Chinese SEC registrants
E. all of the above

97. Which of the following is true?
A. A firm without sufficient cash will not survive.
B. A firm operating profitably will always survive.
C. Examining the cash receipts and disbursements during each month can identify the reasons for any deterioration of the cash balance.
<u>D.</u> a and c
E. all of the above

98. To reduce the lag on collection of accounts receivable, a company might
A. offer a discount if customers pay quickly.
B. charge interest if customers delay payment.
C. use the accounts receivable as a basis for external financing.
D. sell only for cash.
E. all of the above

99. To increase cash flow, a manufacturer might:
A. delay paying its suppliers.
B. borrow from a bank using the inventory as collateral.
C. institute a just-in-time inventory system.
D. all of the above
E. none of the above

100. _____ refers to converting a noncash item to cash, for example, collecting an account receivable.
A. Actualization
B. Recognition
C. Realization
D. Materialization
E. Transformation

101. The cash basis of accounting, as a basis for measuring performance for a particular accounting period, has/have which of the following weakness(es)?
A. does not adequately match the cost of the efforts required to generate inflows with the inflows themselves
B. separates the recognition of revenue from the process of earning those revenues.
C. sensitive to the timing of cash expenditures
D. all of the above
E. none of the above

102. The _____ basis of accounting typically recognizes revenue when a firm sells goods (manufacturing and retailing firms) or renders services (service firms), and recognizes expenses in the period when the firm recognizes the revenues that the costs helped produce.
A. cash
B. accrual
C. funds flow
D. tax
E. none of the above

103. The _____ matches revenues with the costs associated with earning those revenues and is **not** sensitive to the timing of expenditures.
A. tax basis of accounting
B. modified accrual basis of accounting
C. cash basis of accounting
D. accrual basis of accounting
E. present value basis of accounting

104. Broke Inc is experiencing a cash flow problem finding that its cash decreases, even though net income increases. Which of the following is/are a possible reason(s)?
A. Lag between cash expenditures incurred in producing goods and cash collections from customers once the firm sells those goods.
B. The firm must generally produce more units than it sells during a period of growth if it is to have sufficient quantities of inventory on hand for future sales.
C. Cash needed for a higher level of production exceeds the cash received from the prior period's sale.
D. all of the above
E. none of the above

105. The accrual basis of accounting is often contrasted with the cash basis of accounting. Which of the following is/are true of the cash basis of accounting?
A. The cash basis is not subject to manipulation.
B. Most larger companies use the cash basis of accounting.
C. The cash basis of accounting provides a strong basis to determine the total assets of the company.
D. The cash basis provides an inferior picture of operating performance.
E. All of the above are true.

106. The intermingling of performance of one period with that of preceding or succeeding periods is characteristic of which basis of accounting?

	Cash basis	Accrual basis
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

107. Education Power is a charitable organization that promotes educational opportunities for inner city children and adults. Describe how the four common key activities would differ for this organization as opposed to a for-profit business entity.

Setting Goals and Strategies: Although a charitable organization must obtain sufficient resources to fund its operations, it would not pursue profits or wealth increases as goals. A charitable organization would direct its efforts toward providing services to its constituencies.

Financing: A charitable organization may obtain some or all of its financing from donations (contributions). A charitable organization does not issue common stock or other forms of shareholders' equity, nor does it have retained earnings.

Investing: Similar to business firms, charitable organizations acquire productive capacity (for example, buildings) to carry out their activities.

Operations: A charitable organization might prepare financial statements that compare inflows (for example, contributions) with outflows. While these statements might appear similar to income statements, there would be no calculation of net income because the purpose of the charitable organization is to provide services to its constituents, not seek profits.

108. Selected balance sheet amounts for Puff Group International Limited, a diversified electronics firm, appears next, as of December 31, 2014, and December 31, 2013. Compute the missing amounts for the two years.

	December 31 2014	2013
Total Assets	$200,000	?
Noncurrent Liabilities	10,000	?
Noncurrent Assets	?	$ 18,000
Total Liabilities and Shareholders' Equity	?	?
Current Liabilities	140,000	127,000
Shareholders' Equity	?	54,000
Total Liabilities	?	?
Current Assets	170,000	170,000

	December 31 2014	2013
Total Assets	$200,000	188,000
Noncurrent Liabilities	10,000	7,000
Noncurrent Assets	30,000	$ 18,000
Total Liabilities and Shareholders' Equity	200,000	188,000
Current Liabilities	140,000	127,000
Shareholders' Equity	50,000	54,000
Total Liabilities	150,000	134,000
Current Assets	170,000	170,000

109. Use the abbreviations below to classify the following balance sheet items.

CA - Current assets
NA - Noncurrent assets
CL - Current liabilities
NL - Noncurrent liabilities
SE - Shareholders' equity
X - Item generally not appearing on a balance sheet

