

Chapter 2—Financial Statements: An Overview

MULTIPLE CHOICE

1. The financial statement that reports resources owned, the obligations to transfer resources to other organizations, and the claims by the entity's owners is known as the
- Statement of comprehensive income
 - Statement of changes in equity
 - Balance sheet
 - Statement of cash flows

ANS: C PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

2. Another name for the balance sheet is the
- Statement of cash flows
 - Statement of earnings
 - Statement of financial position
 - Retained earnings statement

ANS: C PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

3. Which of the following types of accounts are NOT found on the balance sheet?
- Revenues
 - Assets
 - Liabilities
 - Equity

ANS: A PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

4. Economic resources that are owned or controlled by an enterprise are called
- Assets
 - Liabilities
 - Revenues
 - Gains

ANS: A PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

5. Which of the following is generally considered to be an asset?
- Notes payable
 - Mortgage payable
 - Accounts receivable
 - Unearned revenue

ANS: C PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

6. Which of the following accounts is NOT an asset account?

- a. Equipment
- b. Accounts Receivable
- c. Accounts Payable
- d. Supplies

ANS: C PTS: 1 DIF: Easy OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

7. Which of the following generally is NOT considered to be a liability?

- a. Notes payable
- b. Taxes payable
- c. Inventory
- d. Accounts payable

ANS: C PTS: 1 DIF: Easy OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

8. An enterprise's obligations to pay cash or other economic resources to others are called

- a. Liabilities
- b. Expenses
- c. Losses
- d. Assets

ANS: A PTS: 1 DIF: Easy OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

9. Which of the following is generally considered to be a liability?

- a. Accounts receivable
- b. Capital stock
- c. Notes payable
- d. Retained earnings

ANS: C PTS: 1 DIF: Easy OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

10. Which of the following types of accounts show how resources came into a firm?

- a. Liabilities
- b. Equity
- c. Assets
- d. Both liabilities and equity

ANS: D PTS: 1 DIF: Easy OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

11. A business owned by one person is called a

- a. Nonprofit organization
- b. Partnership
- c. Corporation
- d. Sole proprietorship

ANS: D PTS: 1 DIF: Easy OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

12. A business owned by two or more individuals or entities is called a(n)
- Nonprofit organization
 - Partnership
 - Institution
 - Sole proprietorship

ANS: B PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

13. Owners of a corporation are referred to as
- Debtors
 - Partners
 - Stockholders
 - Creditors

ANS: C PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

14. Distributions by a corporation to its stockholders are called
- Dividends
 - Retained earnings
 - Income
 - Withdrawals

ANS: A PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

15. Which of the following usually is NOT considered to be an equity account?
- Capital stock
 - Retained earnings
 - Inventory
 - All these are equity accounts

ANS: C PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

16. The total amount invested to acquire an ownership interest in a corporation is called
- Retained earnings
 - Capital stock
 - Net assets
 - Equity

ANS: B PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

17. Net assets are equal to
- Total assets minus equity
 - Total assets minus net income
 - Total assets minus dividends paid
 - Total assets minus total liabilities

ANS: D PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

18. Which of the following decreases equity?
- a. Additional investments in the company are made by the owners
 - b. Operations generate a loss
 - c. Operations generate a profit that is retained in the company
 - d. None of these decreases equity

ANS: B PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

19. The basic accounting equation is
- a. Assets = Liabilities + Equity
 - b. Assets + Liabilities = Equity
 - c. Assets + Equity = Liabilities
 - d. Liabilities – Equity = Assets

ANS: A PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

20. Which of the following is the reason that the accounting equation is true by definition?
- a. Liabilities are the source that funds the purchase of assets
 - b. Assets are the source that funds the purchase of liabilities and equity
 - c. Liabilities and equity are the sources that fund the purchase of assets
 - d. None of these are true, the accounting equation is merely a coincidence

ANS: C PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

21. The idea that an increase or decrease on one side of the accounting equation must be offset exactly by an increase or decrease on the other side of the accounting equation is called
- a. Additive concept
 - b. Going concern assumption
 - c. Monetary measurement concept
 - d. Double-entry accounting

ANS: D PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

22. A transaction that causes an increase in an asset may also cause
- a. A decrease in equity
 - b. An increase in another asset
 - c. A decrease in a liability
 - d. An increase in a liability

ANS: D PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

23. If a corporation has total assets of \$350,000, total liabilities of \$150,000, and retained earnings of \$100,000, what is the amount of capital stock?
- a. \$150,000
 - b. \$0
 - c. \$100,000
 - d. \$250,000

ANS: C

Capital stock: $\$350,000 - \$150,000 - \$100,000 = \$100,000$

PTS: 1 DIF: Medium OBJ: 2.1

NAT: AACSB Analytic | AICPA FN Measurement

Exhibit 2-1

The following data were taken from the records of Moss Corporation for the year ending December 31, 2017:

	<u>01/01/17</u>	<u>12/31/17</u>
Assets	\$11,250	?
Liabilities	8,580	\$10,365
Equity	?	6,465

24. Refer to Exhibit 2-1. Given the above information, equity on January 1, 2017 was
- \$19,830
 - \$2,670
 - \$885
 - \$7,695

ANS: B

Equity: $\$11,250 - \$8,580 = \$2,670$

PTS: 1 DIF: Medium OBJ: 2.1

NAT: AACSB Analytic | AICPA FN Measurement

25. Refer to Exhibit 2-1. Given the above information, assets on December 31, 2017, were
- \$16,830
 - \$5,025
 - \$18,060
 - \$11,250

ANS: A

Assets: $\$10,365 + \$6,465 = \$16,830$

PTS: 1 DIF: Medium OBJ: 2.1

NAT: AACSB Analytic | AICPA FN Measurement

26. Current assets usually are listed on a balance sheet in
- Decreasing order of liquidity
 - Increasing order of liquidity
 - A random fashion
 - Decreasing order of profitability

ANS: A PTS: 1 DIF: Easy OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

27. Which of the following would be classified as a current asset?

- a. Accounts payable
- b. Land
- c. Capital stock
- d. Accounts receivable

ANS: D PTS: 1 DIF: Easy OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

28. Which of the following would be classified as a long-term asset?

- a. Accounts payable
- b. Land
- c. Inventory
- d. Accounts receivable

ANS: B PTS: 1 DIF: Easy OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

29. Companies prepare classified and comparative financial statements because

- a. They are required by international accounting principles
- b. They provide financial statement readers with useful information about trends in financial position and operating performance
- c. They are required by the IRS
- d. They show changes in a company's management policies

ANS: B PTS: 1 DIF: Easy OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

30. Which of the following is true of the balance sheet?

- a. It includes revenue and expense accounts.
- b. It identifies a company's assets and liabilities as of a specific date.
- c. It shows the results of operations for an accounting period.
- d. It discloses the amount of dividends paid.

