

Chapter 01 Introducing Accounting in Business

True / False Questions

[Question]

1. Accounting is an information and measurement system that identifies records and communicates financial information to users.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C1

[Question]

2. Bookkeeping is the sole purpose of accounting.

Answer: FALSE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C1

[Question]

3. Accounting is one way important information about businesses are reported to decision makers.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C2

[Question]

4. Managerial accounting is an area of accounting that provides internal reports to assist the decision making needs of internal users.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C2

[Question]

5. The internal operating functions of businesses include research and development, distribution and human resources.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C2

[Question]

6. The primary objective of financial accounting is to provide general-purpose financial statements to help external users analyze and interpret an organization's activities.

Answer: True

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C2

[Question]

7. An external audit report is a professional opinion about whether the financial statements are prepared according to generally accepted accounting principles.

Answer: True

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C2

[Question]

8. Internal users of accounting information include lenders, shareholders, brokers and managers.

Answer: FALSE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C2

[Question]

9. Auditors are banned from direct investments with their clients.

Answer: TRUE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

10. Ownership of a corporation is divided into units called shares or stock.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C4

[Question]

11. The Financial Accounting Standards Board is a private group that sets both broad and specific accounting principles.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C4

[Question]

12. Generally accepted accounting principles are the basic assumptions, concepts and guidelines for preparing financial statements.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C4

[Question]

13. The business entity assumption requires that a business be accounted for separately from other business entities, including its owner or owners.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C4

[Question]

14. Unlimited liability is an advantage of all sole proprietorships.

Answer: FALSE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

15. Understanding generally accepted accounting principles is not necessary when using and interpreting financial statements.

Answer: FALSE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

16. The International Accounting Standards Board (IASB) has the authority to impose its standards on companies around the world.

Answer: FALSE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

17. According to the cost principle, it is preferable for managers to report the most current estimate of an asset's value.

Answer: FALSE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

18. The International Accounting Standards Board (IASB) is the government group that establishes reporting requirements for companies that issue stock to the public.

Answer: FALSE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

19. The International Accounting Standards Board (IASB) issues International Financial Reporting Standards (IFRS) that identify preferred accounting practices.

Answer: True

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

20. The Securities and Exchange Commission (SEC) is an agency of the federal government that establishes reporting requirements for companies that issue stock to the public.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C4

[Question]

21. The three major activities of a business are operating, investing and financing.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C5

[Question]

22. Planning refers to defining an organization's ideas, goals and actions.

Answer: TRUE

Bloom's Taxonomy: Remember

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Easy

Learning Objective: 01-C5

[Question]

23. Investing activities are the acquiring and selling of resources that an organization uses in its everyday operations.

Answer: TRUE

Bloom's Taxonomy: Remember

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-C5

[Question]

24. Owner financing refers to resources contributed by creditors or lenders.

Answer: FALSE

Bloom's Taxonomy: Remember

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-C5

[Question]

25. Revenues are increases in retained earnings from a company's earnings activities.

Answer: TRUE

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Easy

Learning Objective: 01-A1

[Question]

26. A net loss arises when revenues exceed expenses.

Answer: FALSE

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Easy

Learning Objective: 01-A1

[Question]

27. Expenses decrease retained earnings and are the costs acquired to earn revenues.

Answer: TRUE

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Easy

Learning Objective: 01-A1

[Question]

28. Assets are the resources owned or controlled by a business.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

29. Dividends are expenses of a business.

Answer: FALSE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

30. The accounting equation can be restated as: Assets - Equity = Liabilities.

Answer: TRUE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

31. The accounting equation implies that: $\text{Assets} + \text{Liabilities} = \text{Equity}$.

Answer: FALSE

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

32. The legitimate claims of a business's creditors take precedence over the claims of its stockholders.

Answer: TRUE

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-A1

[Question]

33. Every business transaction should leave the accounting equation in balance.

Answer: TRUE

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A2

[Question]

34. The Retained earnings is increased when cash is received from customers in payment of previously recorded accounts receivable.

Answer: FALSE

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A2

[Question]

35. An owner's investment in a business always creates an asset (cash), a liability (note payable) and an equity (common stock).

Answer: FALSE

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A2

[Question]

36. Return on assets is useful to decision makers for evaluating management, analyzing and forecasting profits and in planning activities.

Answer: TRUE

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A3

[Question]

37. Reebok's net income of \$119 million and average assets of \$1,400 million results in a return on assets of 8.5%.

Answer: TRUE

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-A3

[Question]

38. Risk is the amount of uncertainty about the return we expect to earn in the future.

Answer: TRUE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
AICPA FN: Risk Analysis
Difficulty: Easy
Learning Objective: 01-A3

[Question]

39. The balance sheet shows whether or not the firm achieved its primary objective of earning a profit.

Answer: FALSE

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

40. The four basic financial statements include the balance sheet, income statement, statement of retained earnings and statement of cash flows.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

41. A balance sheet covers a period of time, such as a month or year.

Answer: FALSE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

42. The income statement is a financial statement that shows revenues earned and expenses incurred during a specified period of time.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

43. The statement of cash flows shows the net effect of revenues and expenses for a reporting period.

Answer: FALSE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

44. The income statement shows the financial position of a business on a specific date.

Answer: FALSE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

45. The first section of the income statement reports cash from operations.

Answer: FALSE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

46. The balance sheet is based on the accounting equation.

Answer: TRUE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

47. Owner's investments and dividends are reported on the income statement.

Answer: FALSE

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

48. Investing activities involve the buying and selling of assets such as land and equipment that are held for long-term use in the business.

Answer: TRUE

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

49. Operating activities include long-term borrowing and repaying cash from lenders and cash investments by owners or dividends to the owner.

Answer: FALSE

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

50. The purchase of supplies must appear on the statement of cash flows as an investing activity because it involves the purchase of assets.

Answer: FALSE

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

51. The income statement reports on operating activities at a specific point in time.

Answer: FALSE

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

52. The statement of cash flows reports on cash flows separated into operating, investing and financing activities over a period of time.

Answer: TRUE

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

53. Chuck Taylor invested \$175,000 in cash in Fast-Forward. This amount would be reported in the statement of cash flows under financing activities.

Answer: TRUE

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

54. Fast-Forward paid \$6,000 in dividends. This amount should be included as an expense on the income statement.

Answer: FALSE

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

Multiple Choice Questions

[Question]

55. Which of the following is the primary purpose of accounting?

- A. To establish a business
- B. To identify, record and communicate business transactions
- C. To deceive stockholders
- D. To keep from paying taxes
- E. To establish credit for a company

Answer: B

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C1

[Question]

56. Technological advancement

- A. Has replaced accounting
- B. Has not changed the work that accountants do
- C. Has freed accounting professionals to concentrate more on the analysis and interpretation of information
- D. In accounting has replaced the need for decision makers
- E. In accounting is only available to large corporations

Answer: C

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C1

[Question]

57. Identifying business activities requires selecting transactions and events relevant to an organization. Which of the following events would be recorded in the accounting records of Acme Car Wash?

- A. Acme washes 500 cars
- B. J.B. Smith, a customer, buys lunch at the restaurant next door to Acme while waiting for her car to be washed
- C. Clean Company, a supplier, sells 50 pounds of soap to ABC Company
- D. Sudsey Company, a supplier, goes out of business
- E. Acme hires Andrea as a receptionist

Answer: A

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C1

[Question]

58. Internal users of accounting information include:

- A. Shareholders
- B. Customers
- C. Creditors
- D. Government regulators
- E. Line Supervisor

Answer: E

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C2

[Question]

59. The primary objective of financial accounting is:

- A. To serve the decision-making needs of internal users
- B. To provide financial statements to help external users analyze and interpret an organization's activities
- C. To monitor and control company activities
- D. To provide information on both the costs and benefits of managing products and services
- E. To know what, when and how much to produce

Answer: B

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Easy

Learning Objective: 01-C2

[Question]

60. Internal users of accounting information always include:

- A. Shareholders
- B. Managers
- C. Lenders
- D. Suppliers
- E. Customers

Answer: B

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Easy

Learning Objective: 01-C2

[Question]

61. The area of accounting aimed at serving the decision making needs of internal users is:

- A. Financial accounting
- B. Managerial accounting
- C. External auditing
- D. SEC reporting
- E. Governmental accounting

Answer: B

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C2

[Question]

62. The financing functions of a business include:

- A. Research and development
- B. Purchasing
- C. Marketing
- D. Distribution
- E. Selling common stock

Answer: E

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C5

[Question]

63. Which of the following statements is true of external information users?

- A. They are directly involved in managing the organization
- B. Their needs are met by the managerial area of accounting
- C. They have limited access to an organization's accounting information
- D. They use accounting information to help improve the efficiency and effectiveness of an organization
- E. They are the only users of accounting information who rely on internal controls to monitor company activities

Answer: C

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C2

[Question]

64. Which accounting assumption assumes that all accounting information is reported monthly or yearly?

- A. Business entity assumption
- B. Monetary unit assumption
- C. Value assumption
- D. Cost assumption
- E. Time period assumption

Answer: E

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C4

[Question]

65. Which of the following accounting principles dictates when expenses are recognized?

- A. Revenue recognition principle
- B. Monetary unit principle
- C. Business entity principle
- D. Matching principle
- E. Full disclosure principle

Answer: D

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C4

[Question]

66. Which of the following is the correct sequence for the heading for ABC Company's 2010 Balance Sheet?

- A. ABC Company, For the year ended 12/31/10, Balance Sheet
- B. For the year ended 12/31/10, Balance Sheet, ABC Company
- C. Balance Sheet, 12/31/10, ABC Company
- D. 12/31/10, ABC Company, Balance Sheet
- E. ABC Company, Balance Sheet, 12/31/10

Answer: E

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C5

[Question]

67. Which of the following elements are found on the income statement?

- A. Cash
- B. Accounts Receivable
- C. Common Stock
- D. Retained Earnings
- E. Salaries Expense

Answer: E

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

68. An Asset is:

- A. only acquired with cash
- B. something the company owns
- C. only contributed by stockholders
- D. a company's obligation to pay
- E. is also called contributed capital

Answer: B

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

69. Ethical behavior requires:

- A. That an auditors' pay not depend on the figures in the client's reports
- B. Auditors to invest in businesses they audit
- C. Analysts to report information favorable to their companies
- D. Managers to use accounting information to benefit themselves
- E. That an auditor provides a favorable opinion

Answer: A

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C4

[Question]

70. Social responsibility:

- A. Is a concern for the impact of one's actions on society as a whole
- B. Is a code that helps in dealing with confidential information
- C. Is required by the SEC
- D. Requires that all businesses conduct social audits
- E. Is mandated by the federal government

Answer: A

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Diversity
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

71. Which of the following elements are found on the Balance Sheet?

- A. Service Revenue
- B. Net Income
- C. Operating Activities
- D. Utilities Expense
- E. Retained Earnings

Answer: E

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Diversity
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C4

[Question]

72. The accounting guideline prescribing that financial statement information be supported by independent, unbiased evidence other than someone's belief or opinion is the:

- A. Business entity principle
- B. Monetary unit principle
- C. Going-concern principle
- D. Cost principle
- E. Measurement principle

Answer: E

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C4

[Question]

73. Businesses can take all of the following forms except:

- A. Sole proprietorship
- B. Common stock
- C. Partnership
- D. Corporation
- E. Limited Liability Corporation

Answer: B

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

74. A corporation:

- A. Is a legal entity separate and distinct from its owners
- B. Must have many owners
- C. Has shareholders who have unlimited liability for the acts of the corporation
- D. Is the same as a limited liability partnership
- E. Does not have to pay taxes

Answer: A

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

75. Generally Accepted Accounting Principles:

- A. Focus on the review of a situation
- B. Does not require financial statements
- C. Never change
- D. Intend to make information on the financial statements relevant, reliable and comparable
- E. Oversees Security and Exchange Commission

Answer: D

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

76. The organization that attempts to create more harmony among the accounting practices of different countries by identifying preferred practices and encouraging their worldwide acceptance is the:

- A. AICPA
- B. FASB
- C. CAP
- D. SEC
- E. IASB

Answer: E

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Diversity
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

77. The private board that currently has the authority to establish U.S. generally accepted accounting principles is the:

- A. APB
- B. FASB
- C. AAA
- D. AICPA
- E. SEC

Answer: B

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

78. Which of the following statements best describes the relationship of U.S. GAAP and IFRS?

- A. They are identical
- B. They are entirely different conceptual frameworks
- C. They are similar but not identical
- D. Neither has anything to do with accounting
- E. They both relate only to publicly traded companies