Balance Sheet Items Example Corporation, Inc. January 1, Year 1

a.	__________	Accounts payable
b.	__________	Accounts receivable
c.	__________	Bank loan payable, due April 5, Year 2
d.	__________	Bonds payable, due Year 17
e.	__________	Building, net of accumulated depreciation
f.	__________	Supplies inventory
g.	__________	Commissions paid to sales staff
h.	__________	Common stock
i.	__________	Equipment, net of accumulated depreciation
j.	__________	Income taxes expense
k.	__________	Land
l.	__________	Merchandise inventory
m.	__________	Note payable, due in March, Year 1
n.	__________	Note receivable, due June 1, Year 2
o.	__________	Note receivable, due December 2, Year 10
p.	__________	Retained earnings
q.	__________	Salaries expense

a. CL
b. CA
c. NL
d. NL
e. NA
f. CA
g. X
h. SE
i. NA
j. X
k NA
l. CA
m CL
n.NA
o.NA
p.SE
q.X

110. Compute the missing balance sheet amounts in each of the three independent cases that follow:

	CASE A	*CASE B*	*CASE C*
Noncurrent assets	$460,000	$ 90,000	$280,000
Shareholders' equity	**A**	870,000	340,000
Total assets	**B**	**E**	500,000
Current liabilities	270,000	20,000	**I**
Current assets	250,000	**F**	**J**
Noncurrent liabilities	100,000	**G**	**K**
Total liabilities and shareholders' equity	**C**	990,000	**L**
Current assets minus current liabilities	**D**	**H**	200,000

A.$340,000
B.$710,000
C.$710,000
D.$(20,000)
E.$990,000
F.$900,000
G.$100,000
H.$880,000
I.$20,000
J.$220,000
K$140,000
L.$500,000

111. Use the abbreviations below to classify the following income statement items.

R	Revenues
E	Expenses
X	Item generally not appearing on an income statement

Income Statement Items Example Corporation, Inc. For the year ended December 31, Year 1

a.	_________	Accounts payable
b.	_________	Sales
c.	_________	Dividends paid
d.	_________	Cost of goods sold
e.	_________	Cash from operating activities
f.	_________	Supplies inventory
g.	_________	Commissions earned by sales staff
h.	_________	Common stock
i.	_________	Yearly depreciation on equipment
j.	_________	Administrative office space rent on a month-to-month lease
k.	_________	Sales from services
l.	_________	Sales from products
m.	_________	Note payable, due in March, Year 1
n.	_________	Note receivable, due June 1, Year 2
o.	_________	Acquisition of common stock
p.	_________	Retained earnings
q.	_________	Officer salaries

a. X
b. R
c. X
d. E
e. X
f. X
g. E
h. X
i. E
j. E
k. R
l. R
m. X
n. X
o. X
p. X
q. E

112. Compute the missing amounts affecting the net income for Year 1 in each of the five independent cases that follow. Amounts shown are in thousands.

	CASE A	*CASE B*	*CASE C*	*CASE D*	*CASE E*
Sales revenue	$650	**B**	$400	$800	$390
Cost of goods sold	300	$110	**C**	400	200
Selling and administrative expenses	150	150	120	65	**E**
Income tax expense	56	30	55	**D**	0
Net income	**A**	10	75	235	(15)

a. $144
b. $300
c. $150
d. $100
e. $205

113. Compute the missing amount affecting retained earnings for Year 2 in each of the five independent cases that follow. Amounts shown are in millions.

	CASE A	*CASE B*	*CASE C*	*CASE D*	*CASE E*
Retained earnings, Dec. 31, Year 1	$95	**B**	$75	$ 87	$175
Net income	30	$450	45	**D**	(50)
Dividends declared and paid	10	120	**C**	35	**E**
Retained earnings, Dec. 31, Year 2	**A**	670	60	105	75

a. $115
b. $340
c. $60
d. $53
e. $50

114. Accountants classify various items on the balance sheet or the income statement in one of the following ways:

CA	- Current assets
NA	- Noncurrent assets
CL	- Current liabilities
NL	- Noncurrent liabilities
CC	- Contributed capital
RE	- Retained earnings
IS	- Income statement item (revenue or expense)
X	- Item generally not appearing on a balance sheet

Using the abbreviations above, indicate the classification of each of the following items:

a.	__________	Factory
b.	__________	Note payable, due in 7 years
c.	__________	Interest revenue
d.	__________	Common stock issued by the corporation
e.	__________	Trucks used for deliveries
f.	__________	Cash on hand
g.	__________	Unsettled damage suit against the corporation, probability and amount of settlement uncertain
h.	__________	Commissions earned by the sales staff
i.	__________	Employee taxes payable

a. NA
b. NL
c. IS
d. CC
e. NA
f. CA
g. X
h. IS
i. CL

115. Compute the missing amounts affecting the change in cash for Year 1 in each of the 5 independent cases that follow. Amounts are in thousands.