ANS: B PTS: 1 DIF: Easy OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

31. Which of the following financial statements provides a picture of the enterprise at a particular point in time?

- a. Balance sheet
- b. Statement of comprehensive income
- c. Statement of cash flows
- d. Statement of changes in equity

ANS: A PTS: 1 DIF: Easy OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

32. Which of the following accounts is considered to be the most liquid?

- a. Cash
- b. Land
- c. Accounts Receivable
- d. Inventory

ANS: A PTS: 1 DIF: Easy OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

33. Which of the following distinguishes between current and long-term assets?

- a. Comparative balance sheet
- b. Statement of comprehensive income

- c. Classified balance sheet
- d. Liquidity balance sheet

ANS: C PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

34. Which of the following would be considered a long-term liability?
- a. Mortgage payable
 - b. Notes payable
 - c. Accounts payable
 - d. Land

ANS: A PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

35. Which of the following includes a company's financial position for both the current year and the preceding year?
- a. Comparative balance sheet
 - b. Statement of comprehensive income
 - c. Classified balance sheet
 - d. Liquidity balance sheet

ANS: A PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

36. What is the primary limitation of the balance sheet?
- a. It does not reflect the net assets of a company
 - b. It does not reflect the current value of the company
 - c. It does not reflect the number of shares of capital stock issued
 - d. It does not reflect the undistributed earnings of a company

ANS: B PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

37. Which of these is an economic asset that is NOT found on the balance sheet?
- a. Name recognition
 - b. Land
 - c. Inventory
 - d. Goodwill

ANS: A PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

38. The price that would be paid today for an asset is the
- a. Book value
 - b. Market value
 - c. Purchase cost
 - d. Economic value

ANS: B PTS: 1 DIF: Easy OBJ: 2.1
NAT: AACSB Reflective Thinking | AICPA FN Measurement

39. Expense and revenue accounts appear on the
- a. Balance sheet
 - b. Statement of comprehensive income
 - c. Statement of changes in equity
 - d. Statement of cash flows

ANS: B PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

40. Another name for the statement of comprehensive income is
- Statement of cash flows
 - Statement of financial position
 - Statement of earnings
 - Statement of changes in equity

ANS: C PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

41. Which of the following would be included on a statement of comprehensive income?
- Cash
 - Accounts receivable
 - Land
 - Rent expense

ANS: D PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

42. The financial statement that presents a summary of the revenues and expenses of a business for a specific period of time, such as a month or a year, is called a
- Statement of Cash Flows
 - Statement of changes in equity
 - Statement of comprehensive income
 - Balance Sheet

ANS: C PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

43. Resource increases from the sale of goods or services are called
- Net income
 - Assets
 - Gains
 - Revenues

ANS: D PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

44. Revenues cause
- An increase in net assets
 - A decrease in net assets
 - No change in net assets
 - An increase in liabilities

ANS: A PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

45. Costs that are incurred during the normal operations of a business to generate revenues are called
- Losses
 - Liabilities
 - Expenses
 - Assets

ANS: C PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

46. Expenses generally cause
- An increase in net assets
 - A decrease in net assets
 - No change in net assets
 - An increase in liabilities

ANS: B PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

47. Which of the following is an overall measure of the performance of a business entity's activities?
- Revenues
 - Net income (or net loss)
 - Assets
 - Equity

ANS: B PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

48. Which of the following is a revenue generating activity?
- Borrowing money from a bank
 - Paying rent
 - Providing consulting services
 - Selling capital stock

ANS: C PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

49. Earnings per share is equal to
- Net income divided by total number of shares of stock outstanding
 - Total revenues divided by total number of shares of stock outstanding
 - Total revenues divided by the number of shares of stock sold during the year
 - Net income divided by the number of shares of stock sold during the year

ANS: A PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

50. Which of the following is the correct way to date a statement of comprehensive income?
- For the Year Ended December 31, 2017
 - At December 31, 2017
 - As of December 31, 2017
 - December 31, 2017

ANS: A PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

51. Which of the following is an example of a nonoperating expense?
- Salary expense
 - Interest expense
 - Wages expense
 - Advertising expense

ANS: B PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

52. If a company sells its equipment for more than it is valued on the balance sheet, the difference is called a(n)
- a. Income
 - b. Revenue
 - c. Profit
 - d. Gain

ANS: D PTS: 1 DIF: Easy OBJ: 2.2
NAT: AACSB Reflective Thinking | AICPA FN Measurement

53. If a company has \$528,000 of services revenue, pays \$26,400 in dividends, and has net income of \$158,400, how much were the expenses for the year?
- a. \$343,200
 - b. \$422,400
 - c. \$396,000
 - d. \$369,600

ANS: D
Expenses: $\$528,000 - \$158,400 = \$369,600$

PTS: 1 DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | AICPA FN Measurement

54. During the year, Rigby Corporation earned revenues of \$114,000 and incurred \$98,000 for various operating expenses. There are 1,280 shares of stock outstanding. Earnings per share is
- a. \$12.80
 - b. \$12.50
 - c. \$8.80
 - d. \$8.50

ANS: B
Net income: $\$114,000 - \$98,000 = \$16,000$
Earnings per share: $\$16,000 \div 1,280 \text{ shares} = \12.50

PTS: 1 DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | AICPA FN Measurement

55. The following information was taken from the records of Merle Corporation for the period ending December 31, 2017:

Advertising expense	\$1,200
Equipment	800
Accounts receivable	1,500
Notes payable	6,000
Retained earnings	8,420
Utilities expense	1,385
Revenues	4,620
Dividends	975
Interest receivable	125
Rent expense	655

Assuming that 3,450 shares of stock are outstanding, earnings per share is approximately

- a. \$1.40
- b. \$0.40
- c. \$0.27
- d. \$0.23

ANS: B

Net income: $\$4,620 - \$1,200 - \$1,385 - \$655 = \$1,380$
Earnings per share: $\$1,380 \div 3,450 \text{ shares} = \0.40

PTS: 1 DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | AICPA FN Measurement

56. Eddy Corporation reported the following data for the period: Earnings per share, \$3.00; Retained Earnings, \$27,000; Revenues, \$75,000; Capital Stock, \$15,000; Expenses, \$64,500. With this information, determine how many shares of stock are outstanding.
- 9,000
 - 5,000
 - 4,000
 - 3,500

ANS: D
Net income: $\$75,000 - \$64,500 = \$10,500$
Shares of stock outstanding: $\$10,500 \div \$3.00 = 3,500$

PTS: 1 DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | AICPA FN Measurement

Exhibit 2-2

The following information was taken from the records of Tellers Corporation for the month ended December 31, 2017:

Advertising expense	\$20,625
Income tax expense	13,095
Accounts payable	13,450
Dividends paid	14,125
Retained earnings (12/1/17)	57,860
Consulting fees revenue	93,550
Rent expense	11,728
Supplies expense	16,917

57. Refer to Exhibit 2-2. Given the above information, net income is
- \$45,110
 - \$35,310
 - \$31,185
 - \$11,385

ANS: C
Net income: $\$93,550 - \$20,625 - \$13,095 - \$11,728 - \$16,917 = \$31,185$

PTS: 1 DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | AICPA FN Measurement

58. Refer to Exhibit 2-2. If Tellers has 2,100 shares of stock outstanding, earnings per share is approximately
- \$46.51
 - \$14.85
 - \$16.81
 - \$4.67

ANS: B
Net income: $\$93,550 - \$20,625 - \$13,095 - \$11,728 - \$16,917 = \$31,185$
Earnings per share: $\$31,185 \div 2,100 \text{ shares} = \14.85

PTS: 1 DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | AICPA FN Measurement

59. The following information was taken from the records of McDyce Corporation for the year ended December 31, 2017:

Dividends paid	\$ 12,800
Services revenue	90,500
Accounts payable	139,750
Capital stock	378,750
Total expenses	67,000
Retained earnings (1/1/17)	43,400

The net income at December 31, 2017 was

- a. \$23,500
- b. \$54,100
- c. \$43,400
- d. \$72,750

ANS: A

Net income: \$90,500 – \$67,000 = \$23,500

PTS: 1 DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | AICPA FN Measurement

60. The beginning balance of retained earnings will be greater than the ending balance if
- a. The company has a net income greater than dividends paid
 - b. The company issues additional shares of stock during the period
 - c. The company has a net income less than dividends paid
 - d. The revenues earned for the period are greater than the expenses incurred and dividends paid

ANS: C PTS: 1 DIF: Easy OBJ: 2.3
NAT: AACSB Reflective Thinking | AICPA FN Measurement

61. Which of the following is NOT included in the statement of changes in equity?
- a. Capital stock
 - b. Net income
 - c. Retained earnings
 - d. Equipment

ANS: D PTS: 1 DIF: Easy OBJ: 2.3
NAT: AACSB Reflective Thinking | AICPA FN Measurement

62. Retained earnings are
- a. The earnings of a company that have been distributed to the owners.
 - b. The earnings of a company that have been retained in the company.
 - c. The amount of cash that a company has.
 - d. The amount of cash required for company investments.