Answer: C

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

79. The principle prescribing that financial statements reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue is the:

- A. Going-concern principle
- B. Business entity principle
- C. Objectivity principle
- D. Cost Principle
- E. Monetary unit principle

Answer: A

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

80. A parcel of land is: offered for sale at \$150,000, assessed for tax purposes at \$95,000, recognized by its purchasers as being worth \$140,000 and purchased for \$137,000. The land should be recorded in the purchaser's books at:

- A. \$95,000
- B. \$137,000
- C. \$138,500
- D. \$140,000
- E. \$150,000

Answer: B

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

81. To include the personal assets and transactions of a business's owner in the records and reports of the business would be in conflict with the:

- A. Objectivity principle
- B. Realization principle
- C. Business entity principle
- D. Going-concern principle
- E. Revenue recognition principle

Answer: C

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

82. The accounting principle that requires accounting information to be based on actual cost and requires assets and services to be recorded initially at the amount of cash or cash-equivalent given in exchange is the:

- A. Accounting equation
- B. Cost principle
- C. Going-concern principle
- D. Realization principle
- E. Business entity principle

Answer: B

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

83. Recording the items on the financial statements in dollars is:

- A. Objectivity principle
- B. Monetary unit principle
- C. Revenue recognition principle
- D. Going-concern principle
- E. Cost principle

Answer: B

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AACSB: Ethics

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-C4

[Question]

84. The objectivity principle:

- A. Means that information is supported by independent, unbiased evidence
- B. Means that information can be based on what the preparer thinks is true
- C. Means that financial statement should contain information that is optimistic
- D. Means that a business may not recognize revenue until cash is received
- E. Means the assets acquired must be recorded and what the company paid for them

Answer: A

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-C4

[Question]

85. The principle that (1) requires revenue to be recognized at the time it is earned, (2) allows the inflow of assets associated with revenue to be in a form other than cash and (3) measures the amount of revenue as the cash plus the cash equivalent value of any non-cash assets received from customers in exchange for goods or services is called the:

- A. Going-concern principle
- B. Cost principle
- C. Revenue recognition principle
- D. Objectivity principle
- E. Business entity principle

Answer: C

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

86. The question of when revenue should be recognized on the income statement (according to GAAP) is addressed by the:

- A. Revenue recognition principle
- B. Going-concern principle
- C. Objectivity principle
- D. Business entity principle
- E. Cost principle

Answer: A

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

87. The International Accounting Standards Board (IASB)

- A. Hopes to create harmony among accounting practices of different countries
- B. Is the government group that establishes reporting requirements for companies that issue stock to the public
- C. Has the authority to impose its standards on companies
- D. Is the only source of U.S. generally accepted accounting principles (GAAP)
- E. Applies only to companies that are members of the European Union

Answer: A

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AACSB: Diversity

AACSB: Ethics

AICPA BB: Critical Thinking

AICPA BB: Global

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-C4

[Question]

88. The Maximum Experience Company acquired a building for \$500,000. Maximum Experience had an appraisal done and found that the building was worth \$575,000. The seller had paid \$300,000 for the building 6 years ago. Which accounting principle would prescribe that Maximum Experience record the building on its records at \$500,000?

- A. Monetary unit principle
- B. Going-concern principle
- C. Cost principle
- D. Business entity principle
- E. Revenue recognition principle

Answer: C

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-C4

[Question]

89. On December 15, 2010, Myers Legal Services signed a \$50,000 contract with a client to provide legal services to the client in 2011. Which accounting principle would require Myers Legal Services to record the legal fees revenue in 2011 and not 2010?

- A. Monetary unit principle
- B. Going-concern principle
- C. Cost principle
- D. Business entity principle
- E. Revenue recognition principle

Answer: E

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

90. Marian Mosely is the owner of Mosely Accounting Services. Which accounting assumption requires Marian to keep her personal financial information separate from the financial information of Mosely Accounting Services?

- A. Monetary unit assumption
- B. Going-concern assumption
- C. Cost assumption
- D. Business entity assumption
- E. None of these. Since Marian is a sole proprietor, she is not required to separate her personal financial information from the financial information of Mosely Accounting Services

Answer: D

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

91. Congress passed the Sarbanes-Oxley Act to

- A. Provide jobs to U.S. accountants and limit the number of jobs sent outside the country
- B. Impose penalties on CEO's and CFO's who knowingly sign off on bogus accounting reports, although at this time the penalties are token amounts
- C. Help curb financial abuses at companies that issue their stock to the public
- D. Force auditors to attest to the absolute accuracy of the financial statements
- E. Require that all companies publicly disclose their internal control plans

Answer: C

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AACSB: Ethics

AICPA BB: Critical Thinking

AICPA BB: Global

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Decision Making

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-C4

[Question]

92. A limited partnership:

- A. Includes a general partner with unlimited liability
- B. Is subject to double taxation
- C. Has owners called stockholders
- D. Is the same as a corporation
- E. Must only have two partners

Answer: A

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA BB: Legal

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-C4

[Question]

93. A partnership:

- A. Is also called a sole proprietorship
- B. Has unlimited liability
- C. Has to have a written agreement in order to be legal
- D. Is a legal organization separate from its owners
- E. Has owners called shareholders

Answer: B

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C4

[Question]

94. According to generally accepted accounting principles, a company's balance sheet should show the company's assets at:

- A. The cash equivalent value of what was given up
- B. The current market value of the assets at the balance sheet date
- C. The cash paid to acquire them, even if something other than cash was given in the exchange
- D. The best estimate from a certified internal auditor
- E. The objective value to external users

Answer: A

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C4

[Question]

95. The amounts reported in the accounts for assets used in operations are based on their costs. This practice is best justified by the:

- A. Cost principle
- B. Going-concern principle
- C. Objectivity principle
- D. Business entity principle
- E. Revenue recognition principle

Answer: A

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C4

[Question]

96. Which of the following accounting principles would prescribe that all goods and services purchased is recorded at cost?

- A. Going-concern principle
- B. Continuing-concern principle
- C. Cost principle
- D. Business entity principle
- E. Consideration principle

Answer: C

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C4

[Question]

97. Revenue is properly recognized:

- A. When the customer's order is received
- B. Only if the transaction creates an account receivable
- C. At the end of the accounting period
- D. Upon completion of the sale or when services have been performed and the business obtains the right to collect the sale price
- E. When cash from a sale is received

Answer: D

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C4

[Question]

98. An example of a financing activity is:

- A. Buying office supplies
- B. Obtaining a long-term loan
- C. Buying office equipment
- D. Selling inventory
- E. Buying land

Answer: B

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C5

[Question]

99. An example of an operating activity is:

- A. Paying wages
- B. Purchasing office equipment
- C. Borrowing money from a bank
- D. Selling stock
- E. Paying off a loan

Answer: A

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C5

[Question]

100. Planning activities:

- A. Are the means organizations must use to pay for resources
- B. Involve the acquiring and disposing of resources that an organization uses to acquire and sell its products or services
- C. Involve defining the ideas, goals and actions of an organization
- D. Are the carrying out of an organization's plans
- E. Involve using resources to research, develop, purchase, produce and market products and services

Answer: C

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C5

[Question]

101. Operating activities:

- A. Are the means organizations must use to pay for resources like land, buildings and equipment
- B. Involve using resources to research, develop, purchase, produce, distribute and market products and services
- C. Involve acquiring and disposing of resources that a business uses to acquire and sell its products or services
- D. Are also called asset management
- E. Are also called strategic management

Answer: B

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C5

[Question]

102. The major activities of a business include:

- A. Operating, Investing, Making a Profit
- B. Investing, Making a Profit, Operating
- C. Making a Profit, Operating, Borrowing
- D. Operating, Investing, Financing
- E. Investing, Making a Profit Financing

Answer: D

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C5

[Question]

103. An example of an investing activity is:

- A. Paying wages of employees
- B. Paying dividends
- C. Purchasing land
- D. Selling inventory
- E. Contribution from owner

Answer: C

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C5

[Question]

104. Net Income:

- A. Decreases equity
- B. Represents the amount of assets owners put into a business
- C. Equals assets minus liabilities
- D. Is the excess of revenues over expenses
- E. Represents the owners' claims against assets

Answer: D

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

105. If equity is \$300,000 and liabilities are \$192,000, then assets equal:

- A. \$108,000
- B. \$192,000
- C. \$300,000
- D. \$492,000
- E. \$792,000

Answer: D

Feedback: Assets = \$192,000 + \$300,000 = \$492,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

106. Resources owned or controlled by a company that are expected to yield benefits are:

- A. Assets
- B. Revenues
- C. Liabilities
- D. Stockholder's Equity
- E. Expenses

Answer: A

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

107. Increases in retained earnings from a company's earnings activities are:

- A. Assets
- B. Revenues
- C. Liabilities
- D. Stockholder's Equity
- E. Expenses

Answer: B

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

108. Net income is:

- A. Assets minus liabilities
- B. The excess of revenues over expenses
- C. An asset
- D. The same as revenue
- E. The excess of expenses over retained earnings

Answer: B

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

109. The difference between a company's assets and its liabilities or its net assets is:

- A. Net income
- B. Expense
- C. Equity
- D. Revenue
- E. Net loss

Answer: C

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

110. Creditors' claims on the assets of a company are called:

- A. Net losses
- B. Expenses
- C. Revenues
- D. Equity
- E. Liabilities

Answer: E

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

111. Decreases in retained earnings that represent costs of assets or services that are used to earn revenues are called:

- A. Liabilities
- B. Equity
- C. Withdrawals
- D. Expenses
- E. Contributed Capital

Answer: D

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

112. The description of the relation between a company's assets, liabilities and equity, which is expressed as $\text{Assets} = \text{Liabilities} + \text{Equity}$ is known as the:

- A. Income statement equation
- B. Accounting equation
- C. Business equation
- D. Return on equity ratio
- E. Net income

Answer: B

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

113. Assets = Liabilities + Equity is known as the:

- A. Income statement equation
- B. Cost principle
- C. Objectivity principle
- D. Accounting equation
- E. Transaction principle

Answer: D

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

114. Expenses:

- A. Increase retained earnings
- B. Are increases in retained earnings from a company's earning activity
- C. Are the costs of assets or services used to earn revenues
- D. Occur when retained earnings exceed revenue
- E. Are creditor's claims on assets

Answer: C

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

115. Net income:

- A. Occurs when revenues exceed expenses
- B. Is the same as revenue
- C. Equals resources owned or controlled by a company
- D. Occurs when expenses exceed assets
- E. Represents assets taken from a company for an owner's personal use

Answer: A

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

116. Revenues are:

- A. The same as net income
- B. The excess of expenses over assets
- C. Resources owned or controlled by a company
- D. Increases in retained earnings from a company's earning activities
- E. The costs of assets or services used

Answer: D

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

117. If liabilities are \$51,500 and assets are \$173,425, then equity equals:

- A. \$224,925
- B. \$51,500
- C. \$173,425
- D. \$121,925
- E. \$103,000

Answer: D

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

118. If assets are \$99,000 and liabilities are \$32,000, then equity equals:

- A. \$32,000
- B. \$67,000
- C. \$99,000
- D. \$131,000
- E. \$198,000

Answer: B

Feedback: Equity = \$99,000 - \$32,000 = \$67,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

119. Another name for equity is:

- A. Net income
- B. Expenses
- C. Net assets
- D. Revenue
- E. Net loss

Answer: C

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

120. The excess of expenses over revenues for a period is:

- A. Net assets
- B. Equity
- C. Net loss
- D. Net income
- E. A liability

Answer: C

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

121. Which of the following statements is not true about assets?

- A. They are economic resources owned or controlled by the business
- B. They are expected to provide future benefits to the business
- C. They appear on the balance sheet
- D. They appear on the statement of retained earnings
- E. Claims on them are shared between creditors and owners

Answer: D

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

122. The distribution of assets to stockholders is called a(n):

- A. Liability
- B. Dividend
- C. Expense
- D. Contribution
- E. Investment

Answer: B

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

123. Distributions of assets by a business to its stockholders are called:

- A. Dividends
- B. Expenses
- C. Assets
- D. Retained earnings
- E. Net Income

Answer: A

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

124. The balance sheet equation is:

- A. Revenues minus expenses equal net income
- B. Debits equal credits
- C. The bookkeeping phase of accounting
- D. Another name for the accounting equation
- E. Assets minus liabilities and equity

Answer: D

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

125. The assets of a company total \$700,000; the liabilities, \$200,000. What are the total claims of the owners?

- A. \$900,000
- B. \$700,000
- C. \$500,000
- D. \$200,000
- E. It is impossible to determine unless the amount of owners' investment is known

Answer: C

Feedback: $\$700,000 - \$200,000 = \$500,000$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

126. Our company has three times as many assets as it does liabilities. If total liabilities are \$55,000, what is the amount of owners' equity?