	CASE A	*CASE B*	*CASE C*	*CASE D*	*CASE E*
INFLOWS OF CASH:					
Operations	$600	$450	$650	$(390)	**E**
New financing	200	120	**C**	400	$400
Sale of noncurrent assets	190	50	0	160	50
OUTFLOWS OF CASH:					
Dividends	150	150	300	0	175
Reduction in financing	110	0	100	70	75
Acquisition of noncurrent assets	650	**B**	900	180	200
Change in cash	**A**	50	(60)	**D**	100

A. $80
B. $420
C. $590
D. $(80)
E. $100

116. Determine the missing amount "X" for each of the following:

Assets	Liabilities	Shareholders' Equity
a. $85,700	$40,000	X
b. X	$66,570	$145,000
c. $57,900	X	$34,000

a. $85,700 - 40,000 = $45,700
b. $66,570 + 145,000 = $211,570
c. $57,900 - 34,000 = $23,900

117. Compute the missing information in each of the four independent cases below. The letters in parentheses refer to the following:

BS - Balance sheet
IS - Income statement
SCF - Statement of cash flows

a.	Accounts Receivable, Jan. 1, Year 2 (BS)	$ 500
	Sales on Account for Year 2 (IS)	1900
	Collections from Customers on Account during Year 2 (SCF)	1,350
	Accounts Receivable, Dec. 31, Year 2 (BS)	-?-
b.	Salaries Payable, Jan. 1, Year 2 (BS)	$ 175
	Salary Expense for Year 2	-?-
	Payments to Salaried Employees during Year 2 (SCF)	725
	Salaries Payable, Dec. 31, Year 2 (BS)	100
c.	Equipment (net of depreciation), Jan. 1, Year 2(BS)	$ 900
	Depreciation Expense for Year 2 (IS)	-?-
	Sales of Equipment during Year 2 (SCF)	-0-
	Acquisition of Equipment during Year 2 (SCF)	330
	Equipment (net of depreciation), Dec. 31, Year 2 (BS)	910
d.	Retained Earnings, Jan. 1, Year 2 (BS)	$1,550
	Net Income for Year 2 (IS)	400
	Dividends Declared and Paid during Year 2 (SCF)	-?-
	Retained Earnings, Dec. 31, Year 2 (BS)	1,350

a. $1,050
b. $650
c. $320
d. $600

118. (CMA adapted, Jun 94 #6) Accounting systems vary widely from one business to another, depending on the size of the firm, the volume of data to be handled, and the nature of the business. An accounting system should provide information for management decision-making and generate reports on the enterprise's financial condition and operations. The accounting profession relies on general-purpose financial statements to provide information to users; the intent of these general-purpose statements is to provide the most useful information possible to diverse user groups at minimal cost. The principal financial statements used for public reporting purposes are the statement of earnings (income statement), statement of financial position (balance sheet), and statement of cash flows.

Required:

a. Financial statements should provide information that is useful to users. Describe the level of sophistication expected of the external users of financial statements.

b. For each of the financial statements listed below, define its purpose and briefly explain how it meets the needs of external users.

1. Statement of earnings.
2. Statement of financial position.
3. Statement of cash flows.

c. Footnotes and responsibility for the financial statements

1. Explain the role of the notes to the financial statements.
2. Explain management's responsibility for the financial statements.
3. Explain the auditor's responsibility for the financial statements.

a. Although the level of sophistication related to business and financial accounting matters varies both within and between user groups, users are expected to possess a reasonable understanding of accounting concepts, financial statements, and business and economic activities, and are expected to be willing and able to study and interpret the information with reasonable diligence.

b. The purpose and explanation of how each of the indicated financial statements serve to fulfill the needs of external users is presented below.
1.The statement of earnings (income statement) measures the success of enterprise operations for a period of time. The information provided helps users make evaluations about
* the company's profitability, investment value and creditworthiness.
* amount, timing, and uncertainty of future income.
* company's ability to provide goods and services through review of its past performance.

2. The statement of financial position (balance sheet) discloses the assets, liabilities, and owners' equity on a specific date. The information provided about resources and sources of funding for those resources helps users make judgments about the value of the company by providing a basis for
·computing rates of return.
·evaluating the capital structure.
·assessing the company's liquidity and financial flexibility.

