

Chapter 01

Introducing Financial Statements

True / False Questions

1. Accounting is an information and measurement system that identifies, records, and communicates relevant, reliable, and comparable information about an organization's business activities.

True False

2. Bookkeeping is the recording of transactions and events and is only one part of accounting.

True False

3. An accounting information system communicates data to help users make better decisions.

True False

4. Financial accounting is the area of accounting that serves the decision making needs of internal users.

True False

5. Internal operating activities include research and development, distribution, and human resources.

True False

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

True False

7. External auditors examine financial statements to verify that they are prepared according to generally accepted accounting principles.

True False

8. External users include lenders, shareholders, customers, and regulators.

True False

9. Regulators often have legal authority over certain activities of organizations.

True False

10. Internal users include lenders, shareholders, brokers and managers.

True False

11. Opportunities in accounting include auditing, consulting, market research, and tax planning.

True False

12. Identifying the proper ethical path is usually easy.

True False

13. The Sarbanes-Oxley Act (SOX) requires each issuer of securities to disclose whether it has adopted a code of ethics for its senior financial officers and the contents of that code.

True False

14. The fraud triangle asserts that the three factors that must exist for a person to commit fraud are opportunity, pressure, and rationalization.

True False

15. The Sarbanes-Oxley Act (SOX) does not require public companies to apply both accounting oversight and stringent internal controls.

True False

16. A partnership is a business owned by two or more people.

True False

17. Owners of a corporation are called shareholders or stockholders.

True False

18. In the partnership form of business, the owners are called stockholders.

True False

19. The balance sheet shows a company's net income or loss due to earnings activities over a period of time.

True False

20. The Financial Accounting Standards Board is the governmental agency that sets both broad and specific accounting principles.

True False

21. The business entity principle means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

True False

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

True False

23. The business entity assumption means that a business is accounted for separately from other business entities, including its owner or owners.

True False

24. As a general rule, revenues should not be recognized in the accounting records when earned, but rather when cash is received.

True False

25. Specific accounting principles are basic assumptions, concepts, and guidelines for preparing financial statements and arise out of long-used accounting practice.

True False

26. General accounting principles arise from long-used accounting practices.

True False

27. A sole proprietorship is a business owned by one or more persons.

True False

28. Unlimited liability and separate taxation of the business are advantages of a sole proprietorship.

True False

29. Understanding generally accepted accounting principles is not necessary to effectively use and interpret financial statements.

True False

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

True False

31. Objectivity means that financial information is supported by independent, unbiased evidence.

True False

32. The idea that a business will continue to operate instead of being closed or sold underlies the going-concern assumption.

True False

33. According to the cost principle, it is necessary for managers to report an approximation of an asset's market value upon purchase.

True False

34. The monetary unit assumption means that all companies doing business in the United States must express transactions and events in U.S. dollars.

True False

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

True False

36. A limited liability company offers the limited liability of a partnership or proprietorship and the tax treatment of a corporation.

True False

37. The Securities and Exchange Commission (SEC) is a government agency that has legal authority to establish GAAP.

True False

38. The FASB and IASB are attempting to converge and enhance the conceptual framework that guides standard setting, however the differences between U.S. GAAP and IFRS greatly outweigh the similarities.

True False

39. The three major types of business activities are operating, financing, and investing.

True False

40. Planning involves defining an organization's ideas, goals, and actions.

True False

41. A company's operating and financing totals are always equal.

True False

42. Investing activities are the means an organization uses to pay for resources like land, buildings, and equipment to carry out its plans.

True False

43. Investing activities are the acquiring and disposing of resources that an organization uses to acquire and sell its products or services.

True False

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

True False

45. Revenues are increases in equity from a company's sales of products and services to customers.

True False

46. A net loss occurs when revenues exceed expenses.

True False

47. Net income occurs when revenues exceed expenses.

True False

48. Liabilities are the owner's claim on assets.

True False

49. Assets are the resources a company owns or controls that are expected to yield future benefits.

True False

50. Dividends are expenses.

True False

51. The accounting equation can be restated as: $\text{Assets} - \text{Equity} = \text{Liabilities}$.

True False

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

True False

53. Common stock is an increase in equity from a company's earnings activities.

True False

54. Every business transaction leaves the accounting equation in balance.

True False

55. An external transaction is an exchange within an entity that may or may not affect the accounting equation.

True False

56. From an accounting perspective, an event is a happening that affects the accounting equation, but cannot be measured.

True False

57. Stockholders' equity is increased when cash is received from customers in payment of previously recorded accounts receivable.

True False

58. A stockholder's investment in a business normally creates an asset (cash), a liability (note payable), and stockholders' equity (investment).

True False

59. Return on assets is often stated in ratio form as the amount of average total assets divided by income.

True False

60. Return on assets is also known as return on investment.

True False

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

True False

62. Arrow's net income of \$117 million and average assets of \$1,400 million results in a return on assets of 8.36%.

True False

63. Return on assets reflects a company's ability to generate profit through productive use of its assets.

True False

64. Risk is the uncertainty about the return we will earn.

True False

65. Generally the lower the risk, the higher the return that can be expected.

True False

66. U.S. Government Treasury bonds provide low return and low risk to investors.

True False

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

True False

68. An income statement reports on investing and financing activities.

True False

69. A balance sheet covers activities over a period of time such as a month or year.

True False

70. The income statement describes revenues earned and expenses incurred over a specified period of time due to earnings activities.