ANS: B PTS: 1 DIF: Easy OBJ: 2.3
NAT: AACSB Reflective Thinking | AICPA FN Measurement

63. Which of the financial statements provides the information to owners or shareholders of how their interest in the company changed in a time period?

- a. Statement of comprehensive income
- b. Statement of changes in equity
- c. Balance sheet
- d. Statement of cash flows

ANS: B PTS: 1 DIF: Easy OBJ: 2.3
 NAT: AACSB Reflective Thinking | AICPA FN Measurement

64. During the year, Roger Company earned revenues of \$114,000, incurred \$98,000 for various operating expenses, and distributed \$5,600 in dividends. If retained earnings for the previous year was \$34,600, what is retained earnings for the current year?
- a. \$45,000
 - b. \$24,200
 - c. \$16,000
 - d. \$34,600

ANS: A
 Net income: $\$114,000 - \$98,000 = \$16,000$
 Retained earnings: $\$34,600 + \$16,000 - \$5,600 = \$45,000$

PTS: 1 DIF: Medium OBJ: 2.3
 NAT: AACSB Analytic | AICPA FN Measurement

65. The following information was taken from the records of McDyce Corporation for the year ended December 31, 2017:

Dividends paid	\$ 6,400
Services revenue	45,250
Accounts payable	69,875
Capital stock	189,375
Total expenses	33,500
Retained earnings (1/1/17)	21,700

The retained earnings balance at December 31, 2017 was

- a. \$216,425
- b. \$27,050
- c. \$146,550
- d. \$33,450

ANS: B
 Net income: $\$45,250 - \$33,500 = \$11,750$
 Retained earnings balance: $\$21,700 + \$11,750 - \$6,400 = \$27,050$

PTS: 1 DIF: Medium OBJ: 2.3
 NAT: AACSB Analytic | AICPA FN Measurement

66. The following information was taken from the records of Tellers Corporation for the year ended December 31, 2017:

Advertising expense	\$20,625
Income tax expense	13,095
Accounts payable	13,450
Dividends paid	14,125
Retained earnings (12/31/17)	57,860

Consulting fees revenue	93,550
Rent expense	11,728
Supplies expense	16,917

Given the above information, retained earnings on December 31, 2016 was

- a. \$45,110
- b. \$40,800
- c. \$31,185
- d. \$57,860

ANS: B

Net income: $\$93,550 - \$20,625 - \$13,095 - \$11,728 - \$16,917 = \$31,185$

Retained earnings 12/31/16: $x + \$31,185 - \$14,125 = \$57,860$
 $x = \$40,800$

PTS: 1 DIF: Medium OBJ: 2.3

NAT: AACSB Analytic | AICPA FN Measurement

67. Rolf Corporation reported the following data for the period end: Earnings per share, \$6.00; Retained Earnings, \$54,000; Revenues, \$150,000; Capital Stock, \$30,000; Expenses, \$129,000; Dividends, \$24,000. With this information, determine retained earnings for the prior period.
- a. \$54,000
 - b. \$51,000
 - c. \$57,000
 - d. \$180,000

ANS: C

Net income: $\$150,000 - \$129,000 = \$21,000$

Retained earnings: $x + \$21,000 - \$24,000 = \$54,000$
 $x = \$57,000$

PTS: 1 DIF: Medium OBJ: 2.3

NAT: AACSB Analytic | AICPA FN Measurement

68. The following information was taken from the records of Hart Corporation for the month ended December 31, 2017:

Advertising expense	\$20,625
Income tax expense	13,095
Accounts payable	13,450
Dividends paid	14,125
Retained earnings (12/1/17)	57,860
Consulting fees revenue	97,875
Rent expense	11,728
Supplies expense	16,917

Given the above information, retained earnings as of December 31, 2017 is

- a. \$79,045
- b. \$79,245
- c. \$55,795
- d. \$33,895

ANS: B

Net income: $\$97,875 - \$20,625 - \$13,095 - \$11,728 - \$16,917 = \$35,510$

Retained earnings: $\$57,860 + \$35,510 - \$14,125 = \$79,245$

NAT: AACSB Analytic | AICPA FN Measurement

69. On April 1, Bonita Corporation's retained earnings account had a balance of \$785,000. During April, Bonita had revenues of \$135,000 and expenses of \$93,000. On April 30, retained earnings had a balance of \$811,500. What amount of dividends were paid during April?
- \$42,500
 - \$30,750
 - \$15,500
 - \$13,250

ANS: C

$$\begin{array}{lcl} \text{Net income:} & \$135,000 - \$93,000 & = \$42,000 \\ \text{Dividends:} & \$785,000 + \$42,000 - x & = \$811,500 \\ & x & = \$15,500 \end{array}$$

PTS: 1 DIF: Medium OBJ: 2.3

NAT: AACSB Analytic | AICPA FN Measurement

70. A major source of cash from operating activities is
- Receipts from providing services
 - Receipts from borrowing
 - Receipts from sale of building
 - Receipts from investment by owner

ANS: A PTS: 1 DIF: Easy OBJ: 2.4

NAT: AACSB Reflective Thinking | AICPA FN Measurement

71. Which of the following is a primary use of cash?
- a. Borrowing
 - b. Investment by owners
 - c. Operating expenses
 - d. Sale of equipment

ANS: C PTS: 1 DIF: Easy OBJ: 2.4

NAT: AACSB Reflective Thinking | AICPA FN Measurement

72. Which of the following financial statements shows an entity's cash receipts and payments?
- a. The statement of financial position
 - b. The statement of cash flows
 - c. The statement of earnings
 - d. The statement of changes in equity

ANS: B PTS: 1 DIF: Easy OBJ: 2.4

NAT: AACSB Reflective Thinking | AICPA FN Measurement

73. Which of the following classifications does NOT appear on the statement of cash flows?
- a. Investing
 - b. Operating
 - c. Borrowing
 - d. Financing

ANS: C PTS: 1 DIF: Easy OBJ: 2.4

NAT: AACSB Reflective Thinking | AICPA FN Measurement

74. Which of the following classifications refers to those activities associated with buying and selling long-term assets?
- a. Investing

- b. Operating
- c. Borrowing
- d. Financing

ANS: A PTS: 1 DIF: Easy OBJ: 2.4
 NAT: AACSB Reflective Thinking | AICPA FN Measurement

75. Which of the following classifications refers to those activities whereby cash is obtained or repaid to owners and creditors?
- a. Investing
 - b. Operating
 - c. Borrowing
 - d. Financing

ANS: D PTS: 1 DIF: Easy OBJ: 2.4
 NAT: AACSB Reflective Thinking | AICPA FN Measurement

76. Which of the following classifications refers to those activities that are part of the day-to-day business of a company?
- a. Investing
 - b. Operating
 - c. Borrowing
 - d. Financing

ANS: B PTS: 1 DIF: Easy OBJ: 2.4
 NAT: AACSB Reflective Thinking | AICPA FN Measurement

77. Which of the following activities would NOT be classified as an investing activity?
- a. Purchase of land
 - b. Purchase of supplies
 - c. Sale of Land
 - d. Sale of equipment

ANS: B PTS: 1 DIF: Easy OBJ: 2.4
 NAT: AACSB Reflective Thinking | AICPA FN Measurement

78. Which of the following activities would be classified as a financing activity?
- a. Selling goods
 - b. Payment of wages
 - c. Repayment of a loan
 - d. Purchase of equipment

ANS: C PTS: 1 DIF: Easy OBJ: 2.4
 NAT: AACSB Reflective Thinking | AICPA FN Measurement

Exhibit 2-3

During the month, Meridian Company had the following cash transactions:

Cash collected from customers	\$ 12,500
Cash received from a loan	8,000
Cash paid for wages payable	(5,750)
Cash paid for the purchase of a building	(15,000)
Cash received for the issuance of new shares of stock	2,600
Cash received from sale of land	6,400
Cash paid for rent	(2,500)
Cash paid for dividends	(1,500)