3.The primary purpose of the statement of cash flows is to provide relevant information about the cash receipts and cash payments of an enterprise during a period of time. The information provided helps users make judgments about the company's
·ability to generate cash flows (liquidity).
·ability to meet obligations and pay dividends.
·need for external financing (solvency).

c. 1.The notes accompanying the financial statements are an integral part of the financial statements and are used to present additional information not included in the body of the statements. Notes should add to the completeness of the statements and clarify the information presented, not raise unanswered questions or contradict the statements.

2. Management is responsible for the information contained in the financial statements and for ensuring that the statements have been prepared in accordance with generally accepted accounting principles (GAAP).

3. The independent auditor(s) is/are responsible for auditing the financial statements, and expressing an opinion on the financial statements based on the audit. The audit is conducted in accordance with generally accepted auditing standards that require that the audit be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

119. Here is data from Cellular Communications, Inc.

	December 31	
BALANCE SHEET ITEMS	***Year 7***	***Year 6***
Accounts Payable	$ 5,219	$ 7,873
Accounts Receivable	58,363	48,645
Bonds Payable (due Year 20)	10,313	4,602
Cash	821	668
Common Stock	560	540
Income Taxes Payable	414	580
Inventories	33,305	30,752
Other Current Assets	2,681	742
Other Current Liabilities	185	1,115
Other Noncurrent Assets	90	152
Property, Plant, and Equipment	21,881	15,972
Retained Earnings	99,969	81,627
Salaries Payable	481	594

INCOME STATEMENT ITEMS	***Year 7***
Administrative Expense	$ 20,588
Cost of Goods Sold	246,864
Income Tax Expense	7,267
Interest Expense	1,803
Sales Revenue	361,026
Salary and Wage Expense	21,367
Selling Expense	44,795

Required:

a. Prepare a comparative balance sheet for Cellular Communications Inc. as of December 31, Year 6 and Year 7. Classify each balance sheet item into one of the following categories: current assets, noncurrent assets, current liabilities, noncurrent liabilities, and shareholders' equity.

b. Prepare an income statement for Cellular Communications Inc. for Year 7.

c. Prepare a schedule explaining the change in retained earnings between the beginning and the end of Year 7.

d. Compare the amounts on Cellular Communications Inc. balance sheet on December 31, Year 6, and December 31, Year 7. Identify the major changes and suggest possible explanations for the changes.

a.

Cellular Communications Inc.

Comparative Balance Sheet

As of December 31,

Assets	***Year 7***	***Year 6***
Current assets		
Cash	$ 821	$ 668
Accounts receivable	58,363	48,645
Inventories	33,305	30,752
Other current assets	2,681	742
Total current assets	95,170	80,807
Noncurrent assets		
Property, plant and equipment	21,881	15,972
Other noncurrent assets	90	152
Total noncurrent assets	21,971	16,124
Total assets	$117,141	$96,931

Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$ 5,219	$ 7,873
Salaries payable	481	594
Income taxes payable	414	580
Other current liabilities	185	1,115
Total current liabilities	6,299	10,162
Noncurrent liabilities		
Bonds payable, due Year 20	10,313	4,602
Total liabilities	16,612	14,764
Shareholders' equity		
Common stock	560	540
Retained earnings	99,969	81,627
Total shareholders' equity	100,529	82,167
Total liabilities and shareholders' equity	$117,141	$96,931

b.

Cellular Communications Inc.
Income Statement
For the Year Ending December 31, Year 7

Sales revenue	$361,026
Cost of goods sold	246,864
Gross profit	114,162
Administrative expense	20,588
Interest expense	1,803
Salary and wage expense	21,367
Selling expense	44,795
Net income before income taxes	25,609
Income tax expense	7,267
Net income after income taxes	$ 18,342

c.

Cellular Communications Inc.
Statement of Change in Retained Earnings
For the Year Ended December 31, Year 7

Retained earnings, beginning	$81,627
Add: Net income	18,342
Retained earnings, end	$99,969

d. Many comments can be made here. This company has a strong working capital position. In the period between Year 6 and 7, more debt was issued as was more stock. However, the company is quite liquid. In fact, this company has such strong internal financing through retained earnings, that it has the capacity to grow fast in the future. In fact, this company is adapted from the financial statements of a new public company. It is in the process of buying out many small competitors. Most of these buyouts are in the form of stock, with some cash. Other relevant comments from students would also be acceptable.

120. Presented below are several statement regarding the roles of participants in the financial reporting process. Identify these as either true or false. If false, explain why the statement is false.

1. Auditors are the agents of the shareholders and have responsibility for safeguarding and properly using the firm's resources.

2. The Sarbanes-Oxley Act of 2002 established the Public Company Accounting Oversight Board (PCAOB), which is responsible for monitoring the quality of audits of SEC registrants.