- A. \$55,000
- B. \$110,000
- C. \$165,000
- D. \$220,000
- E. Cannot be determined from the given information

Answer: B

Feedback:

Assets = 3 (55,000) = 165,000

Assets 165,000 - Liabilities 55,000 = Owners' Equity 110,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-A1

[Question]

127. A company has twice as much owner's equity as it does liabilities. If total liabilities are \$50,000, what amounts of assets are owned by the company?

- A. \$50,000
- B. \$100,000
- C. \$150,000
- D. \$200,000
- E. Cannot be determined from the given information

Answer: C

Feedback:

Owners' Equity = 2 (50,000) = 100,000

Assets = Liabilities 50,000 + Owners' Equity 100,000

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-A1

[Question]

128. Which of the following statements regarding account classification is true?

- A. Assets and revenues are the same thing
- B. If employees have not yet been paid for their work, the company has wages payable
- C. Retained earnings equal cash which the company has earned and kept
- D. Revenue is another term for profit
- E. Revenue minus expense equals retained earnings

Answer: B

Bloom's Taxonomy: Apply

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-A1

[Question]

129. If assets are \$365,000 and equity is \$120,000, then liabilities are:

- A. \$120,000
- B. \$245,000
- C. \$365,000
- D. \$485,000
- E. \$610,000

Answer: B

Feedback: Liabilities = \$365,000 - \$120,000 = \$245,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A2

[Question]

130. Assets created by selling goods and services on credit are:

- A. Accounts payable
- B. Accounts receivable
- C. Liabilities
- D. Expenses
- E. Equity

Answer: B

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A2

[Question]

131. An exchange of value between two entities is called:

- A. The accounting equation
- B. Recordkeeping or bookkeeping
- C. A business transaction
- D. An asset
- E. Net Income

Answer: C

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A2

[Question]

132. Photometer Company paid off \$30,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?

- A. Assets, \$30,000 increase; liabilities, no effect; equity, \$30,000 increase
- B. Assets, \$30,000 decrease; liabilities, \$30,000 decrease; equity, no effect
- C. Assets, \$30,000 decrease; liabilities, \$30,000 increase; equity, no effect
- D. Assets, no effect; liabilities, \$30,000 decrease; equity, \$30,000 increase
- E. Assets, \$30,000 decrease; liabilities, no effect; equity \$30,000 decrease

Answer: B

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A2

[Question]

133. How would the accounting equation of Boston Company be affected by the billing of a client for \$10,000 of consulting work completed?

- A. +\$10,000 accounts receivable, -\$10,000 accounts payable
- B. +\$10,000 accounts receivable, +\$10,000 accounts payable
- C. +\$10,000 accounts receivable, +\$10,000 cash
- D. +\$10,000 accounts receivable, +\$10,000 consulting revenue
- E. +\$10,000 accounts receivable, -\$10,000 consulting revenue

Answer: D

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A2

[Question]

134. Apatha Company has assets of \$600,000, liabilities of \$250,000 and equity of \$350,000. It buys office equipment on credit for \$75,000. The effects of this transaction include:

- A. Assets increase by \$75,000 and expenses increase by \$75,000
- B. Assets increase by \$75,000 and expenses decrease by \$75,000
- C. Liabilities increase by \$75,000 and expenses decrease by \$75,000
- D. Assets decrease by \$75,000 and expenses decrease by \$75,000
- E. Assets increase by \$75,000 and liabilities increase by \$75,000

Answer: E

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A2

[Question]

135. Viscount Company collected \$42,000 cash on its accounts receivable. How does this transaction affect the company's accounting equation?

- A. Assets decrease and equity increases
- B. Both assets and liabilities decrease
- C. Assets, liabilities and equity are unchanged
- D. Both assets and equity are unchanged and liabilities increase
- E. Assets increase and equity decreases

Answer: C

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A2

[Question]

136. If the liabilities of a business increased \$75,000 during a period of time and the equity in the business decreased \$30,000 during the same period, the assets of the business must have:

- A. Decreased \$105,000
- B. Decreased \$45,000
- C. Increased \$30,000
- D. Increased \$45,000
- E. Increased \$105,000

Answer: D

Feedback:

Change in Assets = Change in Liabilities + Change in Equity

Change in Assets = \$75,000 + (-\$30,000) = +\$45,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-A2

[Question]

137. If the assets of a business increased \$89,000 during a period of time and its liabilities increased \$67,000 during the same period, equity in the business must have:

- A. Increased \$22,000
- B. Decreased \$22,000
- C. Increased \$89,000
- D. Decreased \$156,000
- E. Increased \$156,000

Answer: A

Feedback:

Change in Assets = Change in Liabilities + Change in Equity

Change in Assets = + \$89,000 - \$67,000 = +\$22,000

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-A2

[Question]

138. If the assets of a business increased \$15,000 during a period of time and its equity decreased \$4,000 during the same period, liabilities in the business must have:

- A. Increased \$11,000
- B. Decreased \$11,000
- C. Increased \$19,000
- D. Decreased \$19,000
- E. Increased \$61,000

Answer: C

Feedback: Change in Assets = Change in (Liabilities + Equity) +15,000 = x -4,000

x = +19,000

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-A2

[Question]

139. Beta Corporation purchased \$100,000 worth of land by paying 10,000 cash and signing a \$90,000 mortgage. Immediately prior to this transaction the corporation had assets, liabilities and owners' equity in the amounts of \$150,000; \$30,000; and \$120,000 respectively. What is the total amount of Beta Corporation's assets after this transaction has been recorded?

- A. \$240,000
- B. \$250,000
- C. \$160,000
- D. \$40,000
- E. \$260,000

Answer: A

Feedback: $150,000 \text{ (assets prior to transaction)} + 100,000 \text{ (land)} - (10,000) \text{ cash} = 240,000$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-A2

[Question]

140. A corporation purchased a \$40,000 delivery truck by paying 4,000 cash and signing a \$36,000 note payable. Immediately prior to this transaction the corporation had assets, liabilities and owners' equity in the amounts of \$75,000; \$52,000; and \$23,000 respectively. What is the total amount of the corporation's assets after this transaction has been recorded?

- A. \$115,000
- B. \$111,000
- C. \$79,000
- D. \$71,000
- E. \$75,000

Answer: B

Feedback: $75,000$ (assets prior to transaction) + $40,000$ (truck) - $4,000$ (cash) = $111,000$

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-A2

[Question]

141. Return on assets is:

A. Also called rate of return

B. Computed by dividing net income by beginning assets plus ending assets divided by two

C. Computed by multiplying net income by total assets

D. Used in helping evaluate expenses

E. Found on the balance sheet

Answer: B

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Moderate

Learning Objective: 01-A3

[Question]

142. Reebok had income of \$150 million and average assets of \$1,800 million. Its return on assets is:

- A. 8.33%
- B. 83.3%
- C. 12.0%
- D. 120%
- E. 16.7%

Answer: A

Feedback: $\$150 \text{ million} / \$1,800 \text{ million} = 8.33\%$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A3

[Question]

143. Nike had income of \$350 million and average assets of \$2,000 million. Its return on assets is:

- A. 1.8%
- B. 35%
- C. 17.5%
- D. 5.7%
- E. 3.5%

Answer: C

Feedback: $\$350 \text{ million} / \$2,000 \text{ million} = 17.5\%$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A3

[Question]

144. Fast-Forward has net income of \$18,955 and assets at the beginning of the year of \$200,000. Its assets at the end of the year total \$246,000. Compute its return on assets.

- A. 7.7%
- B. 8.5%
- C. 9.5%
- D. 11.8%
- E. 13.0%

Answer: B

Feedback: $\$18,955 / [(\$200,000 + \$246,000) / 2] = \$18,955 / \$223,000 = 8.5\%$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-A3

[Question]

145. Compute return on assets given net income of \$13,764, beginning assets of \$120,000 and ending assets of \$176,000.

- A. 4.65%
- B. 7.82%
- C. 9.3%
- D. 11.47%
- E. 21.51%

Answer: C

Feedback: $\$13,764 / [(\$120,000 + \$176,000) / 2] = \$13,764 / \$148,000 = 9.3\%$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-A3

[Question]

146. U.S. government bonds are:

- A. High-risk and high-return investments
- B. Low-risk and low-return investments
- C. High-risk and low-return investments
- D. Low-risk and high-return investments
- E. High risk and no-return investments

Answer: B

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A3

[Question]

147. Risk is:

- A. Net income divided by average total assets
- B. The reward for investment
- C. The uncertainty about the expected return that will be earned from an investment
- D. Unrelated to expected return
- E. Derived from the idea of getting something back from an investment

Answer: C

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A3

[Question]

148. Consider the risk of the following investments. Choose the answer that lists the investments in order from highest expected return to lowest expected return.

- A. Drilling exploration to discover oil, stock in a secure "blue chip" corporation, government bonds
- B. Stock in a secure "blue chip" corporation, government bonds, drilling exploration to discover oil
- C. Government bonds, drilling exploration to discover oil, stock in a secure "blue chip" corporation
- D. Drilling exploration to discover oil, government bonds, stock in a secure "blue chip" corporation
- E. Government bonds, stock in a secure "blue chip" corporation, drilling exploration to discover oil

Answer: A

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-A3

[Question]

149. The statement of cash flows reports on cash flows for:

- A. Operating activities
- B. Revenue activities
- C. Expense activities
- D. Planning activities
- E. Equity activities

Answer: A

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

150. A company purchases supplies on account, what is the effect on the accounting equation?

- A. assets decrease; equity increases
- B. assets decrease; equity decreases
- C. liabilities decrease; equity decreases
- D. liabilities increase; equity increases
- E. liabilities increase; assets increase

Answer: E

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Moderate
Learning Objective: 01-P1

[Question]

151. The statement of cash flows reports information on:

- A. Revenue activities
- B. Expense activities
- C. Financing activities
- D. Equity activities
- E. Asset activities

Answer: C

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

152. The statement of retained earnings:

- A. Reports how retained earnings changes at a point in time
- B. Reports how retained earnings changes over a period of time
- C. Reports on cash flows for operating, financing and investing activities over a period of time
- D. Reports on cash flows for operating, financing and investing activities at a point in time
- E. Reports on amounts for assets, liabilities and equity at a point in time

Answer: B

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

153. The financial statement that reports whether the business earned a profit and also lists the types and amounts of the revenues and expenses is called a(n):

- A. Balance sheet
- B. Statement of retained earnings
- C. Statement of cash flows
- D. Income statement
- E. Statement of financial position

Answer: D

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

154. A balance sheet lists:

- A. The types and amounts of the revenues and expenses of a business
- B. Only the information about what happened to retained earnings during a time period
- C. The types and amounts of assets, liabilities and equity of a business as of a specific date
- D. The cash inflows and outflows during the period
- E. The assets and liabilities of a company, but not the equity

Answer: C

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

155. A financial statement providing information that helps users understand a company's financial status and which lists the types and amounts of assets, liabilities and equity as of a specific date is called a(n):

- A. Balance sheet
- B. Income statement
- C. Statement of cash flows
- D. Statement of retained earnings
- E. Financial status statement

Answer: A

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

156. The financial statement that describes where a company's cash came from and where it went during the period is the:

- A. Statement of financial position
- B. Statement of cash flows
- C. Balance sheet
- D. Income statement
- E. Statement of retained earnings

Answer: B

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

157. The financial statement that shows: beginning and ending retained earnings balances and the effects of net income (loss) and a dividend for the period is the:

- A. Statement of financial position
- B. Statement of cash flows
- C. Balance sheet
- D. Income statement
- E. Statement of retained earnings

Answer: E

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

158. Cash investments by owners in exchange for stock are listed on which of the following statements?

- A. Balance sheet
- B. Income statement
- C. Statement of retained earnings
- D. Statement of cash flows
- E. Statement of Cash Received

Answer: D

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

159. Accounts payable appear on which of the following statements?

- A. Balance sheet
- B. Income statement
- C. Statement of retained earnings
- D. Statement of cash flows
- E. Transaction statement