79. Refer to Exhibit 2-3. Given the above information, compute cash flow from operating activities.
- \$4,250
 - \$20,750
 - \$15,750
 - \$9,250

ANS: A

Operating activities: $\$12,500 - \$5,750 - \$2,500 = \$4,250$

PTS: 1 DIF: Medium OBJ: 2.4

NAT: AACSB Analytic | AICPA FN Measurement

80. Refer to Exhibit 2-3. Given the above information, compute cash flow from investing activities.
- \$4,250
 - (\$4,250)
 - (\$8,600)
 - \$8,600

ANS: C

Investing activities: $(\$15,000) + \$6,400 = (\$8,600)$

PTS: 1 DIF: Medium OBJ: 2.4

NAT: AACSB Analytic | AICPA FN Measurement

81. Refer to Exhibit 2-3. Given the above information, compute cash flow from financing activities.
- \$6,900
 - \$3,900
 - \$12,100
 - \$9,100

ANS: D

Financing activities: $\$8,000 + \$2,600 - \$1,500 = \$9,100$

PTS: 1 DIF: Medium OBJ: 2.4

NAT: AACSB Analytic | AICPA FN Measurement

82. The idea that certain figures on an operating statement help to explain changes in figures on comparative balance sheets is referred to as
- Liquidity
 - Double entry
 - Articulation
 - Classification

ANS: C PTS: 1 DIF: Easy OBJ: 2.4

NAT: AACSB Reflective Thinking | AICPA FN Measurement

83. During 2017, Genoa Corporation had revenues of \$198,000 and expenses of \$156,000. Dividends of \$28,000 were paid during the year and additional stock was issued for \$21,400. If total assets and total liabilities on January 1, 2017, were \$130,000 and \$56,000, respectively, how much is equity on December 31, 2017?
- \$137,400
 - \$109,400
 - \$81,400

d. \$65,400

ANS: B

Equity January 1, 2017:	$\$130,000 - \$56,000 = \$74,000$
Net Income 2017:	$\$198,000 - \$156,000 = \$42,000$
Equity December 31, 2017:	$\$74,000 + \$42,000 - \$28,000 + \$21,400 = \$109,400$

PTS: 1 DIF: Medium OBJ: 2.4

NAT: AACSB Analytic | AICPA FN Measurement

84. In 2016, Rodney Corporation's balance sheet had the following balances: cash, \$306,500; accounts receivable, \$471,400; and accounts payable, \$390,800. During 2017, Rodney had a net increase in cash of \$68,600 and net income of \$47,800. Given this information, what is the cash balance that will be reported on Rodney's 2017 balance sheet?
- a. \$375,100
 - b. \$237,900
 - c. \$354,300
 - d. \$258,700

ANS: A

Cash balance 2017: $\$306,500 + \$68,600 = \$375,100$

PTS: 1 DIF: Medium OBJ: 2.4

NAT: AACSB Analytic | AICPA FN Measurement

85. The following data were taken from the records of Mendez Corporation for the year ended December 31, 2017:

	<u>01/01/17</u>	<u>12/31/17</u>
Assets	\$3,750	?
Liabilities	2,860	\$3,455
Equity	?	3,455
Dividends Paid	0	1,230

Given the above information and assuming that no additional stock was added for the year, net income for the year ended December 31, 2017, is

- a. \$1,675
- b. \$2,120
- c. \$2,905
- d. \$3,795

ANS: D

Equity January 1:	$\$3,750 - \$2,890 = \$890$
Net income:	$\$890 + x - \$1,230 = \$3,455$
	$x = \$3,795$

PTS: 1 DIF: Medium OBJ: 2.4

NAT: AACSB Analytic | AICPA FN Measurement

86. If a company has assets of \$460,000, liabilities of \$100,000, and capital stock of \$210,000, what is the amount of retained earnings?
- a. \$150,000
 - b. \$210,000
 - c. \$110,000
 - d. \$310,000

ANS: A

$$\begin{aligned}\text{Assets} &= \text{Liabilities} + (\text{Capital Stock} + \text{Retained Earnings}) \\ \$460,000 &= \$100,000 + (\$210,000 + x) \\ x &= \$150,000\end{aligned}$$

PTS: 1 DIF: Medium OBJ: 2.4

NAT: AACSB Analytic | AICPA FN Measurement

87. The transactions carried out by Blue Waters Corporation during the year caused an increase in total assets of \$25,650 and a decrease in total liabilities of \$12,250. If no additional stock was issued during the year and dividends of \$7,850 were paid, what was the net income for the year?
- \$53,600
 - \$45,750
 - \$29,100
 - \$13,400

ANS: B

$$\begin{aligned}\text{Equity} &= \text{Assets} - \text{Liabilities} \\ \text{Equity:} & \$25,650 - (-\$12,250) = \$37,900 \\ \text{Net income:} & \$37,900 = x - \$7,850 \\ & x = \$45,750\end{aligned}$$

PTS: 1 DIF: Challenging OBJ: 2.4

NAT: AACSB Analytic | AICPA FN Measurement

88. Vital information that CANNOT be captured solely by dollar amounts is reported in a firm's
- Balance sheet
 - Notes to financial statements
 - Statement of comprehensive income
 - Statement of retained earnings

ANS: B PTS: 1 DIF: Easy OBJ: 2.5

NAT: AACSB Reflective Thinking | AICPA FN Measurement

89. Which of the following is NOT one of the four general types of financial statement notes?
- Summary of significant accounting policies
 - Additional information about the summary totals found in the financial statements
 - Disclosure of important information that is not recognized in the financial statements
 - Supplementary information required by the Internal Revenue Service

ANS: D PTS: 1 DIF: Easy OBJ: 2.5

NAT: AACSB Reflective Thinking | AICPA FN Measurement

90. Which of the following is an example of a significant accounting policy that would be explained in the notes to the financial statements?
- The description of all the individual items that comprise notes payable
 - The disclosure of quarterly financial information
 - The method used to estimate depreciation on a piece of equipment
 - The disclosure of the uncertain, potential outcome of a lawsuit

ANS: C PTS: 1 DIF: Easy OBJ: 2.5

NAT: AACSB Reflective Thinking | AICPA FN Measurement

91. Which of the following is an example of a disclosure of information NOT recognized that would be explained in the notes to the financial statements?
- The description of all the individual items that comprise notes payable
 - The disclosure of quarterly financial information

- c. The method used to estimate depreciation on a piece of equipment
- d. The disclosure of the uncertain, potential outcome of a lawsuit

ANS: D PTS: 1 DIF: Easy OBJ: 2.5
NAT: AACSB Reflective Thinking | AICPA FN Measurement

92. Which of the following is an example of additional information about summary totals that would be explained in the notes to the financial statements?
- a. The description of all the individual items that comprise notes payable
 - b. The disclosure of quarterly financial information
 - c. The method used to estimate depreciation on a piece of equipment
 - d. The disclosure of the uncertain, potential outcome of a lawsuit

ANS: A PTS: 1 DIF: Easy OBJ: 2.5
NAT: AACSB Reflective Thinking | AICPA FN Measurement

93. An independent audit report is usually issued by
- a. Management
 - b. A government accountant
 - c. A private detective
 - d. A certified public accountant

ANS: D PTS: 1 DIF: Easy OBJ: 2.6
NAT: AACSB Reflective Thinking | AICPA FN Reporting

94. In completing an audit of a company's financial statements, auditors
- a. Guarantee that the financial statements are accurate
 - b. Examine every transaction underlying the financial statements
 - c. Assume responsibility for the accuracy of the financial statements
 - d. Provide some assurance that the financial statements are not misleading

ANS: D PTS: 1 DIF: Easy OBJ: 2.6
NAT: AACSB Reflective Thinking | AICPA FN Reporting