3. The Sarbanes-Oxley Act of 2002 requires the AICPA to register firms conducting independent audits.

4. The FASB is an agency of the federal government that has the authority to establish accounting standards.

5. The governing board, or board of directors, is responsible for selecting, compensating, and overseeing managers; for establishing dividend policy; and for making decisions on major issues such as acquisitions of other firms and divestitures of lines of business.

1. False. Managers are the agents of the shareholders and have responsibility for safeguarding and properly using the firm's resources. Managers are responsible for preparing the firm's financial reports that independent auditors examine.

2. True.

3. False. The Sarbanes-Oxley Act of 2002 requires the PCAOB to register firms conducting independent audits.

4. False. The SEC is an agency of the federal government that has the authority to establish accounting standards. The SEC has largely delegated the task of setting U.S. financial accounting standards to the FASB, a private-sector body.

5. True

121. The balance sheet of Parler, a European Union communications firm, shows current assets of €21,000 million, current liabilities of €16,849 million, shareholders' equity of €17,654 million, and noncurrent assets of €30,402 million. What is the amount of noncurrent liabilities on Parler's balance sheet?

(amounts in millions of euros [€])
Shareholders'

Current Assets	+	Noncurrent Assets	=	Current Liabilities	+	Noncurrent Liabilities	+	Shareholders' Equity
€21,000	+	€30,402	=	€16,849	+	?	+	€17,654

Noncurrent liabilities total €16,899 million.

122. Maeve Irwin is the CEO of Maeve's Spa. At the end of its accounting period, December 31, 2013, Maeve's Spa has assets of £450,000 and liabilities of £125,000. Using the equation that holds for equality of assets to liabilties and shareholders' equity, determine the following amounts:

a) Shareholders' Equity as of December 31, 2013.
b) Shareholders' Equity as of December 31, 2014, assuming that assets increased by £65,000 and liabilities increased by £35,000 during 2014£.

a) £450,000 = £125,000 + £**325,000**
b) (£450,000 + £65,000) = (£125,000 + £35,000) + £**355,000**

123. Hemd Company has liabilities equal to one fourth of the total assets. Hemd's shareholders'equity is €60,000. Using the accounting equation, what is the amount of liabilities for Hemd?

Assets = Liabilities + Shareholders' Equity
4x = x + €60,000
3x = €60,000
x = €20,000 in liabilities

124. The following information is based on the financial statements of Hadley Company, a large manufacturer. Annual revenues are $65,387 million and net expenses (including income taxes) are $62,313 million. During the year, the firm collected $64,995 million in cash from customers and had cash outflows associated with payments to suppliers and vendors of $56,411 million.

REQUIRED:
a. Calculate net income and net cash flow for the year.
b. How can cash collected from customers be less than revenues?
c. How can cash payments to suppliers and vendors be less than expenses?

a. Net Income = Sales Revenue – Expenses
= $65,387 million – $62,313 million = $3,074 million.
Net Cash Flow = Cash Inflows – Cash Outflows
= $64,995 million – $56,411 million = $8,584 million.

b. Cash collections may be less than revenues for at least two reasons. First, customers may have purchased on credit and have not yet paid. Second, the firm may have collected cash from customers who purchased on credit last year, but cash collections remain less than cash collected on new credit sales.

c. Cash payments may be less than expenses for at least two reasons. First, the firm may have received goods and services from suppliers, but not yet paid for those items (i.e., the amounts are to be paid in the next year). Second, the firm may have accrued expenses this year that will be paid in cash in future periods; an example would be the accrual of interest expense on a bond that will be paid the next year.

125. The following information is reported by ComCo, a Singapore company; all figures are in millions of Singapore dollars ($). The firm reported revenues of $15,882, cost of goods sold of $13,671, interest and other expenses of $2,113, and tax expense of $67. It also reported $14,894 in cash receipts from customers, $102 in miscellaneous cash receipts, $6,447 in cash payments to employees and creditors, $6,861 in cash payments for milk, $402 in cash payments for interest, and $64 in cash payments for taxes.

Required:
1. Calculate net income and its net cash flow.
2. Explain why ComCo's net income is so much different than its net cash flow.

1. Calculation of net income:

Revenue	$ 15,882
Cost of Goods Sold	(13,671)
Interest and Other Expenses	(2,113)
Income Before Taxes	98
Tax Expense	(67)
Net Income	$ 31

Calculation of net cash flow:

Cash Receipts from Customers	$ 14,894
Miscellaneous Cash Receipts	102
Total Cash Receipts	14,996
Cash Payments to Employees and Creditors	(6,447)
Cash Payments to Milk Suppliers	(6,861)
Cash Payments for Interest Costs	(402)
Cash Payments for Taxes	(64)
Total Cash Payments	(13,774)
Net Cash Flow	$ 1,222

2. Under the cash basis of accounting as reflected in net cash flow, a firm measures performance from selling goods and providing services as it receives cash from customers and makes cash expenditures to providers of goods and services. However, under the accrual basis of accounting as reflected in net income, revenue is recognized when a firm sells goods or renders services. Also, a firm using the accural accounting basis recognizes expenses in the period when the firm recognizes the revenues that the costs helped produce. As such, accrual accounting attempts to match expenses with revenues. When the usage of an asset's future benefits does not match with particular revenues, the firm recognizes those costs as expenses in the period when the firm uses the benefits.