Answer: A

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

160. The income statement reports all of the following except:

- A. Revenues earned by a business
- B. Expenses incurred by a business
- C. Assets owned by a business
- D. Net income or loss earned by a business
- E. The time period over which the earnings occurred

Answer: C

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

161. Use the following information as of December 31 to determine equity.

Liabilities.....	\$141,000
Cash.....	57,000
Equipment.....	206,000
Buildings.....	175,000

- A. \$57,000
- B. \$141,000
- C. \$297,000
- D. \$438,000
- E. \$579,000

Answer: C

Feedback:

Assets = \$57,000 + \$206,000 + \$175,000 = \$438,000

Equity = \$438,000 - \$141,000 = \$297,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

162. Determine the net income of a company for which the following information is available.

Employee salaries expense.....	\$180,000
Interest expense.....	10,000
Rent expense.....	20,000
Consulting revenue.....	400,000

- A. \$190,000
- B. \$210,000
- C. \$230,000
- D. \$400,000
- E. \$610,000

Answer: A

Feedback:

Expenses: $\$180,000 + \$10,000 + \$20,000 = \$210,000$

Net income = $\$400,000 - \$210,000 = \$190,000$

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-P1

[Question]

163. A company acquires equipment for \$75,000 cash. This represents a(n):

- A. Operating activity
- B. Investing activity
- C. Financing activity
- D. Revenue activity
- E. Expense activity

Answer: B

Bloom's Taxonomy: Apply

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-P1

[Question]

164. A company borrows \$125,000 from the Eastside Bank and receives the loan proceeds in cash. This represents a(n):

- A. Revenue activity
- B. Operating activity
- C. Expense activity
- D. Investing activity
- E. Financing activity

Answer: E

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

165. Fast-Forward had cash inflows from operations of \$62,500; cash outflows from investing activities of \$47,000; and cash inflows from financing of \$25,000. The net change in cash was:

- A. \$40,500 increase
- B. \$40,500 decrease
- C. \$134,500 decrease
- D. \$134,000 increase
- E. \$9,500 increase

Answer: A

Feedback: $\$62,500 - \$47,000 + \$25,000 = \$40,500$ increase

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

166. Use the following information as of December 31 to determine equity.

Accounts Payable.....	\$ 800
Accounts Receivable.....	700
Cash.....	2,300
Wages Expense.....	9,000
Wages Payable.....	1,200

- A. \$1,000
- B. \$3,000
- C. \$5,000
- D. \$10,000
- E. \$11,000

Answer: A

Feedback:

Assets: $\$700 + \$2,300 = \$3,000$

Liabilities: $\$800 + \$1,200 = \$2,000$

Equity: $\$3,000 - \$2,000 = \underline{\underline{\$1,000}}$

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-P1

[Question]

167. Fast-Forward has beginning equity of \$257,000, net income of \$51,000, dividends of \$40,000 and investments by owners in exchange for stock of \$6,000. Its ending equity is:

- A. \$223,000
- B. \$240,000
- C. \$268,000
- D. \$274,000
- E. \$208,000

Answer: D

Feedback: $\$257,000 + \$51,000 - \$40,000 + \$6,000 = \$274,000$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

168. Acme Company had equity of \$55,000 at the end of the current year. During the year the company had a \$2,000 net loss and investments by owners in exchange for stock of \$7,000. Compute equity as of the beginning of the year.

- A. \$5,000
- B. \$46,000
- C. \$50,000
- D. \$52,000
- E. \$64,000

Answer: C

Feedback:

$$x - \$2,000 + \$7,000 = 55,000$$

$$x = 50,000$$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

169. Rent expense that is paid with cash appears on which of the following statements?

- A. Balance sheet
- B. Income statement
- C. Statement of retained earnings
- D. Schedule of Accounts Receivable
- E. Statement of Cash Received

Answer: B

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

170. Fees earned (but not yet received in cash) by a business in exchange for services that it has provided appear on which of the following statements?

- A. Balance sheet
- B. Statement of Cash Received
- C. Statement of retained earnings
- D. Statement of cash flows
- E. Schedule of Accounts Receivable

Answer: A

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

171. A company's balance sheet shows: cash \$22,000, accounts receivable \$16,000, office equipment \$50,000 and accounts payable \$17,000. What is the amount of equity?

- A. \$17,000
- B. \$29,000
- C. \$71,000
- D. \$88,000
- E. \$105,000

Answer: C

Feedback:

Assets = \$22,000 + \$16,000 + \$50,000 = \$88,000

Liabilities = \$17,000

Equity = \$88,000 - \$17,000 = \$71,000

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-P1

[Question]

172. A company reported total equity of \$145,000 on its December 31, 2010, balance sheet. The following information is available for the year ended December 31, 2011:

2011 Revenues.....	\$210,000
2011 Expenses.....	165,000
Liabilities, at December 31, 2011....	92,000

What are the total assets of the company at December 31, 2011?

- A. \$45,000
- B. \$92,000
- C. \$190,000
- D. \$210,000
- E. \$282,000

Answer: E

Feedback:

2011 net income = \$210,000 - \$165,000 = \$45,000
2011 year-end equity = \$145,000 + \$45,000 = \$190,000
2011 year-end assets = \$92,000 + \$190,000 = \$282,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

173. A company had total equity of \$89,000 on January 1, 2011. The following information is available for the year ended December 31, 2011:

2011 Revenues	\$350,000
2011 Expenses	403,000
Liabilities, at December 31, 2011	27,000

What are the total assets of the company at December 31, 2011?

- A. \$27,000
- B. \$36,000
- C. \$53,000
- D. \$63,000
- E. \$350,000

Answer: D

Feedback:

2011 net loss = \$350,000 - \$403,000 = (\$53,000)

2011 year-end equity = \$89,000 - \$53,000 = \$36,000

2011 year-end assets = \$27,000 + \$36,000 = \$63,000

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-P1

[Question]

174. If Beginning Retained Earnings was \$184,300, the company distributed \$46,000 in dividends and Ending Retained Earnings was \$345,000, what was the net income for the period?

- A. \$154,700
- B. \$206,700
- C. \$114,700
- D. \$575,300
- E. \$160,700

Answer: B

Feedback: $345,000 + 46,000 - 184,300 = 206,700$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

175. If Beginning Retained Earnings was \$184,300, net income for the period was \$200,000 and Ending Retained Earnings was \$322,000, what was the total amount of dividend distributed for the period?

- A. \$62,300
- B. \$306,300
- C. \$337,700
- D. \$706,300
- E. \$137,700

Answer: A

Feedback: $184,300 + 200,000 - 322,000 = 62,300$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

176. If net income for the period was \$134,250, dividends distributed were \$76,530 and Ending Retained Earnings was \$862,520, what was the Beginning Retained Earnings for the period?

- A. \$1,073,300
- B. \$651,740
- C. \$804,800
- D. \$920,240
- E. \$728,270

Answer: C

Feedback: $862,520 + 76,530 - 134,250 = 804,800$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P

[Question]

177. Beginning Assets were \$437,600, Beginning Liabilities were \$262,560, Common Stock sold during the year totaled \$45,000, Revenue for the year was \$414,250, Expenses for the year were \$280,000, Dividends declared was \$22,700, and Ending Liabilities is \$350,000.

What was the Beginning Equity for the year?

- A. \$700,160
- B. \$787,600
- C. \$187,600
- D. \$612,560
- E. \$175,040

Answer: E

Feedback: $437,600 - 262,560 = 175,040$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

178. Beginning Assets were \$437,600, Beginning Liabilities were \$262,560, Common Stock sold during the year totaled \$45,000, Revenue for the year was \$414,250, Expenses for the year were \$280,000, Dividends declared was \$22,700, and Ending Liabilities is \$350,000.

What is the Ending Equity for the year?

- A. \$700,160
- B. \$331,590
- C. \$134,250
- D. \$612,560
- E. \$175,040

Answer: B

Feedback: $(437,600 - 262,560) + 45,000 + 414,250 - 280,000 - 22,700 = 331,590$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

179. Beginning Assets were \$437,600, Beginning Liabilities were \$262,560, Common Stock sold during the year totaled \$45,000, Revenue for the year was \$414,250, Expenses for the year were \$280,000, Dividends declared was \$22,700, and Ending Liabilities is \$350,000.

What is Net Income for the year?

- A. \$700,160
- B. \$331,590
- C. \$134,250
- D. \$612,560
- E. \$175,040

Answer: C

Feedback: $414,250 - 280,000 = 134,250$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

180. Beginning Assets were \$437,600, Beginning Liabilities were \$262,560, Common Stock sold during the year totaled \$45,000, Revenue for the year was \$414,250, Expenses for the year were \$280,000, Dividends declared was \$22,700, and Ending Liabilities is \$350,000.

What are the Ending Assets for the year?

- A. \$ 700,160
- B. \$ 612,560
- C. \$ 787,600
- D. \$ 681,590
- E. \$1,159,410

Answer: D

Feedback: $(437,600 - 262,560) + 45,000 + 414,250 - 280,000 - 22,700 = 331,590$ (end. Equity)
 $+ 350,000 = 681,590$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

181. Beginning Assets were \$700,000, Beginning Equity was \$225,000, Revenue for the year was \$523,000, Common Stock sold during the year totaled \$320,000, Expenses for the year were \$392,000, Ending Equity is \$751,000, and Ending Assets are \$963,000.

What is Net Income for the year?

- A. \$475,000
- B. \$998,000
- C. \$131,000
- D. \$203,000
- E. \$308,000

Answer: C

Feedback: $523,000 - 392,000 = 131,000$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

182. Beginning Assets were \$700,000, Beginning Equity was \$225,000, Revenue for the year was \$523,000, Common Stock sold during the year totaled \$320,000, Expenses for the year were \$392,000, Ending Equity is \$751,000, and Ending Assets are \$963,000.

What were the total dividends declared?

- A. \$75,000
- B. \$998,000
- C. \$131,000
- D. \$203,000
- E. \$308,000

Answer: A

Feedback: $751,000 + 392,000 - 523,000 - 320,000 - 225,000 = 75,000$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

183. Beginning Assets were \$700,000, Beginning Equity was \$225,000, Revenue for the year was \$523,000, Common Stock sold during the year totaled \$320,000, Expenses for the year were \$392,000, Ending Equity is \$751,000, and Ending Assets are \$963,000.

What were the Beginning Liabilities for the year?

- A. \$738,000
- B. \$998,000
- C. \$131,000
- D. \$203,000
- E. \$475,000

Answer: E

Feedback: $700,000 - 225,000 = 475,000$

Chapter 01 - Introducing Accounting in Business

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

184. Beginning Assets were \$700,000, Beginning Equity was \$225,000, Revenue for the year was \$523,000, Common Stock sold during the year totaled \$320,000, Expenses for the year were \$392,000, Ending Equity is \$751,000, and Ending Assets are \$963,000.

What are the Ending Liabilities for the year?

- A. \$738,000
- B. \$998,000
- C. \$212,000
- D. \$203,000
- E. \$475,000

Answer: C

Feedback: $963,000 - 751,000 = 212,000$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

185. Ending Liabilities are 67,000, Beginning Equity was \$87,000, Common Stock sold during year totaled \$31,000, Expenses for the year were \$22,000, Dividends declared totaled \$13,000, Ending Equity for the year is \$181,000 and Beginning Assets for the year were \$222,000.

What are the Ending Assets for the year?

- A. \$154,000
- B. \$134,000
- C. \$212,000
- D. \$248,000
- E. \$155,000

Answer: D

Feedback: $67,000 + 181,000 = 248,000$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

186. Ending Liabilities are 67,000, Beginning Equity was \$87,000, Common Stock sold during year totaled \$31,000, Expenses for the year were \$22,000, Dividends declared totaled \$13,000, Ending Equity for the year is \$181,000 and Beginning Assets for the year were \$222,000.

What was Beginning Liabilities for the year?

- A. \$154,000
- B. \$155,000
- C. \$212,000
- D. \$248,000
- E. \$135,000

Answer: E

Feedback: $222,000 - 87,000 = 135,000$

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-P1

[Question]

187. Ending Liabilities are 67,000, Beginning Equity was \$87,000, Common Stock sold during year totaled \$31,000, Expenses for the year were \$22,000, Dividends declared totaled \$13,000, Ending Equity for the year is \$181,000 and Beginning Assets for the year were \$222,000.