95. The accuracy of the information contained in the financial statements is the responsibility of the
- a. Stockholders
 - b. Certified Public Accountant
 - c. Management
 - d. Securities and Exchange Commission

ANS: C PTS: 1 DIF: Easy OBJ: 2.6
NAT: AACSB Reflective Thinking | AICPA FN Reporting

96. Which of the following are the two economic factors that enable us to trust an independent auditor despite the fact that the auditor was hired by the company being audited?
- a. Reputation of auditor and government policy
 - b. Risk of lawsuits and integrity of auditor
 - c. Reputation of auditor and risk of lawsuits
 - d. Integrity of auditor and government policy

ANS: C PTS: 1 DIF: Easy OBJ: 2.6
NAT: AACSB Reflective Thinking | AICPA FN Reporting

97. The idea that the activities of the entity are to be separated from those of the individual owner is the
- a. Separate entity concept
 - b. Arm's-length transaction assumption
 - c. Money measurement concept
 - d. Going concern assumption

ANS: A PTS: 1 DIF: Easy OBJ: 2.7
NAT: AACSB Reflective Thinking | AICPA FN Measurement

98. The idea that both parties to a transaction must be rational and free to act independently is the
- Monetary measurement concept
 - Arm's-length transaction assumption
 - Going concern assumption
 - Cost principle

ANS: B PTS: 1 DIF: Easy OBJ: 2.7
NAT: AACSB Reflective Thinking | AICPA FN Measurement

99. The idea that transactions are recorded at their exchange prices at the transaction date is referred to as the
- Arm's-length transaction assumption
 - Monetary measurement principle
 - Cost principle
 - Going concern assumption

ANS: C PTS: 1 DIF: Easy OBJ: 2.7
NAT: AACSB Reflective Thinking | AICPA FN Measurement

100. The accounting idea that only items quantifiable in terms of U.S. currency are recorded is the
- Monetary measurement concept
 - Arm's-length transaction assumption
 - Going concern concept
 - Double-entry assumption

ANS: A PTS: 1 DIF: Easy OBJ: 2.7
NAT: AACSB Reflective Thinking | AICPA FN Measurement

101. The idea that businesses must be accounted for as though they will exist at least for the foreseeable future is the
- Going concern concept
 - Entity concept
 - Monetary measurement concept
 - Arm's-length transaction assumption

ANS: A PTS: 1 DIF: Easy OBJ: 2.7
NAT: AACSB Reflective Thinking | AICPA FN Measurement

102. Which of the following is an essential characteristic of the traditional accounting model?
- Going concern assumption
 - Cost principle
 - Entity concept
 - All of these are essential characteristics

ANS: D PTS: 1 DIF: Easy OBJ: 2.7
NAT: AACSB Reflective Thinking | AICPA FN Measurement

103. Suppose you decide to purchase a stereo and an independent store dealer offers to sell you a system that retails for \$4,000 for a price of \$3,695. After some negotiation, you purchase the system for \$3,400. The \$3,400 is considered the accounting measurement for the transaction because of the
- Going concern assumption
 - Fair value assumption
 - Double-entry assumption
 - Arm's-length transaction assumption

ANS: D PTS: 1 DIF: Medium OBJ: 2.7
NAT: AACSB Analytic | AICPA FN Measurement

104. Markanich Company purchased land for \$90,000 in 2010. In 2017, the land is valued at \$115,000. The land would appear on the company's books in 2017 at
- a. \$25,000
 - b. \$90,000
 - c. \$75,000
 - d. \$115,000

ANS: B PTS: 1 DIF: Medium OBJ: 2.7
NAT: AACSB Analytic | AICPA FN Measurement

PROBLEM

- The following financial statement was prepared by Schenck Corporation's accountant:

Schenck Corporation Balance Sheet December 31, 2017			
Assets		Liabilities and Equity	
Cash	\$ 6,000	Accounts Payable	\$ 4,000
Accounts Receivable	6,500	Notes Payable	<u>?</u>
Equipment	15,000	Total Liabilities	<u>\$ 9,500</u>
Building	<u>?</u>	Capital Stock (10,000	
Total Assets	<u>\$165,000</u>	shares @ \$10 per share)	\$120,000
		Retained Earnings	<u>?</u>
		Total Equity	<u>?</u>
		Total Liabilities and Equity	<u>?</u>

Based on the above Balance Sheet for Schenck Corporation, what are the correct balances for the accounts listed below:

- Building
- Notes Payable
- Total Liabilities and Equity
- Total Equity
- Retained Earnings

ANS:

- \$137,500 (\$165,000 – \$6,000 – \$6,500 – \$15,000)
- \$5,500 (\$9,500 – \$4,000)
- \$165,000 (same as Total Assets)
- \$155,500 (\$165,000 – \$9,500)
- \$35,500 (\$155,500 – \$120,000)

PTS: 1 DIF: Medium OBJ: 2.1

NAT: AACSB Analytic | AICPA FN Measurement

2. The comparative balance sheet for Earthwork Company is presented below:

Earthwork Company Comparative Balance Sheet December 31, 2017 and 2016		
	<u>12/31/17</u>	<u>12/31/16</u>
Assets		
Cash	\$39,000	\$32,500
Supplies	?	9,100
Land	52,000	52,000
Equipment	32,500	26,000
Liabilities and Equity		
Accounts payable	\$23,400	\$19,500
Notes payable	26,000	28,600
Capital stock	52,000	52,000
Retained earnings	35,100	?

Additional information for Earthwork's 2017 operations revealed that the company had revenues of \$65,000 for the year and no dividends were paid. Based on this information, compute the account balances below.

- Retained Earnings balance at 12/31/16
- Supplies balance at 12/31/17
- Total Current Assets as of 12/31/17
- Total expenses incurred for 2017

ANS:

- $\$19,500 = (\text{Total Assets at 12/31/16 of } \$119,600 - [\$19,500 + \$28,600 + \$52,000])$
- $\$13,000 = (\text{Total Liabilities and Equity at 12/31/17 of } \$136,500 - [\$39,000 + \$52,000 + \$32,500])$
- $\$52,000 = (\$39,000 + \$13,000)$
- $\$49,400 = (\text{R/E at 12/31/16} + \text{revenue} - \text{income at 12/31/17}) = (\$19,500 + \$65,000 - \$35,100)$

PTS: 1 DIF: Medium OBJ: 2.1
NAT: AACSB Analytic | AICPA FN Measurement

3. List the three categories of the balance sheet. For each category, provide the definition and examples of two types of accounts that are found in that particular category.

ANS:

Assets

Definition: economic resources that are owned or controlled by a company

Examples: Cash, Accounts Receivable, Supplies, Buildings (answers may vary)

Liabilities

Definition: obligations to pay cash, transfer other assets, or provide services to someone else

Examples: Accounts Payable, Taxes Payable, Mortgage Payable, Unearned Revenue (answers may vary)

Equity

Definition: the ownership interest in the net assets of an entity

Examples: Capital Stock, Retained Earnings (answers may vary)

PTS: 1 DIF: Medium OBJ: 2.1

NAT: AACSB Reflective Thinking | AICPA FN Measurement

4. On December 31, 2017, Pipe Company had the following account balances:

Mortgage payable	\$150,000
Taxes payable	15,000
Accounts receivable	35,000
Cash	25,000
Land	125,000
Capital stock	75,000
Equipment	75,000
Building	200,000
Accounts payable	50,000
Notes payable (due in 9 months)	45,000
Retained earnings	125,000

Given the above information, compute the following items:

- Current assets
- Total assets
- Current liabilities
- Total liabilities
- Total equity

ANS:

- $\$60,000 = (\$25,000 + \$35,000)$
- $\$460,000 = (\$25,000 + \$35,000 + \$75,000 + \$125,000 + \$200,000)$
- $\$110,000 = (\$15,000 + \$50,000 + \$45,000)$
- $\$260,000 = (\$15,000 + \$50,000 + \$45,000 + \$150,000)$
- $\$200,000 = (\$75,000 + \$125,000)$

PTS: 1 DIF: Medium OBJ: 2.1

NAT: AACSB Analytic | AICPA FN Measurement

5. The following information was taken from Hemp Corporation's books as of December 31, 2017:

Accounts receivable	\$ 80,000	Salaries payable	\$ 32,000
Mortgage payable	175,000	Accounts payable	40,000
Cash	57,000	Equipment	95,000
Services revenue	360,000	Buildings	325,000
Accumulated depreciation	105,000	Retained earnings	140,000
Notes payable (due in 5 months)	15,000	Capital stock	50,000

Prepare a classified balance sheet for the year ended December 31, 2017.