126. Describe some of the factors that would affect a firm's goals and strategies.

1. Goals and strategies of competitors.
2. Barriers to entry of the industry, such as patents or large investments in buildings.
3. Nature of the demand for the firm's products and services. For example, demand might be increasing, such as for certain pharmaceutical products, or demand might be relatively stable, such as for groceries.
4. Existence and nature of government regulation.

127. Understanding financial reports requires an understanding of the activities of the business. Describe at least four investing activities that firms use to obtain the productive capacity to carry out its business activities.

Investing activities include the following:

1. Land, buildings, and equipment. These investments provide the capacity to manufacture and sell products and to create and sell services. They are usually long term, in the sense that they provide productive capacity for a number of years.
2. Patents, licenses, and other contractual rights. These investments provide rights to use ideas and processes. They are intangible, in the sense that they do not have a physical existence.
3. Common shares or bonds of other firms. These investments make a firm an owner or creditor of another firm. Short-term investments in equity shares typically involve partial ownership, while long-term investments in equity interests involve partial or complete ownership of another business.
4. Inventories. Firms maintain an inventory of products to sell to customers. For example, Great Deal maintains inventories of consumer electronics, home office products, entertainment software and appliances.
5. Accounts receivable from customers. In many businesses, customers do not pay for goods and services immediately. *Accounts receivable* describes the amounts owed to a firm by its customers for short periods, such as 30 days. In extending credit to customers, the firm does not collect cash right away. If the firm did not extend the credit, however, it might not make the sale in the first place.
6. Cash. Most firms maintain cash balances (like a corporate checking account) to pay their current bills.

128. Understanding financial reports requires an understanding of the activities of the business. Describe at least three operating activities that firms use to generate earnings.

Operating activities include the following:

1. *Purchasing*. The purchasing department of a retailer, such as Great Deal, acquires items to sell to customers. The purchasing department of a firm with manufacturing operations, such as Thames, acquires raw materials needed for production.
2. *Production*. The production department in a manufacturing firm combines raw materials, labor services, and other manufacturing inputs to produce goods for sale. A service firm combines labor inputs and other inputs to provide services to customers.
3. *Marketing*. The marketing department oversees selling and distributing products and services to customers.
4. *Administration*. Administrative activities include data processing, human resource management, legal services, and other support services.
5. *Research and development*. A firm undertakes research and development with the objective of discovering new knowledge that it can use to create new products, new processes, or new services.

129. Briefly list and describe the principal financial statements.

The financial statements provide information about a firm's financial position (balance sheet), its profitability (income statement), its cash-generating activity (statement of cash flows), and its changes in shareholders' equity. The balance sheet reports the results of investing and financing activities as at the balance sheet date. The income statement reports the outcome of using assets to generate earnings during a reporting period (for example, a year) and helps explain the change in retained earnings on the balance sheet between the beginning and end of the period. The statement of cash flows reports the cash inflows and outflows from operating, investing, and financing activities for the same period and explains the change in cash on the balance sheet between the beginning and end of the period. The statement of changes in shareholders' equity reports the reasons why the components of shareholders' equity increased or decreased during the reporting period. Users should read all of the financial statements in conjunction with the supporting notes and schedules, which provide explanations and disaggregations of the reported numbers.

130. Explain the roles, duties, and responsibilities of managers and governing boards of reporting entities.

Firms receive funds from owners with the expectation that managers will use the funds to increase the market value of the firm. From a legal perspective, managers are agents of the shareholders and have responsibility for safeguarding and properly using the firm's resources. Managers establish internal control procedures to ensure the proper recording of transactions and the appropriate measurement and reporting of the results of those transactions. Shareholders elect a governing board, sometimes called a board of directors, which is responsible for selecting, compensating, and overseeing managers; for setting the firm's dividend policy; and for making decisions on major issues such as acquisitions of other firms and divestitures of lines of business. Some governing boards, including all boards of publicly traded U.S. firms, have a special committee charged with oversight of financial reporting.