What was Revenue for the year?

A. \$154,000

B. \$155,000

C. \$ 53,000

D. \$ 98,000

E. \$135,000

Answer: D

Feedback: $181,000 + 13,000 + 22,000 - 31,000 - 87,000 = 98,000$

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-P1

[Question]

188. Ending Liabilities are 67,000, Beginning Equity was \$87,000, Common Stock sold during year totaled \$31,000, Expenses for the year were \$22,000, Dividends declared totaled \$13,000, Ending Equity for the year is \$181,000 and Beginning Assets for the year were \$222,000.

What was Net Income for the year?

- A. \$ 41,000
- B. \$ 76,000
- C. \$ 53,000
- D. \$ 98,000
- E. \$ 35,000

Answer: B

Feedback: $181,000 + 13,000 + 22,000 - 31,000 - 87,000 = 98,000 \text{ (rev.)} - 22,000 = 76,000$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

189. Below is accounting information for Cascade Company for 2010:

Revenue	\$416,000
Cash	\$120,000
Common Stock	\$200,000
Expenses	\$300,000
Equipment	\$240,000
Accounts Receivable	\$35,000
Notes Payable	\$50,000
Notes Receivable	\$62,000

What was Net Income for the year?

- A. \$320,000
- B. \$296,000
- C. \$100,000
- D. \$457,000
- E. \$116,000

Answer: E

Feedback: $416,000 - 300,000 = 116,000$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

190. Below is accounting information for Cascade Company for 2010:

Revenue	\$416,000
Cash	\$120,000
Common Stock	\$200,000
Expenses	\$300,000
Equipment	\$240,000
Accounts Receivable	\$35,000
Notes Payable	\$50,000
Notes Receivable	\$62,000

What was Total Equity for the year?

- A. \$320,000
- B. \$296,000
- C. \$316,000
- D. \$457,000
- E. \$116,000

Answer: C

Feedback: $416,000 - 300,000 = 116,000 + 200,000$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

191. Below is accounting information for Cascade Company for 2010:

Revenue	\$416,000
Cash	\$120,000
Common Stock	\$200,000
Expenses	\$300,000
Equipment	\$240,000
Accounts Receivable	\$35,000
Notes Payable	\$50,000
Notes Receivable	\$62,000

What were the Total Assets for the year?

- A. \$320,000
- B. \$296,000
- C. \$316,000
- D. \$457,000
- E. \$116,000

Answer: D

Feedback: $120,000 + 35,000 + 62,000 + 240,000 = 457,000$

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-P1

Matching Questions

[Question]

192. Match the following terms with the appropriate definition.

1. An information and measurement system that identifies records and communicates relevant, reliable and comparable information about an organization's business activities	Accounting <u>1</u>
2. The use of resources to research, develops, purchase, produce, distribute and market products and services	Recordkeeping <u>7</u>
3. . The acquisition and disposing of resources that an organization uses to acquire and sell products and services	External users <u>6</u>
4. The idea that accounting information is based on actual cost	Internal users <u>9</u>
5. Provide the means organizations use to pay for resources such as land, buildings and equipment to carry out plans	Operating activities <u>2</u>
6. Persons using accounting information who are not directly involved in the running of the organization	Investing activities <u>3</u>
7. The part of accounting that involves recording transactions and events, either electronically or manually	Financing activities <u>5</u>
8. Beliefs that distinguish right from wrong	Ethics <u>8</u>
9. Persons using accounting information who are directly involved in managing the organization	Social responsibility <u>10</u>
10. Concern for the impact of actions on society	Cost principle <u>4</u>

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AACSB: Diversity

AACSB: Ethics

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01- C1

Learning Objective: 01-C2.

Learning Objective: 01-C3

Learning Objective: 01-C4

Learning Objective: 01- C5

[Question]

193. Match each of the following terms with the most appropriate definition.

- | | |
|---|--------------------------------|
| 1. Amount received from selling products and services | Risk <u>5</u> |
| 2. Those happenings that affect an entity's accounting equation and can be reliably measured | Managerial accounting <u>8</u> |
| | Return on Assets <u>7</u> |
| 3. Area of accounting aimed at serving external users | Liabilities <u>9</u> |
| 4. Costs of assets or services used to earn revenues | |
| 5. The uncertainty about the expected return to be earned | Expenses <u>4</u> |
| 6. Defining the idea, goals and actions of an organization | Planning <u>6</u> |
| 7. A financial ratio useful in evaluating management, analyzing and forecasting profits and planning activities | Financial accounting <u>3</u> |
| 8. Area of accounting aimed at serving the decision making needs of internal users | Net income <u>10</u> |
| 9. Creditor's claims on a company's assets | Events <u>2</u> |
| 10. The excess of revenue over expenses | Revenues <u>1</u> |

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01- A1.

Learning Objective: 01-C1

Learning Objective: 01-C2

Learning Objective:01- C3

[Question]

194. The following is a list of selected users of accounting information. Match the appropriate user a through e to the following information needs.

- | | |
|--|------------------------------|
| 1. Monitor costs and ensure quality | Production Managers <u>1</u> |
| 2. Judge the soundness of a customer before making sales on credit | Suppliers <u>2</u> |
| 3. Measuring risk and return of loans | Employees <u>4</u> |
| 4. Assessing employment opportunities | Lenders <u>3</u> |
| 5. Assessing the risk and return of acquiring shares | Shareholders <u>5</u> |

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
AICPA FN: Risk analysis
Difficulty: Easy
Learning Objective: 01-C2

[Question]

195. Match each of the following transactions and events to the accounting principle applicable to recording and reporting them.

- | | |
|---|--|
| 1. An insurance company receives insurance premiums for six future month's worth of coverage | Revenue recognition principle <u>1</u> |
| 2. Helen Cho, a sole proprietor, pays for her daughter's preschool out of business funds | Cost principle <u>4</u> |
| 3. Mayan Imports receives a shipment from Mexico, which contains an invoice that is stated in pesos | Business entity principle <u>2</u> |
| 4. A building is for sale at \$480,000. An appraisal is given for \$450,000 | Monetary unit principle <u>3</u> |
| 5. To make the balance sheet look better, Helen Cho added several thousand dollars to the Equipment account that she believed was undervalued | Objectivity principle <u>5</u> |

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C4

[Question]

196. Match the following definitions with terms 1 through 8. Place the letter that identifies the best definition in the blank space next to the term.

- | | |
|-----------------------------------|--|
| 1. Revenues | Resources owned or controlled by a company that are expected to yield future benefits. <u>8</u> |
| 2. Going-concern principle | A principle that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold. <u>2</u> |
| 3. Statement of retained earnings | A financial statement that reports the changes in retained earnings over the reporting period; including increases from net income and for decreases such as dividends or net loss. <u>3</u> |
| 4. Net assets | Another term for equity. <u>4</u> |
| 5. Dividends | A principle that requires the information in financial statements to be supported by independent unbiased evidence. <u>6</u> |
| 6. Objectivity principle | The accounting principle that requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange. <u>7</u> |
| 7. Cost principle | The distribution of assets to stockholders. <u>5</u> |
| 8. Assets | Increases in retained earnings from a company's earnings activities. <u>1</u> |

Bloom's Taxonomy: Remember

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-A1

Learning Objective: 01-C4

Learning Objective: 01-P1

[Question]

197. Match the following definitions with the terms 1 through 9. Place the letter that identifies the best definition in the blank space next to the term.

1. Monetary unit principle	A financial statement that lists cash inflows (receipts) and cash outflows (payments); the cash flows are arranged by operating, investing and financing activities. <u>5</u>
2. Expenses	An exchange of value between two parties. <u>8</u>
3. Statement of retained earnings	The principle that assumes transactions and events can be expressed in money units. <u>1</u>
4. Business entity principle	The principle that requires a business to be accounted for separately from its owners. <u>4</u>
5. Statement of cash flows	The principle that revenue is recognized when earned. <u>7</u> The relation between a company's assets, liabilities and equity. <u>9</u>
6. Liabilities	A financial statement that reports the changes in retained earnings over the reporting period; adjusted for increases from net income and for decreases such as dividends or net loss. <u>3</u>
7. Revenue recognition principle	
8. Business transaction	The cost of assets or services used to earn revenue. <u>2</u>
9. Accounting equation	Creditor's claims on assets. <u>6</u>

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1
Learning Objective: 01-C4
Learning Objective: 01-P1

[Question]

198. Match each of the following with the appropriate section of the Statement of Cash Flows

1. Paid utilities expenses	Operating	<u>1</u>
2. Sale of used equipment	Financing	<u>5</u>
3. Paid employee wages	Investing	<u>4</u>
4. Purchase of land	Investing	<u>2</u>
5. Dividends paid to stockholders	Financing	<u>6</u>
6. Borrowed money from a bank on a long-term note	Operating	<u>3</u>

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

199. Match each of the following items with the financial statement in which each item would most likely appear. An item may appear on more than one statement.

1. Revenues	Balance sheet	<u>3</u>
2. Cash from investing activities	Statement of retained earnings	<u>7</u>
3. Assets	Income statement	<u>1</u>
4. Cash from operating activities	Statement of cash flows	<u>2</u>
5. Total equity	Income statement	<u>8</u>
6. Liabilities	Balance sheet	<u>6</u>
7. Cash dividends paid	Statement of cash flows	<u>4</u>
8. Costs and expenses	Balance sheet	<u>5</u>

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

200. Select the appropriate financial statement(s) for each of the following accounts. Some items may appear on more than one financial statement.

1. Accounts receivable	Balance sheet <u>2</u>
	Statement of retained earnings, Statement of cash flows <u>6</u>
2. Cash	Balance sheet <u>4</u>
3. Fees earned	Income statement <u>3</u>
4. Notes payable	Balance sheet <u>5</u>
5. Common Stock	Balance sheet <u>1</u>
6. Cash dividends paid	Income statement <u>7</u>
7. Rent Expense	Income statement <u>8</u>
8. Supplies Expense	

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

201. Select the appropriate financial statement(s) for each of the following items. Some items may appear on more than one financial statement.

1. Cash investments by stockholders	Balance sheet <u>5</u>
	Statement of retained earnings <u>2</u>
2. Cash dividends paid	Balance Sheet <u>6</u>
3. Cash payments to purchase equipment	Income statement <u>8</u>
4. Cash proceeds from a long-term loan	Statement of cash flows <u>3</u>
5. Supplies	Statement of cash flows <u>1</u>
6. Common stock	Income statement <u>7</u>
7. Consulting Revenue	Statement of cash flows <u>4</u>
8. Advertising expense	

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

202. Classify the following activities according to the appropriate section of the statement of cash flows.

- | | |
|--|-----------------------------|
| 1. Cash received from a one-time sale of used office equipment | Investing activity <u>1</u> |
| 2. Cash received from customers | Financing activity <u>4</u> |
| 3. Cash paid for utilities | Operating activity <u>2</u> |
| 4. Cash paid for dividends | Financing activity <u>6</u> |
| 5. Cash paid for a delivery van to be used in the business | Operating activity <u>3</u> |
| 6. Cash received from stockholders from issuance of stock | Investing activity <u>5</u> |

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

Essay Questions

[Question]

203. Explain the role of accounting in the information age.

Answer: Accounting is an information and measurement system. It identifies, records and communicates relevant, reliable and comparable information about business activities. Accounting also includes the crucial process of analysis and interpretation.

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C1

[Question]

204. What is the balance sheet? What is its purpose?

Answer: The balance sheet is a listing of the types and amounts of assets, liabilities and equity of a business at a specified point in time. The statement's purpose is to provide information that helps users assess the financial condition of the business. This statement is said to be a financial snapshot of the business.

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C1

[Question]

205. Identify the users and uses of accounting information.

Answer: There are two general types of users of accounting information. (1) Internal users are managers and officers of the business. They require information about business activities in order to make decisions about planning, monitoring and control. (2) External users rely on financial statements to make business decisions. These users include lenders and shareholders. Lenders need information for measuring the risk and return of loans. Shareholders need information for assessing the risk and return for owning shares.

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C2

[Question]

206. What are two questions that an owner might be able to answer by looking at accounting information?

Answer: Some possible questions are: 1) How, what, when and how much must be purchased? 2) What are the projected sales and costs? 3) What are the costs and benefits of particular products and services? 4) What were the payroll costs last month? 5) What is the projected number of employees needed in the next month? Many other questions are possible.