ANS:

Hemp Corporation Balance Sheet Year End December 31, 2017			
Current assets:			
Cash	\$ 57,000		
Accounts receivable	<u>80,000</u>		
Total current assets			137,000
Property, plant, and equipment:			
Equipment	95,000		
Buildings	325,000		
Less accumulated depreciation	<u>(105,000)</u>		
Total property, plant, and equipment			<u>315,000</u>
Total assets			<u>\$452,000</u>
Current liabilities:			
Accounts payable	\$ 40,000		
Salaries payable	32,000		
Notes payable	<u>15,000</u>		
Total current liabilities			87,000
Long-term liabilities:			
Mortgage payable	<u>175,000</u>		
Total long-term liabilities			<u>175,000</u>
Total liabilities			262,000
Equity:			
Capital stock	50,000		
Retained earnings	140,000		
Total equity			<u>190,000</u>
Total liabilities and equity			<u>452,000</u>

PTS: 1 DIF: Challenging OBJ: 2.1

NAT: AACSB Analytic | AICPA FN Measurement

6. Starworld Co. has the following balance sheet elements as of December 31, 2017.

Land	\$408,000	Mortgage payable	\$759,000
Cash	<u>?</u>	Capital stock	600,000
Building	675,000	Retained earnings	558,000
Accounts payable	303,000	Accounts receivable	357,000
Notes payable (short-term)	294,000		

Equipment 645,000

Required:

Compute the total amount of:

1. Current assets.
2. Long-term assets.
3. Current liabilities.
4. Long-term liabilities.
5. Equity.

ANS:

1.	Cash.....	\$ 213,000*
	Accounts receivable.....	357,000
	Inventory.....	<u>316,000</u>
	Total current assets.....	<u>\$886,000</u>

**Computations:*

Total liabilities plus stockholders' equity = Total current liabilities (\$597,000) + Long-term liabilities (\$759,000) + Total equity (\$1,158,000) = \$2,514,000.

Total current assets (\$786,000) = Total assets (\$2,514,000) – Total long-term assets (\$1,728,000).

Cash (\$213,000) = Total current assets (\$786,000) – Accounts receivable (\$357,000) – Inventory (\$316,000).

2.	Land.....	\$408,000
	Building.....	675,000
	Equipment.....	<u>645,000</u>
	Total long-term assets.....	<u>\$1,728,000</u>
3.	Accounts payable.....	\$303,000
	Notes payable (short-term).....	<u>294,000</u>
	Total current liabilities.....	<u>\$597,000</u>
4.	Mortgage payable (Total long-term liabilities).....	<u>\$759,000</u>
5.	Capital stock.....	\$600,000
	Retained earnings.....	<u>558,000</u>
	Total equity.....	<u>\$1,158,000</u>

PTS: 1 DIF: Medium OBJ: 2.1

NAT: AACSB Analytic | AICPA FN Measurement

7. The statement of comprehensive income for Highline Corporation is presented below:

Highline Corporation
Statement of Comprehensive Income
For the Year Ended December 31, 2017

Services revenue		\$	?
Expenses:			
Advertising expense	\$ 28,800		
Salaries expense	264,000		
Supplies expense	73,600		
Utilities expense	4,800		
Rent expense	<u>19,200</u>		
			<u>?</u>
Income before income tax			?
Income tax expense			<u>99,200</u>
Net income			\$230,400
Other comprehensive income			<u>0</u>
Comprehensive income			<u><u>\$230,400</u></u>
Earnings per Share		\$	<u><u>?</u></u>

Additional information for Highline's 2017 operations revealed that the company had beginning retained earnings of \$65,000 for the year, \$60,000 dividends were paid, and 10,000 shares of capital stock were outstanding. Based on this information, compute the items below.

- Income before income tax
- Total expense
- Services revenue
- Earnings per share

ANS:

- $\$329,600 = (\$230,400 + \$99,200)$
- $\$390,400 = (\$28,800 + \$264,000 + \$73,600 + \$4,800 + 19,200)$
- $\$720,000 = (\$329,600 + \$390,400)$
- $\$23.04 = (\$230,400 / 10,000 \text{ shares})$

PTS: 1 DIF: Medium OBJ: 2.2
NAT: AACSB Analytic | AICPA FN Measurement

8. For the year ended December 31, 2017, Southern Company had the following account balances:

Services revenue	\$445,000
Rent expense	60,000
Salary expense	200,000
Utility expense	45,000
Retained earnings (1/1/17)	130,000
Dividends paid	75,000
Interest expense	25,000

Given the above information, compute the following items:

- Total services revenue
- Total expenses
- Net income
- Retained earnings at 12/31/2017

ANS:

- \$445,000
- $\$330,000 = (\$60,000 + \$200,000 + \$45,000 + \$25,000)$
- $\$115,000 = (\$445,000 - \$330,000)$
- $\$170,000 = (\$130,000 + \$115,000 - \$75,000)$

PTS: 1 DIF: Medium OBJ: 2.2

NAT: AACSB Analytic | AICPA FN Measurement

9. The following information was taken from the Hall Corporation's books:

Accounts receivable	\$ 78,400	Salaries expense	\$132,000
Income tax expense	49,600	Accounts payable	40,000
Retained earnings	201,600	Supplies expense	36,800
Services revenue	360,000	Utilities expense	2,400
Advertising expense	14,400	Rent expense	9,600

Prepare a statement of comprehensive income for the year ended December 31, 2017 (assume that other comprehensive income is \$0 and 10,000 shares of stock are outstanding).

ANS:

Hall Corporation
Statement of Comprehensive Income
For the Year Ended December 31, 2017

Services revenue		\$360,000
Expenses:		
Advertising expense	\$ 14,400	
Salaries expense	132,000	
Supplies expense	36,800	
Utilities expense	2,400	
Rent expense	<u>9,600</u>	<u>195,200</u>
Income before income tax		164,800
Income tax expense		<u>49,600</u>

Net income	\$115,200
Other comprehensive income	<u>0</u>
Comprehensive income	<u>\$115,200</u>
Earnings per Share (\$115,200/10,000 shares)	<u>\$11.52</u>

PTS: 1 DIF: Challenging OBJ: 2.2
 NAT: AACSB Analytic | AICPA FN Measurement

10. Rita Skiss is the bookkeeper for Eastway Company. Rita has been trying to get the balance sheet of Eastway Company to balance. Eastway's balance sheet is shown as follows.

EASTWAY COMPANY				
Balance Sheet				
December 31, 2017				
Assets			Liabilities and Equity	
Equipment	\$192,000		Share capital—ordinary	\$200,000
Supplies	32,000		Retained earnings	70,000
Cash	54,000		Accounts payable	62,000
Dividends	20,000		Accounts receivable	(34,000)
Total assets	\$300,000		Total equity and liabilities	\$300,000

ANS:

EASTWAY COMPANY
 Balance Sheet
 December 31, 2017

Assets			
Cash		\$ 54,000	
Accounts receivable.....		34,000	
Supplies.....		32,000	
Equipment.....		<u>192,000</u>	
Total assets.....		<u>\$312,000</u>	
Equity and Liabilities			
Equity			
Share capital—ordinary.....	\$200,000		
Retained earnings (€70,000 – €20,000).....	<u>50,000</u>	<u>\$250,000</u>	
Liabilities			
Accounts payable.....		62,000	
Total equity and liabilities.....		<u>\$312,000</u>	

PTS: 1 DIF: Challenging OBJ: 2.2
 NAT: AACSB Analytic | AICPA FN Measurement

11. At the end of 2017, Spendid Systems, Inc., had a fire that destroyed the majority of its accounting records. Spendid Systems, Inc., was able to gather the following financial information for 2017.
- Retained earnings was changed only as a result of net income and a \$25,000 dividend payment to Spendid's investors.
 - All other account changes for the year are listed below. The amount of change for each account is shown as a net increase or decrease.