Under the oversight of governing boards, managers have responsibility for preparing the firm's financial reports. If the firm's shares trade publicly, laws and regulations may specify the accounting system the firm must follow (for example, U.S. GAAP or IFRS). Management has responsibility for understanding the transactions, events, and arrangements that it reports in the firm's financial statements and for properly applying accounting requirements.

131. FASB board members make standard-setting decisions guided by a conceptual framework that addresses the objectives of financial reporting and qualitative characteristics of accounting information.. Briefly describe the objectives of financial reporting and qualitative characteristics of accounting information

FASB board members make standard-setting decisions guided by a conceptual framework that addresses the following issues:

Objectives of financial reporting. The conceptual framework establishes the objective of providing information to current and potential investors, creditors, and others to assist them in making resource allocation decisions.

Qualitative characteristics of accounting information. The conceptual framework establishes the features of financial information that enable the information to meet the objectives of financial reporting. For example, the information should possess the following qualitative characteristics:

Relevance. The information should be pertinent to the decisions made by users of financial statements, in the sense of having the capacity to affect their resource allocation decisions.

Reliability. The information should represent what it is supposed to represent, in the sense that the information should correspond to the phenomenon being reported, and it should be verifiable and free from bias.

Comparability. The information should facilitate comparisons across firms and over time. Accounting information is comparable if firms account for similar events and transactions the same way.

132. Discuss internal and external users of accounting information. What areas of accounting provide them with information? Give an example of the type of report each type of user might use.

Internal users of accounting information include managers and employees. The area of accounting that provides internal users with information is called managerial accounting or management accounting. An example of a report that might be used internally is a customer profitability report.

External users of accounting information include customers, creditors, banks, and the government. These users are not directly involved in managing or operating the business. Financial reports about the profitability of a company's operations are important to banks and creditors when deciding to lend money to the company or extend credit.

133. What are the roles, duties, and responsibilities of the independent auditor?

Regulatory bodies generally require firms whose securities trade publicly (for example, common shares) to obtain an audit of their financial reports by an independent external auditor. Even if the securities do not trade publicly, financing sources such as banks may require that the firm obtain an independent audit of its financial statements.

An audit involves:

1. An assessment of the capability of a firm's accounting system to accumulate, measure, and synthesize transactional data properly.
2. An assessment of the operational effectiveness of this accounting system.
3. A determination of whether the financial report complies with the requirements of the applicable authoritative guidance.

The auditor obtains evidence for the first assessment by studying the procedures and internal controls built into the accounting system. The auditor obtains evidence for the second assessment by examining a sample of actual transactions. The auditor obtains evidence for the third determination through a combination of audit procedures. The auditor's conclusions appear in the audit opinion, part of the financial report. In addition, for most firms whose shares trade in the United States, the Sarbanes-Oxley Act requires that the audit involve an assessment, by the independent auditor, of the effectiveness of a firm's internal control system for financial reporting. The auditor provides a separate report on internal control effectiveness.

134. Who are the users of financial statements and what do they need?

Standard setters and securities regulators intend that financial reports provide information to investors, creditors, and others that helps decision makers allocate resources and evaluate the results of their decisions. Financial reporting does not intend to measure firm value or to provide all the information that decision makers might need to make resource allocation decisions. Financial reporting, under either U.S. GAAP or IFRS, intends to provide information that is useful in helping decision makers assess the amount, timing, and uncertainty of future cash flows of firms.

In order to make sense of financial reports, users of financial statements must have a reasonable knowledge of firms' businesses and of the kinds of events, transactions, and arrangements that firms engage in. They must also have a reasonable knowledge of the financial accounting principles and procedures that firms follow to prepare financial reports, and a reasonable understanding of the judgments and estimates required by those principles.

135. What is US GAAP?

In the United States the Securities and Exchange Commission (SEC), an agency of the federal government, has the legal authority to set acceptable accounting methods, or standards. The SEC is also the enforcement agency for U.S. securities laws that apply to firms that access the public debt and equity markets of the United States. For example, the SEC enforces the proper application of required accounting standards for U.S. SEC registrants as well as non-U.S. SEC registrants (also called foreign private issuers). A U.S. SEC registrant is a firm incorporated in the United States that lists and trades its securities in the United States; a non-U.S. SEC registrant is a firm incorporated under non-U.S. laws that has filed the necessary documents with the SEC to list and trade its securities in the United States.

Although it occasionally issues accounting guidance, the SEC has largely delegated the task of setting U.S. financial accounting standards to the Financial Accounting Standards Board (FASB), a private-sector body comprising five voting members. FASB Board members work full time for the FASB and sever all relations with their previous employers. As the FASB contemplates a reporting issue, its due-process procedures ensure that it receives input from all interested constituencies, including preparers, auditors, and financial statement users.