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C2

[Question]

207. Identify several opportunities in accounting and its related fields.

The traditional areas of accounting include financial accounting, managerial accounting and tax accounting. Work in related fields includes lending, underwriting, market research and business valuation.

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C3

[Question]

208. Explain why ethics are an integral part of accounting?

The purpose of accounting is to provide useful information to decision makers. For information to be useful, it must be trusted. This requires ethical behavior by accountants and managers in all phases of gathering, analyzing and reporting financial information so that good and informed decisions can be made.

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C3

[Question]

209. Describe the three important guidelines for revenue recognition.

The three important guidelines for revenue recognition include: (1) Revenue is recognized when earned. (2) Assets received from selling products and services do not need to be in cash. (3) Revenue recognized is measured by cash received plus the cash equivalent of other assets received.

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

210. Identify the three basic forms of business organizations.

Answer: The three basic forms of business organizations are sole proprietorships, partnerships and corporations.

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

211. How does the objectivity principle support ethical behavior?

Answer: The objectivity principle supports ethical behavior since it requires that financial information be documented by independent, unbiased evidence. Consequently, the impact of beliefs and opinions on the recording and reporting of business transactions and events is lessened.

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

212. Why should assets be recorded at historical cost?

Assets should be recorded at historical cost to provide users with reliable and objective information regarding completed business transactions.

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

213. Identify the two main groups involved in establishing generally accepted accounting principles in the U.S.

Answer: The FASB is the private group that establishes GAAP. The SEC establishes reporting requirements for companies that issue stock to the public.

Bloom's Taxonomy: Remember
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C4

[Question]

214. How does the going-concern principle affect the reported asset values of a business?

Answer: The going-concern principle means that financial statements reflect an assumption that the business continues in operation instead of being closed or sold. Assets are therefore reported at historical cost rather than at liquidation value.

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-C4

[Question]

215. Identify and describe the three major activities of a business organization.

Answer: The three major activities of a business are operating, financing and investing. Operating activities use resources to research, develop, purchase, produce, distribute and market products and services. Financing activities provide the means organizations use to pay for resources like land, buildings and equipment. Investing activities are the acquiring and disposing of long-term assets that are used to operate the business.

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C5

[Question]

216. How do revenues and expenses affect net income?

Answer: Revenues are the increases in retained earnings from a company's earnings activities. Expenses are the costs of assets or services used to earn revenues. Net income is the excess of revenues over expenses.

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

217. Explain the accounting equation and define its terms.

Answer: The accounting equation is stated as: $\text{Assets} = \text{Liabilities} + \text{Equity}$. Assets are resources owned or controlled by a business. Creditors' claims on assets are called liabilities. The owner's claim on assets is called equity. The accounting equation shows that the ownership of business assets can be shared between creditors and owners.

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-A1

[Question]

218. What distinguishes liabilities from equity?

Answer: Liabilities are creditors' claims on assets. They reflect obligations to transfer assets or provide products or services to others. Equity is the owners' claim to assets. Equity is also called net assets or residual interest.

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-A1

[Question]

219. What is the purpose of return on assets as an analytical tool?

Answer: Return on assets is useful in evaluating management, analyzing and forecasting profits and planning activities.

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-A2

[Question]

220. Discuss the relationship of risk to return.

Answer: Net income is related to return. Risk is the uncertainty about the amount of the expected return. In general, the lower the risk of an investment, the lower the expected return. Higher return is expected in exchange for accepting higher risk.

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

AICPA FN: Risk Analysis

Difficulty: Hard

Learning Objective: 01-A3

[Question]

221. Describe the three types of activities reported on the statement of cash flows.

Answer: The three types of activities reported on the statement of cash flows are (1) operating, which are the cash inflows and outflows from operations; (2) financing, which are the cash inflows and outflows related to owner investments and withdrawal and long-term borrowing and repaying cash from lending; and, (3) investing, which are the cash inflows and outflows from the purchase and sale of long-term assets.

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

222. Bert and John Jacobs are the owners of the *Life is good*→ T-shirt company. If they also own a personal collection of vintage bobble heads valued at \$25,000, how would the bobble heads be reflected on the company books? State the accounting concept or principle which supports your answer.

Answer: The personal assets of Bert and John are *not* shown on the books of *Life is good*→. The business entity principles states that the activities of a business are accounted for separately from the activities of its owners.

Bloom's Taxonomy: Applys
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

223. Identify and describe the four basic financial statements.

Answer: The four basic financial statements are the balance sheet, income statement, statement of retained earnings and statement of cash flows. The balance sheet describes the company's financial position and lists the types and amounts of assets, liabilities and equity at a point in time. The income statement describes the company's revenues, expenses and net income over a period of time. The statement of retained earnings explains changes in retained earnings from net income or loss and dividends over a period of time. The statement of cash flows reports on cash flows for operating, investing and financing activities over a period of time.

Bloom's Taxonomy: Understand

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-P1

Short Answer Questions

[Question]

224. The characteristics below apply to at least one of the forms of business organization.

- a. Is a separate legal entity?
- b. Is allowed to be owned by one person only?
- c. Owner or owners are personally liable for debts of the business
- d. Is a taxable entity?
- e. Is a business entity?
- f. May have a contract specifying the division of profits among the owners?
- g. Has an unlimited life.

Use the following format to indicate (with a "yes" or "no") whether or not a characteristic applies to each type of business organization.

	<u>Proprietorship</u>	<u>Partnership</u>	<u>Corporation</u>
a			
b			
c			
d			
e			
f			
g			

Answer:

	<u>Proprietorship</u>	<u>Partnership</u>	<u>Corporation</u>
a	no	no	yes
b	yes	no	Yes
c	yes	yes	no
d	no	no	yes
e	yes	yes	yes
f	no	yes	no
g	no	no	yes

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

225. A parcel of land is offered for sale at \$600,000 is assessed for tax purposes at \$500,000 is recognized by its purchasers as easily being worth \$575,000 and is purchased for \$570,000. At what amount should the land be recorded in the purchaser's books? What accounting principle supports your answer?

Answer: \$570,000. The cost principle requires the acquisition of an asset to be recorded in the accounting records at cost.

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

226. Prior to purchasing a tract of land, Fast-Forward had the land appraised at \$300,000. The management of Fast-Forward purchased the land for \$275,000. At what amount should the land be recorded on Fast-Forward's books? What accounting principle supports your answer?

Answer: \$275,000; The cost principle.

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C4

[Question]

227. You are reviewing the accounting records of Cathy's Antiques, Inc. owned by Cathy Miller. You have uncovered the following situations. Compose a memo to Ms. Miller that cites the appropriate accounting principle and the suggested action for each separate situation. In August, a check for \$500 was written to Wee Day Care Center. This amount represents child care for her son Brandon.

Cathy plans a Going out of Business Sale for May, since she will be closing her business for a month-long vacation in June. She plans to reopen July 1 and will continue operating Cathy's Antiques indefinitely.

Cathy received a shipment of pine furniture from Quebec, Canada. The invoice was stated in Canadian dollars.

Joseph Clark paid \$1,500 for a dining table. The amount was recorded as revenue. The table will be delivered to Mr. Clark in six weeks.

Answer:

1. Business entity principle. Cathy Miller should refund the \$350 to the business or record it as a dividend. In the future, she should use a personal check to pay for day care.
2. Going-concern principle. Cathy's Antiques is not going out of business. The business is just closing for vacation. She should hold an inventory reduction sale or other appropriate sale.
3. Monetary unit principle. The invoice should be restated in U.S. dollars for accounting purposes.
4. Revenue recognition principle. Since the table has not been delivered, revenue should not be recognized. The \$1,500 should be placed in an account such as Deposits Received from Customers (a type of unearned revenue) until the table is delivered.

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-C4

[Question]

228. Lorton's Web Services has assets of \$265,000 and liabilities of \$130,000. Calculate the amount of equity.

Answer: $\text{Equity} = \$265,000 - \$130,000 = \$135,000$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

229. A company has liabilities of \$475,000 and \$925,000 of equity. What is the amount of its assets?

Answer: $\text{Assets} = \$475,000 + \$925,000 = \$1,400,000$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

230. A company has assets of \$500,000 and equity of \$350,000. What is the amount of liabilities?

Answer: Liabilities = \$500,000 - \$350,000 = \$150,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-A1

[Question]

231. At the beginning of the year, a company had \$120,000 worth of liabilities. During the year, assets increased by \$160,000 and at year-end they equaled \$360,000. Liabilities decreased \$20,000 during the year. Calculate the beginning and ending values of equity.

Answer:

Beginning equity = \$80,000

Ending equity = \$260,000

Feedback:

Assets		Liabilities	Equity
Beginning	\$200,000 =	\$120,000+	\$ 80,000
Change	<u>+160,000 =</u>	<u>(20,000-</u>	180,000
Ending	\$360,000 =	\$100,000+	\$260,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-A1

[Question]

232. The accounts of Garfield Company listed with the increases or decreases that occurred during the past year are as follows.

Account	Increase	Decrease
Cash	\$25,000	
Accounts receivable		\$ (5,000)
Accounts payable		(11,000)
Notes payable	16,000	

The only items affecting the equity accounts are: net income, an investment of \$3,000 by the owner in exchange for stock and dividends of \$11,000. Using the balance sheet equation, compute net income for the past year.

Answer: \$23,000

Feedback: Change in assets = \$25,000 - \$5,000 = \$20,000

Change in liabilities = -\$11,000 + \$16,000 = \$5,000

Change in equity = \$20,000 - \$5,000 = \$15,000

Change in equity = \$15,000 = NI + \$3,000 - \$11,000

NI = \$23,000

To maintain the balance sheet equation, Assets = Liabilities + Equity, net income must be \$23,000.

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-A1

[Question]

233. Annie's Attic has the following account balances for the dates given:

	<u>September 1</u>	<u>September 30</u>
Cash	\$40,000	60,000
Accounts Receivable	40,000	38,000
Accounts Payable	6,000	?

Its net income for September 1 through September 31 was \$20,000 and there were no investments by the owners or dividends paid. Determine the equity at both September 1 and September 30.

Answer:

Beginning Equity 9/1: \$74,000

Ending Equity 9/30: \$94,000

Feedback: Total assets:

	<u>September 1</u>	<u>September 30</u>
Cash	\$40,000	\$60,000
Accounts Receivable	<u>40,000</u>	<u>38,000</u>
Total assets	<u>\$80,000</u>	<u>\$98,000</u>

At September 1: Assets = Liabilities + Equity

80,000 = 6,000 + Equity

Equity = \$74,000

At September 30:

Equity, September 1	\$74,000
Plus September net income	<u>20,000</u>
Equity, September 30	\$94,000

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-A1; 01-P1

[Question]

234. On May 1, Chuck Taylor formed Fast-Forward, a shoe consulting business as a corporation. To start the business he invested \$750,000 in cash. Enter the appropriate amounts reflecting the transaction into the accounting equation format shown below.

Assets =	Liabilities +	Equity

Answer:

Assets =	Liabilities +	Equity
+\$750,000 =	\$0 +	+\$750,000

Chapter 01 - Introducing Accounting in Business

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

235. A company spent \$52,000 in cash for this period's advertising activities. Enter the appropriate amounts that reflect this transaction into the accounting equation format shown below.

Assets =	Liabilities +	Equity

Answer:

Assets =	Liabilities +	Equity
-\$52,000 =	\$0 +	-\$52,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

236. A company purchased \$7,000 of supplies and testing equipment on credit. Enter the appropriate amounts that reflect this transaction into the accounting equation format shown below.

Assets =	Liabilities +	Equity

Answer:

Assets =	Liabilities +	Equity
+\$7,000 =	- \$7,000 +	\$0

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

237. A company performed testing services for a client. The client paid the company \$3,000 in cash. Enter the appropriate amounts that reflect this transaction into the company's accounting equation format shown below.

Assets =	Liabilities +	Equity

Answer:

Assets =	Liabilities +	Equity
+\$3,000 =	\$0 +	+\$3,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

238. A company paid its employees \$90,000 in cash for wages earned during the past two weeks. Enter the appropriate amounts that reflect this transaction into the accounting equation format shown below.

Assets =	Liabilities +	Equity

Answer:

Assets =	Liabilities +	Equity
-\$90,000 =	\$0 +	-\$90,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

239. If the liabilities of a business increased \$86,000 during a period of time and equity in the business decreased \$23,000 during the same period, enter the appropriate amounts reflecting this activity in the accounting equation format shown below.

Assets =	Liabilities +	Equity

Answer: Assets would have increased \$63,000.