	<u>Increase or (Decrease)</u>
Cash	\$ 25,000
Interest receivable	(15,000)
Accounts receivable	(23,500)
Building	315,000
Accounts payable	45,000
Mortgage payable	175,000
Wages payable	(70,500)
Capital stock	52,500

Required:

Using the accounting equation, compute Spendid's net income for 2017.

ANS:

1. Compute net increase in assets:

Cash.....	\$ 25,000
Interest receivable.....	(15,000)
Inventory.....	100,000
Accounts receivable.....	(23,500)
Building.....	<u>315,000</u>
Net increase in assets.....	<u>\$401,500</u>

2. Compute net increase in liabilities:

Accounts payable.....	\$ 45,000
Mortgage payable.....	175,000
Wages payable.....	(70,500)
Net increase in liabilities.....	<u>\$149,500</u>

3. Figure overall increase in equity from net increases in assets and liabilities:

Net increase in assets.....	\$401,500
Less: Net increase in liabilities.....	<u>149,500</u>
Net increase in equity.....	<u>\$ 252,000</u>

PTS: 1 DIF: Challenging OBJ: 2.1/ 2.2

NAT: AACSB Analytic | AICPA FN Measurement

12. On January 1, 2017, Penrote Ltd., a company that provides flying lessons, was started with an investment of \$45,000 cash in the business. Following are the assets and liabilities of the company on January 31, 2017, and the revenues and expenses for the month of January (all amounts in thousands).

Cash	\$9,000	Notes Payable	\$56,000
Accounts Receivable	14,840	Rent Expense	2,000
Equipment	128,000	Maintenance and	
Service Revenue	13,600	Repairs Expense	800
Advertising Expense	1,000	Gasoline Expense	5,000
Accounts Payable	2,800	Utilities Expense	800

No additional investments were made in January, but the company paid dividends of \$960,000 during the month.

1. Prepare a statement of comprehensive income and a statement of retained earnings for the month of January and a balance sheet at January 31. (Show numbers in thousands.)

2. Prepare an statement of comprehensive income and a statement of retained earnings for May assuming the following data are not included above: (1) \$1,800,000 worth of services were perform and billed but not collected at January 31, and (2) \$3,000,000 of gasoline expense was incurred but not paid.

ANS:

1.

PENROTELTD.

Statement of Comprehensive Income (in thousands)

For the Month Ended January 31, 2017

Revenues	
Service revenue.....	\$13,600
Expenses	
Gasoline expense.....	\$5,000
Rent expense.....	2,000
Advertising expense.....	1,000
Utilities expense.....	800
Maintenance and repairs expense.....	<u>800</u>
Total expenses.....	<u>9,600</u>
Net income	\$ <u>4,000</u>

PENROTELTD.

Statement of Retained Earnings (in thousands)

For the Month Ended January 31, 2017

Retained Earnings, January 1.....	\$ 0
Add: Net income.....	<u>4,000</u>
	4,000
Less: Dividends.....	<u>960</u>
Retained earnings, January 31.....	\$ <u>3,040</u>

PENROTE LTD.

Balance Sheet (in thousands)
January 31, 2017

Assets		
Cash	\$ 9,000	
Accounts receivable.....	14,840	
Equipment	<u>128,000</u>	
Total assets.....	<u>151,840</u>	
Equity and Liabilities		
Equity		
Share capital—ordinary.....	\$90,000	
Retained earnings.....	<u>3,040</u>	
Total equity.....		\$93,040
Liabilities		
Notes payable.....	\$56,000	
Accounts payable.....	<u>2,800</u>	
Total liabilities.....	<u>58,800</u>	
Total equity and liabilities.....	<u>\$151,840</u>	

2. PENROTE LTD.
Statement of Comprehensive Income (in thousands)
For the Month Ended January 31, 2017

Revenues		
Service revenue (\$13,600 + \$1,800).....		\$15,400
Expenses		
Gasoline expense (\$5,000 + \$3,000).....	\$8,000	
Rent expense.....	2,000	
Advertising expense.....	1,000	
Utilities expense.....	800	
Maintenance and repairs expense.....	<u>800</u>	
Total expenses.....		<u>12,600</u>
Net income	<u>\$2,800</u>	

PENROTE LTD.
Statement of Retained Earnings (in thousands)
For the Month Ended January 31, 2017

Retained Earnings, January 1.....	\$ 0
Add: Net income.....	<u>2,800</u>
	2,800
Less: Dividends.....	<u>960</u>
Retained Earnings, January 31.....	<u>\$ 1,840</u>

PTS: 1 DIF: Challenging OBJ: 2.2/ 2.3
NAT: AACSB Analytic | AICPA FN Measurement

13. The total assets and liabilities of Osimi Company at January 1 and December 31, 2017, are presented below.

	January 1	December 31
Assets	\$206,000	\$334,000
Liabilities	144,000	176,000

Determine the amount of net income or loss for 2017, applying each of the following assumptions concerning the additional issuance of stock and dividends paid by the firm. Each case is independent of the others.

- Dividends of \$24,200 were paid and no additional stock was issued during the year.
- Additional stock of \$36,000 was issued and no dividends were paid during the year.
- Additional stock of \$144,000 was issued and dividends of \$24,800 were paid during the year.

ANS:

- Assets (increased \$128,000) = Liabilities (increased \$32,000) + Equity (increased \$96,000). If equity increased by \$96,000 and dividends of \$24,200 were paid, net income must have been $\$96,000 + \$24,200$, or \$120,200.
- Assets (increased \$128,000) = Liabilities (increased \$32,000) + Equity (increased \$96,000). If equity increased \$96,000 and \$36,000 of this was the result of additional issuance of stock, net income must have been $\$96,000 - \$36,000$, or \$60,000.
- Again, if equity increased by \$96,000 but additional stock was issued for \$144,000 and dividends of \$24,800 were paid, then the net loss must have been $\$96,000 - \$144,000 + \$24,800$, or (\$23,200).

PTS: 1 DIF: Challenging OBJ: 2.3
 NAT: AACSB Analytic | AICPA FN Measurement

14. On January 1, 2017, Sorenson Company had a retained earnings balance of \$780,000. During 2017, Sorenson Company earned a net income of \$145,000. Cash dividends of \$50,000 were paid during the year. Using this information, prepare a statement of retained earnings, in good form, for the year 2017.

ANS:

Sorenson Company Statement of Retained Earnings For the Year Ended December 31, 2017	
Retained earnings, January 1, 2017	\$780,000
Plus net income for the year	145,000
Less dividends	<u>(50,000)</u>
Retained earnings, December 31, 2017	<u>\$875,000</u>

PTS: 1 DIF: Challenging OBJ: 2.3
 NAT: AACSB Analytic | AICPA FN Measurement

15. The following report is supplied by Maxwell Sons Company:

Maxwell Sons Company Comparative Balance Sheet As of December 31, 2016 and 2017		
	2017	2016
Assets:		
Cash	\$ 28,000	\$ 19,000
Accounts receivable	21,000	14,000
Notes receivable	10,000	12,000
Land	<u>43,000</u>	<u>43,000</u>
Total assets	<u>\$ 102,000</u>	<u>\$ 88,000</u>
Liabilities and equity		
Accounts payable	\$ 9,000	\$8,000
Salaries and commissions payable	11,000	12,000
Notes payable	32,000	35,000
Capital stock	15,000	15,000
Retained earnings	<u>35,000</u>	<u>18,000</u>
Total liabilities and equity	<u>\$ 102,000</u>	<u>\$ 88,000</u>

Operating expenses for the year included utilities of \$5,700, salaries and commissions of \$38,700, and miscellaneous expenses of \$2,200. Income taxes for the year were \$4,500, and the company paid dividends of \$8,000.