Common terminology includes the pronouncements of the FASB (and its predecessors) in the compilation of accounting rules, procedures, and practices known as generally accepted accounting principles (GAAP). The applicable accounting guidance for preparing financial reports of U.S. firms is U.S. GAAP (a singular noun). The applicable guidance includes, as well, writings of the SEC, consensuses of the Emerging Issues Task Force (a committee that operates under the oversight of the FASB), and some pronouncements of the American Institute of Certified Public Accountants (AICPA), a professional association. The FASB issues its major pronouncements in the form of Statements of Financial Accounting Standards (SFAS) that are available on the FASB's Web site (www.fasb.org). These standards have both a number (for example, SFAS 95) and a title (for example, "Statement of Cash Flows").

136. Concerns over the quality of financial reporting have led, and continue to lead, to government initiatives in the United States including, the Sarbanes-Oxley Act of 2002. Briefly describe the Sarbanes-Oxley Act of 2002.

Concerns over the quality of financial reporting have led, and continue to lead, to government initiatives in the United States. For example, the Sarbanes-Oxley Act of 2002, among other things, established the Public Company Accounting Oversight Board (PCAOB), which is responsible for monitoring the quality of audits of SEC registrants. This Act requires the PCAOB to register firms conducting independent audits of SEC registrants; establish or adopt acceptable auditing, quality control, and independence standards; and provide for periodic inspections of the registered auditors.

137. Briefly describe the International Accounting Standards Board (IASB) and who can use IFRS in the United States?

The International Accounting Standards Board (IASB) is an independent accounting standard-setting entity with 14 voting members from a number of countries. Standards set by the IASB are International Financial Reporting Standards (IFRS). The IASB also has a conceptual framework that is similar to the FASB's conceptual framework and that is used for similar purposes. The IASB began operating in 2001; the standards set by its predecessor body, the International Accounting Standards Committee (IASC) are called International Accounting Standards (IAS), and IFRS includes them. Over 100 countries require or permit firms incorporated under the laws of those countries to use IFRS, or standards based on IFRS, to prepare their financial reports or have announced plans to do so. Each of these countries has its own regulatory arrangements for enforcing the proper application of IFRS in that jurisdiction; these arrangements differ considerably across countries. As a result, different firms subject to IFRS do not necessarily account for the same transaction using the same set of rules.

In 2007 the U.S. SEC adopted new rules that permit non-U.S. firms that list and trade their securities in the United States (non-U.S. SEC registrants) to apply IFRS in their financial reports filed with the SEC without any reconciliation to U.S. GAAP. Prior to this rule change, non-U.S. SEC registrants could apply any financial reporting system to prepare their financial reports, but they had to reconcile those reported numbers to the numbers that they would have reported had they prepared the financial statements using U.S. GAAP. The main effect of this 2007 rule change is to create two sets of acceptable financial reporting systems in the United States, specifically, U.S. GAAP for U.S. SEC registrants and IFRS for non-U.S. SEC registrants.

138. As a basis for measuring performance for a particular accounting period, the cash basis of accounting has three weaknesses. Briefly describe the three weaknesses.

As a basis for measuring performance for a particular accounting period, the cash basis of accounting has three weaknesses.

First, the cash basis does not adequately match the cost of the efforts required to generate inflows with the inflows themselves. Cash outflows of one period can relate to operating activities whose cash inflows occur in preceding or succeeding periods.

Second, the cash basis of accounting separates the recognition of revenue from the process of earning those revenues. A firm should recognize revenue when it has earned those revenues by delivering goods and services to customers, which often occurs before it collects cash from those customers. In these cases, recognizing revenues when the firm collects cash often results in reporting the effects of operating activities one or more periods after the critical revenue-generating activity—the customer's purchase of goods and service—has occurred.

Third, performance measured using the cash basis is sensitive to the timing of cash expenditures. A delay of even a few days in cash expenditures near the end of the accounting period will increase earnings for that period, while decreasing earnings in one or more subsequent periods.

139. Describe the accrual basis of accounting.

The accrual basis of accounting typically recognizes revenue when a firm sells goods (manufacturing and retailing firms) or renders services (service firms), and recognizes expenses in the period when the firm recognizes the revenues that the costs helped produce. Thus accrual accounting attempts to match expenses with associated revenues. When the usage of an asset's future benefits does not match with particular revenues, the firm recognizes those costs as expenses of the period during which the firm uses the benefits provided by the assets.

The accrual basis of accounting illustrates the matching convention: it matches expenses with their related revenues by subtracting their amount in measuring performance. Accrual accounting and matching separate performance measurement from cash receipts and disbursements. The accrual basis focuses on inflows of net assets from operations (revenues) and the use of net assets in operations (expenses), independent of whether the firm has collected cash for those inflows and spent cash for the outflows of net assets.