Assets =	Liabilities +	Equity
+\$63,000 =	\$86,000 +	-\$23,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

240. If the liabilities of a company increased \$92,000 during a period of time and equity in the business decreased \$30,000 during the same period, did the assets of the company increase or decrease and by what amount?

Answer: Assets increased \$62,000.

Feedback: $\text{Assets} = \text{Liabilities} + \text{Equity} + \$62,000 = +\$92,000 - \$30,000$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

241. If Madiera Company paid \$42,000 of its accounts payable in cash, what would be the effect of this transaction on assets, liabilities and equity?

Answer: Assets would decrease \$42,000, liabilities would decrease \$42,000 and equity would not change.

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

242. Halley Burton began a Web Consulting practice as a corporation and completed these transactions during September of the current year.

Sept	1	Invested \$100,000 of his personal savings into a checking account opened in the name of the business and received stock in the corporation.
	2	Rented office space and paid \$1,200 cash for the month of September.
	3	Purchased office equipment for \$30,000, paying \$8,000 cash and agreeing to pay the balance in one year.
	4	Purchased office supplies for \$750 cash.
	8	Completed work for a client and immediately collected \$2,700 cash for the services.
	15	Completed \$3,600 services for a client on credit.
	20	Received \$3,600 from a client for the work completed on September 15.
	30	Paid the office secretary's monthly salary, \$3,000 cash.
	30	Web Consulting paid a \$2,000 cash dividend.

Show the effects of the above transactions on the accounting equation of Web Consulting. Use the following format for your answers. The first item is shown as an example.

Increase = I Decrease = D No effect = N

Date	Assets	Liabilities	Equity
Example:			
September 1	I	N	I

Answer:

Date	Assets	Liabilities	Equity
September 1	I	N	I
September 2	D	N	D
September 3	I,D	I	N
September 4	I,D	N	N
September 8	I	N	I
September 15	I	N	I
September 20	I,D	N	N
September 30	D	N	D
September 30	D	N	D

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

243. For each of the following transactions for a corporation, identify the effects on the accounting equation. Use "+" to indicate an increase and "-" to indicate a decrease. Use "A", "L" and "E" to indicate assets, liabilities and equity, respectively. Part A has been completed as an example.

a.	L. Berryman invested \$100,000 in the new corporation in exchange for stock.	+A	+E
b.	Land was purchased for \$50,000. A down payment of \$15,000 cash was made and a note was signed for the balance.		
c.	Services were rendered to customers for cash.		
d.	A building was purchased for cash.		
e.	Supplies were purchased for cash.		
f.	Paid the office secretary's salary.		
g.	The amount owed on the land from part (b) was paid.		

Answer:

- A. +A +E
- B. +A +L
- C. +A +E
- D. +A - A
- E. +A - A
- F. -A - E
- G. -A - L

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

244. Sara Bloom has prepared the following analysis of September transactions for her business, Blooming Florist. Unfortunately, she has lost some information. Determine the missing amounts (a) through (c) below.

Date	Cash	Accounts Receivable	Accounts Payable	Notes Payable	Common Stock	Retained Earnings
Balances	30,000	30,100	(a)	8,500	10,000	30,000
9/5	-10,000	0	(b)	0	0	
9/10	-3,500	0	0	0	0	(c)

Answer:

Date	Cash	Accounts Receivable	Accounts Payable	Notes Payable	Common Stock	Retained Earnings
Balances	30,000	30,100	(a) 11,600	8,500	10,000	30,000
9/5	-10,000	0	(b) -10,000	0	0	
9/10	-3,500	0	0	0	0	(c) -3,500

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

245. The following schedule reflects the first month's transactions of the Blue Real Estate Company.

	Cash +	Accounts Receivable +	Supplies +	Equipment -	Accounts Payable +	Common Stock +	Retained Earnings
1.	-20,000					+20,000	
2.	-5,000			-5,000			
3.			+1,500		+1,500		
4.	+3,000						+3,000
5.	+1,000	+1,500					+2,500
6.	-750				-750		
7.	+500	-500					
8.			-400				-400
9.	-2,000						-2,000

Provide descriptions for each transaction.

Answer:

1. Investment of cash in business by owner in exchange for stock.
2. Purchased equipment for cash.
3. Purchased supplies on credit.
4. Performed services for cash.
5. Performed services for both cash and on credit.
6. Paid accounts payable.
7. Received cash for an account receivable.
8. Used supplies in business.
9. Paid dividend or paid expense of business.

Bloom's Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

246. A company paid its landlord \$15,000 cash for this month's rent. Enter the appropriate amounts that reflect this transaction into the accounting equation format shown below.

Assets =	Liabilities +	Equity

Answer:

Assets =	Liabilities +	Equity
-\$15,000	0	-\$15,000

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

247. The accountant of Magic Video Games prepared a balance sheet immediately after each transaction was recorded. During September, the first month of operation, the following balance sheets were prepared:

MAGIC VIDEO GAMES Balance Sheet September 1			
Assets		Equity	
Cash	\$60,000	Common Stock	\$60,000
Total assets	\$60,000	Total liabilities and equity	\$60,000
MAGIC VIDEO GAMES Balance Sheet September 5			
Assets		Liabilities	
Cash	\$48,000	Notes payable	\$18,000
Land	10,000	Equity Common Stock	60,000
Building	20,000		
Total assets	\$78,000	Total liabilities and equity	\$78,000

MAGIC VIDEO GAMES Balance Sheet September 9			
Assets		Liabilities	
Cash	\$48,000	Accounts payable	\$ 2,000
Office supplies	2,000	Notes payable	18,000
Land	10,000	Equity Common Stock	<u>60,000</u>
Building	<u>20,000</u>		
Total assets	\$80,000	Total liabilities and Equity	\$80,000

MAGIC VIDEO GAMES Balance Sheet September 11			
Assets		Liabilities	
Cash	\$42,000	Accounts payable	\$ 2,000
Office supplies	2,000	Notes payable	18,000
Land	10,000	Equity Common Stock	<u>60,000</u>
Building	20,000		
Office furniture	<u>6,000</u>		
Total assets	\$80,000	Total liabilities and Equity	\$80,000

MAGIC VIDEO GAMES Balance Sheet September 15			
Assets		Liabilities	
Cash	\$32,000	Accounts payable	\$ 2,000
Office supplies	2,000	Notes payable	8,000
Land	10,000	Equity Common Stock	<u>60,000</u>
Building	20,000		
Office furniture	6,000		
Total assets	\$70,000	Total liabilities and Equity	\$70,000

Required: Describe the nature of each of these five transactions for the month of September.

Sept.	1	
	5	
	9	
	11	
	15	

Answer:

Sept.	1	Stockholders invested \$60,000 cash in the company.
	5	Land and building were purchased for \$12,000 cash and an \$18,000 note payable.
	9	Office supplies were purchased for \$2,000 on account.
	11	Office furniture was purchased for \$6,000 cash.
	15	\$10,000 of the note payable was paid in cash.

Bloom's Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

248. Fast-Forward reported net income of \$17,500 for the past year. At the beginning of the year the company had \$200,000 in assets. By the end of the year, assets had increased to \$300,000. Calculate the return on assets.

Answer: $\$17,500 / [(200,000 + \$300,000) / 2] = \$17,500 / \$250,000 = 7\%$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-A2

[Question]

249. Quick Computer Service had net income for the year of \$30,000. Its assets at the beginning of the year were \$400,000. At the end of the year assets were worth \$450,000. Calculate its return on assets.

Answer: $\$30,000 / [(\$400,000 + \$450,000) / 2] = \$30,000 / \$425,000 = 7.1\%$

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-A2

[Question]

250. Identify the risk and the return in each of the following examples.

- A. Investing \$500 in a CD at 4.5% interest
- B. Placing a \$100 bet on an NBA game
- C. Investing \$10,000 in Microsoft stock
- D. Borrowing \$20,000 in student loans

Answer:

- A. The risk involved is that the investor may need the money in the CD before the CD matures and would have to give up the interest. The return is the 4.5% interest on the \$500 invested in the CD
- B. The risk is that the team bet on may not beat the point spread and the bet would be lost. The return would be any winnings based on the odds
- C. The risk is that the value of Microsoft stock could go down. The return would come from increase in the value of the stock and from any dividends received
- D. The risk is that the student might not be able to find a job that pays enough to live on, and therefore not be able to pay the loan. The return is that the student would be able to finance an education and earn higher wages

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
AICPA FN: Risk analysis
Difficulty: Hard
Learning Objective: 01-A3

[Question]

251. ParFour's total liabilities are \$130,000 and its equity is \$340,000. Calculate the company's total assets.

Answer: Total assets = \$130,000 + \$340,000 = \$470,000.

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

252. Della's Donuts has revenues of \$83,000 and expenses of \$64,000. Calculate its net income.

Answer: Net income = \$83,000 - \$64,000 = \$19,000.

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-P1

[Question]

253. Cool Tours had beginning equity of \$72,000; net income of \$25,000 and dividends of \$9,000. Calculate the ending equity.

Answer: Ending equity = \$72,000 + \$25,000 - \$9,000 = \$88,000.

Bloom's Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

254. Della's Donuts had cash inflows from operating activities of \$27,000; cash outflows from investing activities of \$22,000 and cash outflows from financing activities of \$12,000. Calculate the net increase or decrease in cash.

Answer: $\$27,000 - \$22,000 - \$12,000 = \$7,000$ decrease in cash.

Bloom's Taxonomy: Analyze

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-P1

[Question]

255. Presented below is selected financial information for Stanley's Bike Shop. Using the appropriate information, prepare the income statement for 2011.

Total Assets at December 31, 2011	\$91,000
2011 Expenses	38,000
Total Equity at December 31, 2010	48,000
Total Liabilities at December 31, 2010	35,000
2011 Revenues	46,000

Answer:

Stanley's Bike Shop Income Statement For the year ended December 31, 2011	
Revenues	\$46,000
Expenses	(38,000)
Net income	<u>\$ 8,000</u>

Bloom's Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

256. Prepare a November 30 balance sheet in proper form for Green Bay Delivery Service from the following alphabetical list of the accounts at November 30:

Accounts receivable	\$10,000
Accounts payable	18,000
Building	28,000
Common stock	30,000
Cash	8,000
Notes payable	45,000
Office equipment	12,000
Retained earnings	?
Trucks	55,000

Answer:

GREEN BAY DELIVERY SERVICE			
Balance Sheet			
November 30			
Assets		Liabilities	
Cash	\$8,000	Accounts payable	\$18,000
Accounts receivable	10,000	Notes payable	<u>45,000</u>
Office equipment	12,000	Total liabilities	63,000
Building	28,000		
Trucks	<u>55,000</u>	Common stock	30,000
		Retained earnings	<u>20,000</u>
		Total equity	<u>50,000</u>
Total assets	\$113,000	Total liabilities and Equity	\$113,000

Bloom's Taxonomy: Create
 AACSB: Analytic
 AACSB: Communication
 AICPA BB: Critical Thinking
 AICPA BB: Industry
 AICPA FN: Measurement
 AICPA FN: Reporting
 Difficulty: Medium
 Learning Objective: 01-P1

[Question]

257. Prepare a December 31 balance sheet in proper form for Surety Insurance from the following items and amounts:

Commissions earned	\$40,000
Accounts payable	3,500
Accounts receivable	5,000
Office equipment	10,000
Advertising expense	3,200
Cash	7,500
Land	35,000
Note payable	50,000
Office supplies	500
Salaries expense	12,000
Salaries payable	1,000
Building	100,000
Common stock	40,000
Retained earnings	63,500

Answer:

SURETY INSURANCE Balance Sheet December 31			
Assets		Liabilities	
Cash	\$ 7,500	Accounts payable	\$ 3,500
Accounts Receivable	5,000	Salaries payable	1,000
Office supplies	500	Note payable	50,000
Land	35,000	Total liabilities	54,500
Building	100,000	Common stock	40,000
Office Equipment	10,000	Retained earnings	63,500
		Total equity	103,500
Total assets	\$158,000	Total liabilities and Equity	\$158,000

Bloom's Taxonomy: Create

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-P1

[Question]

258. Maslow's Consulting Inc. had retained earnings of \$172,500 at December 31, 2010. Net income for 2011 amounted to \$56,400. Dividends during 2009 were \$48,000. Prepare the statement of retained earnings for 2011.