Required:

- Compute the total expenses, including taxes, incurred in 2017.
- Compute the net income or net loss for 2017.
- Compute the total revenue for 2017.

ANS:

- $\$5,700 + \$38,700 + \$2,200 + \$4,500 = \$51,100$
- $\$35,000 \text{ (End. bal.)} - \$18,000 \text{ (Beg. bal.)} + \$8,000 \text{ (Dividends)} = \$25,000$
- $\$51,100 + \$25,000 = \$76,100$

PTS: 1 DIF: Challenging OBJ: 2.1 | 2.2
NAT: AACSB Analytic | AICPA FN Measurement

16. For each of the following items, indicate whether it would be classified as an operating activity, an investing activity, or a financing activity on the statement of cash flows.

- | | | |
|-------|----|--|
| _____ | a. | Cash payments for taxes |
| _____ | b. | Cash proceeds from the sale of land |
| _____ | c. | Cash receipts from providing services |
| _____ | d. | Cash proceeds from a long-term loan |
| _____ | e. | Issuance of stock for cash |
| _____ | f. | Cash payments for interest |
| _____ | g. | Cash payments for the purchase of equipment |
| _____ | h. | Cash payments for dividends paid to stockholders |

ANS:

- | | | |
|----|--|-----------|
| a. | Cash payments for taxes | Operating |
| b. | Cash proceeds from the sale of land | Investing |
| c. | Cash receipts from providing services | Operating |
| d. | Cash proceeds from a long-term loan | Financing |
| e. | Issuance of stock for cash | Financing |
| f. | Cash payments for interest | Operating |
| g. | Cash payments for the purchase of equipment | Investing |
| h. | Cash payments for dividends paid to stockholders | Financing |

PTS: 1 DIF: Medium OBJ: 2.4
 NAT: AACSB Analytic | AICPA FN Measurement

17. On December 31, 2017, Skidmore Company had the following cash flow data:

Cash paid for dividends	\$ 20,000
Cash collected from sale of building	90,000
Cash paid for wages	50,000
Cash received from issuing new shares of stock	600,000
Cash collected from customers	1,000,000
Cash paid to purchase supplies	500,000
Cash paid for income taxes	100,000
Cash paid for advertising	30,000
Cash paid for purchase of equipment	200,000
Cash paid on principal of loan	300,000
Cash paid for rent	60,000

Skidmore Company had a cash balance of \$750,000 on January 1, 2017. Given the above information, compute the following items:

- a. Net cash flow provided (used) by operating activities
- b. Net cash flow provided (used) by investing activities
- c. Net cash flow provided (used) by financing activities
- d. Net increase (decrease) in cash during 2017
- e. The cash balance at the end of 2017

ANS:

a. Operating activities:	
Cash paid for wages	\$(50,000)
Cash collected from customers	1,000,000
Cash paid to purchase supplies	(500,000)
Cash paid for income taxes	(100,000)
Cash paid for advertising	(30,000)
Cash paid for rent	<u>(60,000)</u>
Net operating activities	<u>\$ 260,000</u>
b. Investing activities:	
Cash collected from sale of building	\$90,000
Cash paid for purchase of equipment	<u>(200,000)</u>
Net investing activities	<u>\$ (110,000)</u>
c. Financing activities:	
Cash paid for dividends	\$(20,000)
Cash received from issuing new shares of stock	600,000
Cash paid on principal of loan	<u>(300,000)</u>
Net financing activities	<u>\$ 280,000</u>
d. Net change in cash:	
Operating activities	\$ 260,000
Investing activities	(110,000)
Financing activities	<u>280,000</u>
Net increase in cash during 2017	<u>\$ 430,000</u>
e. Cash balance at end of 2017:	
Beginning cash balance	\$ 750,000
Increase in cash during 2017	<u>430,000</u>
Ending cash balance	<u>\$1,180,000</u>

PTS: 1 DIF: Challenging OBJ: 2.4
 NAT: AACSB Analytic | AICPA FN Measurement

18. On December 31, 2017, Halloway Company had the following financial information on its books:

Total assets	\$365,000
Net increase in operating activities	425,000
Total liabilities	185,000
Net decrease in financing activities	250,000
Sales revenue	680,000
Total expenses	605,000
Net decrease in investing activities	135,000
Capital stock	30,000

Additional information for Halloway's 2017 operations revealed that the company had beginning retained earnings of \$120,000 for the year, a beginning cash balance of \$35,000, and dividends paid of \$45,000. Based on this information, compute the following items at December 31, 2017:

- Net increase/decrease in cash
- Total equity
- Net income
- Cash balance
- Retained earnings

ANS:

- $\$40,000 = (\$425,000 - \$135,000 - \$250,000)$
- $\$180,000 = (\$365,000 - \$185,000)$
- $\$75,000 = (\$680,000 - \$605,000)$
- $\$75,000 = (\$35,000 + \$40,000)$
- $\$150,000 = (\$120,000 + \$75,000 - \$45,000)$ or $(\$180,000 - \$30,000)$

PTS: 1 DIF: Medium OBJ: 2.4

NAT: AACSB Analytic | AICPA FN Measurement

19. While the four financial statements contain a lot of information, they don't tell the readers everything they may need to know about a company. Additional information can be found in the notes to the financial statements. Identify the four types of notes (be specific).

ANS:

- Summary of significant accounting policies.
- Additional information about the summary totals found in the financial statements.
- Disclosure of important information that is not recognized in the financial statements.
- Supplementary information required by the International Accounting Standards Board (IASB).

PTS: 1 DIF: Medium OBJ: 2.5

NAT: AACSB Reflective Thinking | AICPA FN Measurement

20. Financial accounting is based on certain fundamental concepts and assumptions. The importance of these items is that they allow the accountant to determine which events to account for and in what manner. Define the following:

- a. Separate entity concept
- b. Arm's-length transactions
- c. Cost principle
- d. Monetary measurement concept
- e. Going concern assumption

ANS:

- a. The idea that the activities of an entity are to be separated from those of the individual owners.
- b. Business dealings between independent and rational parties who are looking out for their own interests.
- c. The idea that transactions are recorded at their historical costs or exchange prices at the transaction date.
- d. The idea that money is the accounting unit of measurement, and that only economic activities measurable in monetary terms are included in the accounting model.
- e. The idea that an accounting entity will have a continuing existence for the foreseeable future.

PTS: 1 DIF: Medium OBJ: 2.7

NAT: AACSB Reflective Thinking | AICPA FN Measurement

21. The following situations involve accounting principles and assumptions.

1. Yang Company holds equity securities that are worth substantially more than they originally cost. In an effort to provide more relevant information, Yang reports the equity securities at fair value in its accounting reports.
2. Sami Company AG includes in its accounting records only transaction data that can be expressed in terms of money.
3. Han Foster, president of Akira Recreation company, records his personal living costs as expenses of the Akira.

For each of the three situations, state if the accounting method used is correct or incorrect. If correct, identify which standard or assumption supports the method used. If incorrect, identify which standard or assumption has been violated.

ANS:

1. Correct. The *fair value principle* requires companies to use fair value to measure a company's holdings of equity securities.
2. Correct. The *monetary unit assumption* requires that companies include in the accounting records only transaction data that can be expressed in terms of money.
3. Incorrect. The *economic entity assumption* requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.

PTS: 1 DIF: Medium OBJ: 2.7

NAT: AACSB Reflective Thinking | AICPA FN Measurement