Answer:

Maslow Consulting, Inc. Statement of Retained Earnings For year ended December 31, 2011	
Retained earnings, December 31, 2010	\$172,500
Plus net income	<u>56,400</u>
	228,900
Less dividends	<u>(48,000)</u>
Retained earnings, December 31, 2011	<u>\$180,900</u>

Bloom's Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

259. From the information given, prepare a November income statement.

On November 1 of the current year, Lois Bell began Lois Bell, Interior Design as a corporation with an initial investment of \$50,000 cash. On November 30 her records showed the following (alphabetically arranged) selected accounts and amounts:

Accounts payable	\$12,000	Office furnishings	\$40,000
Accounts receivable	23,000	Dividends	6,000
Cash	17,200	Rent expense	3,600
Fees earned	30,000	Salaries expense	6,200
Notes payable	4,250	Telephone expense	250

Answer:

LOIS BELL, INTERIOR DESIGN, INC. Income Statement For Month Ended November 30		
Revenue		
Fees earned		\$30,000
Operating expenses		
Rent expense	\$3,600	
Salaries expense	6,200	
Telephone expense	<u>250</u>	<u>10,050</u>
Net income		<u>\$19,950</u>

Bloom's Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-P1

[Question]

260. From the information given, prepare a November statement of retained earnings.

On November 1 of the current year, Lois Bell began Lois Bell, Interior Design as a corporation with an initial investment of \$50,000 cash. On November 30 her records showed the following (alphabetically arranged) selected accounts and amounts:

Accounts payable	\$12,000	Office furnishings	\$40,000
Accounts receivable	23,000	Dividends	6,000
Cash	17,200	Rent expense	3,600
Fees earned	30,000	Salaries expense	6,200
Notes payable	4,250	Telephone expense	250

Answer:

LOIS BELL, INTERIOR DESIGN Statement of Retained earnings For Month Ended November 30	
Retained earnings, November 1	\$ 0
Plus net income	<u>19,950</u> 19,950
Less dividends	<u>(6,000)</u>
Retained earnings, November 30	<u><u>\$13,950</u></u>

Bloom's Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

261. From the information given, prepare a November 30 balance sheet.

On November 1 of the current year, Lois Bell began Lois Bell, Interior Design as a corporation with an initial investment of \$50,000 cash. On November 30 her records showed the following (alphabetically arranged) selected accounts and amounts:

Accounts Payable	\$12,000	Office furnishings	\$40,000
Accounts Receivable	23,000	Dividends	6,000
Cash	17,200	Rent expense	3,600
Fees earned	30,000	Salaries expense	6,200
Notes payable	4,250	Telephone expense	250

Answer:

LOIS BELL, INTERIOR DESIGN, INC. Balance Sheet November 30			
Assets		Liabilities	
Cash	\$17,200	Accounts payable	\$12,000
Accounts receivable	23,000	Notes payable	<u>4,250</u>
Office furnishings	<u>40,000</u>	Total liabilities	\$16,250
		Common stock	50,000
		Retained earnings	<u>13,950</u>
		Total equity	<u>63,950</u>
Total assets	<u>\$80,200</u>	Total liabilities and equity	\$80,200

Bloom's Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

262. Presented below is selected financial information for Stanley's Bike Shop. Using the appropriate information, prepare its balance sheet at December 31, 2011.

Total Assets at December 31, 2011	\$91,000
2011 Expenses	38,000
Total Equity at December 31, 2010	48,000
Total Liabilities at December 31, 2011	35,000
2011 Revenues	46,000

Answer:

Stanley's Bike Shop Balance Sheet December 31, 2011			
Assets	\$91,000	Liabilities	\$35,000
		Equity	56,000
Total Assets	\$91,000	Total liabilities and equity	\$91,000

2011 Net income = \$46,000 - \$38,000 = \$8,000

2011 Equity = \$48,000 + \$8,000 = \$56,000

Bloom's Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

263. The following information is available for the Skate and Boards Rental.

Assets at December 31, 2011	\$152,000
2011 Cash inflows from operating activities	105,000
2011 Cash outflows from financing activities	(44,000)
2011 Cash outflows from investing activities	(84,000)
2011 Expenses	(43,000)
Retained earnings at December 31, 2010	50,000
Liabilities at December 31, 2011	28,000
Common stock at December 31, 2011	12,000
2011 Revenues	135,000
2011 Dividends	(30,000)

Using the above information prepare an Income Statement, Statement of Retained Earnings and Statement of Cash Flows for the Skate and Boards Rental for 2011. Also, prepare its Balance Sheet as of December 31, 2011. Assume that the 12/31/10 cash balance is \$70,000.

Answer:

Skate and Boards Rental Income Statement For the year ended December 31, 2011	
Revenues	\$135,000
Expenses	<u>43,000</u>
Net Income	\$92,000
Skate and Boards Rental Statement of Retained Earnings For the year ended December 31, 2011	
Retained earnings, December 31, 2010	\$ 50,000
Add net income	92,000
Less dividends	<u>(30,000)</u>
Retained earnings, December 31, 2011	<u>\$112,000</u>
Skate and Boards Rental Balance Sheet December 31, 2011	
Assets	\$152,000
Liabilities	\$ 28,000
Common stock	12,000
Retained earnings	<u>112,000</u>
Total equity	<u>124,000</u>
Total liabilities and equity	\$152,000
Skate and Boards Rental Cash Flow Statement For the year ended December 31, 2011	
Cash inflow from operating activities	\$105,000
Cash outflow from investing activities	(84,000)
Cash outflow from financing activities	(44,000)
Net decrease in cash	\$(23,000)

Beginning cash balance 70,000

Ending cash balance \$47,000

Bloom's Taxonomy: Create

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-P1

[Question]

264. Data for Madison Realty are as follows:

Total assets at December 31, 2010	\$100,000
Total liabilities at December 31, 2010	35,000
Total revenues 2011	79,000
Total expenses for 2011	47,000
Common stock at December 31, 2010	20,000

Madison Realty paid dividends of \$30,000 during 2011. From the above data, prepare Madison Realty's statement of retained earnings for the year ended December 31, 2011.

Answer:

MADISON REALTY Statement of Retained Earnings For year Ended December 31, 2011	
Retained earnings, December 31, 2010*	\$ 45,000
Plus net income*	<u>32,000</u>
	77,000
Less dividends	(30,000)
Retained earnings, December 31, 2011	\$ 47,000
Supporting computations:	
Total assets, December 31, 2010	\$100,000
Total liabilities, December 31, 2010	<u>35,000</u>
Total equity, December 31, 2010	65,000
Common stock, December 31, 2010	(20,000)
Retained earnings, December 31, 2010	\$ 45,000
Revenues	\$ 79,000
Expenses	<u>47,000</u>
Net Income	<u>\$32,000</u>

Bloom's Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

265. Fast-Forward has the following beginning cash balance and cash transactions for the month of January. Using this information prepare a statement of cash flows.

a.	Beginning cash balance	\$ 3,200
b.	Cash investment by stockholders	15,000
c.	Cash payment toward long-term loan	1,000
d.	Cash payment of rent	1,800
e.	Purchased equipment for cash	7,500
f.	Purchased store supplies for cash	1,500
g.	Cash collected from customers	7,750
h.	Cash dividends paid	2,000
i.	Cash payment of wages	4,000

Answer:

FastForward Statement of Cash Flows For Month Ended January 31		
Cash flows from operating activities		
Cash collected from customers	\$ 7,750	
Cash paid for supplies	(1,500)	
Cash paid for rent	(1,800)	
Cash paid for wages	(4,000)	
Cash flows from operating activities		\$ 450
Cash flows from financing activities		
Purchase of equipment		(7,500)
Cash flows from financing activities		
Investment by stockholders	15,000	
Dividends	(2,000)	
Payment of loan	(1,000)	
Cash flows from financing activities		12,000
Net increase in cash		\$ 4,950
Beginning cash balance		3,200
Ending cash balance		\$ 8,150

Bloom's Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

266. The records of Skymaster Airplane Rentals show the following information as of December 31, 2011

Accounts payable	\$ 36,000	2011 Wages expense	\$75,000
Insurance expense	2,000	2011 Advertising expense	22,000
Accounts receivable	24,000	Cash	11,000
Retained earnings, December 31, 2010	130,000	Common stock	20,000
Airplanes	150,000	Office furniture	15,000
Notes payable	47,000	2011 Maintenance expense	39,000
Hangar	60,000	2011 Revenues	217,000

Dividends of \$52,000 were paid during 2011.

Using the above information, prepare an income statement for 2011.

Answer:

SKYMASTER AIRPLANE RENTALS Income Statement For Year Ended December 31, 2011		
Revenues		<u>\$217,000</u>
Expenses		
Insurance expense	\$ 2,000	
Wages expense	75,000	
Advertising expense	22,000	
Maintenance expense	<u>39,000</u>	
Total expenses		<u>138,000</u>
Net income		\$ 79,000

Bloom's Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

[Question]

267. The records of Skymaster Airplane Rentals show the following information as of December 31, 2011

Accounts payable	\$36,000	2011 Wages expense	\$75,000
Insurance expense	2,000	2011 Advertising expense	22,000
Accounts receivable	24,00	Cash	11,000
Retained earnings, December 31, 2010	130,000	Common stock	20,000
Airplanes	150,000	Office furniture	15,000
Notes payable	47,000	2011 Maintenance expense	39,000
Hangar	60,000	2011 Revenues	217,000

Dividends of \$52,000 were paid during 2011.

Using the above information, prepare a statement of retained earnings for 2011

Answer:

SKYMASTER AIRPLANE RENTALS Statement of Retained Earnings For Year Ended December 31, 2011	
Retained earnings, December 31, 2010	\$130,000
Add: Net income	<u>79,000</u>
	209,000
Less: Dividends	<u>(52,000)</u>
Retained earnings, December 31, 2011	<u>\$157,000</u>

Bloom's Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

268. The records of Skymaster Airplane Rentals show the following information as of December 31, 2011

Accounts payable	\$36,000	2011 Wages expense	\$75,000
Insurance expense	2,000	2011 Advertising expense	22,000
Accounts receivable	24,000	Cash	11,000
Retained earnings, December 31, 2010	130,000	Common stock	20,000
Airplanes	150,000	Office furniture	15,000
Notes payable	47,000	2011 Maintenance expense	39,000
Hangar	60,000	2011 Revenues	217,000

Dividends of \$52,000 were paid during 2011.

Using the above information, prepare a balance sheet at December 31, 2011.

Answer:

SKYMASTER AIRPLANE RENTALS			
Balance Sheet			
December 31, 2011			
Assets		Liabilities	
Cash	\$ 11,000	Accounts payable	\$ 36,000
Accounts receivable	24,000	Notes payable	47,000
Airplane	150,000	Total liabilities	83,000
Hangar	60,000	Common stock	20,000
		Retained earnings	157,000
Office furniture	15,000	Total equity	177,000
Total assets	\$260,000	Total liabilities and Equity	\$260,000

Bloom's Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Hard
Learning Objective: 01-P1

Fill in the Blank Questions

[Question]

269. _____ is the recording of transactions or events and is just one part of accounting.

Answer: Recordkeeping (or bookkeeping)

Bloom's Taxonomy: Remember

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Medium

Learning Objective: 01-C1

[Question]

270. Accounting is a _____ that identifies, records and communicates relevant, reliable and comparable information about an organization's economic activities.

Answer: Information and measurement system (or information system)

Bloom's Taxonomy: Remember

AACSB: Analytic

AACSB: Communication

AICPA BB: Critical Thinking

AICPA BB: Industry

AICPA FN: Measurement

AICPA FN: Reporting

Difficulty: Hard

Learning Objective: 01-C1

[Question]

271. A _____ is a non-corporate business that is owned by only one person.

Answer: Sole proprietorship

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Easy
Learning Objective: 01-C2

[Question]

272. _____ users of accounting information are users that are not directly involved in running the organization.

Answer: External

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C2

[Question]

273. _____ is the area of accounting aimed at serving external users.

Answer: Financial accounting

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C2

[Question]

274. Shareholders are the owners of a corporation and typically elect _____ to oversee their interests within the corporation.

Answer: A board of directors (or directors)

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: Medium
Learning Objective: 01-C2

[Question]

275. _____ are procedures set up to protect company property and equipment, ensure reliable accounting reports, promote efficiency and encourage adherence to company policies.

Answer: Internal controls

Bloom's Taxonomy: Remember
AACSB: Analytic
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
AICPA FN: Risk Analysis
Difficulty: Medium
Learning Objective: 01-C2