True False

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

True False

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

True False

73. The first section of the income statement reports cash flows from operating activities.
- True False
74. The balance sheet is based on the accounting equation.
- True False
75. Investing activities involve the buying and selling of assets such as land and equipment that are held for long-term use in the business.
- True False
76. Operating activities include long-term borrowing and repaying cash from lenders, and cash investments or dividends to stockholders.
- True False
77. The purchase of supplies appears on the statement of cash flows as an investing activity because it involves the purchase of assets.
- True False
78. The income statement reports on operating activities at a point in time.
- True False
79. The statement of cash flows identifies cash flows separated into operating, investing, and financing activities over a period of time.
- True False
80. Ending retained earnings on the statement of retained earnings is calculated by adding stockholder investments and net losses and subtracting net income and dividends.
- True False

Multiple Choice Questions

81. Accounting is an information and measurement system that does all of the following *except*:

- A. Identifies business activities.
- B. Records business activities.
- C. Communicates business activities.
- D. Eliminates the need for interpreting financial data.
- E. Helps people make better decisions.

82. Technology:

- A. Has replaced accounting.
- B. Has not improved the clerical accuracy of accounting.
- C. Reduces the time, effort and cost of recordkeeping.
- D. In accounting has replaced the need for decision makers.
- E. In accounting is only available to large corporations.

83. The primary objective of financial accounting is to:

- A. Serve the decision-making needs of internal users.
- B. Provide accounting information that serves external users.
- C. Monitor and control company activities.
- D. Provide information on both the costs and benefits of looking after products and services.
- E. Know what, when, and how much product to produce.

84. 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. Bookkeeping.

85. External users of accounting information include all of the following *except*:

- A. Shareholders.
- B. Customers.
- C. Purchasing managers.
- D. Government regulators.
- E. Creditors.

86. All of the following regarding a Certified Public Accountant are true *except*:

- A. Must meet education and experience requirements.
- B. Must pass an examination.
- C. Must exhibit ethical character.
- D. May also be a Certified Management Accountant.
- E. Cannot hold any certificate other than a CPA.

87. Ethical behavior requires that:

- A. Auditors' pay not depend on the success of the client's business.
- B. Auditors invest in businesses they audit.
- C. Analysts report information favorable to their companies.
- D. Managers use accounting information to benefit themselves.
- E. Auditors' pay depends on the success of the client's business.

88. The conceptual framework that the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are attempting to converge and enhance includes the following broad areas to guide standard setting *except*:

- A. Objectives
- B. Qualitative characteristics
- C. Uniformity
- D. Elements
- E. Recognition and measurement

89. All of the following are true regarding ethics *except*:

- A. Ethics are beliefs that separate right from wrong.
- B. Ethics rules are often set for CPAs.
- C. Ethics do not affect the operations or outcome of a company.
- D. Are critical in accounting.
- E. Ethics can be difficult to apply.

90. The accounting concept that requires financial statement information to be supported by independent, unbiased evidence is:

- A. Business entity assumption.
- B. Revenue recognition principle.
- C. Going-concern assumption.
- D. Time-period assumption.
- E. Objectivity principle.

91. A corporation is:

- A. A business legally separate from its owners.
- B. Controlled by the FASB.
- C. Not responsible for its own acts and own debts.
- D. The same as a limited liability partnership.
- E. Not subject to double taxation.

92. The independent group that issues standards that identify preferred accounting practices and is attempting to harmonize the accounting practices globally is the:

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

93. The private-sector group that currently has the authority to establish generally accepted accounting principles in the United States is the:

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

94. The accounting concept that requires every business to be accounted for separately from other business entities, including its owner or owners is known as the:
- A. Time-period assumption.
 - B. Business entity assumption.
 - C. Going-concern assumption.
 - D. Revenue recognition principle.
 - E. Cost principle.
95. The rule that requires financial statements to 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 assumption.
 - B. Business entity assumption.
 - C. Objectivity principle.
 - D. Cost Principle.
 - E. Monetary unit assumption.
96. If a company is considering the purchase of a parcel of land that was originally acquired by the seller for \$85,000, is offered for sale at \$150,000, is assessed for tax purposes at \$95,000, is recognized by the purchaser as easily being worth \$140,000, and is 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.
97. To include the personal assets and transactions of a business's stockholders in the records and reports of the business would be in conflict with the:
- A. Objectivity principle.
 - B. Monetary unit assumption.
 - C. Business entity assumption.
 - D. Going-concern assumption.
 - E. Revenue recognition principle.

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

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

99. The rule 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 noncash assets received from customers in exchange for goods or services, is called the:

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

100 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 assumption.
- C. Objectivity principle.
- D. Business entity assumption.
- E. Cost principle.

101 The International Accounting Standards Board (IASB):

- A. Hopes to create harmony among accounting practices globally to improve comparability.
- B. Is the government group that establishes reporting requirements for companies that issue stock to the investing public.
- C. Has the authority to impose its standards on companies around the world.
- D. Is the only source of generally accepted accounting principles (GAAP).
- E. Only applies to companies that are members of the European Union.

102 The Superior Company acquired a building for \$500,000. The building was appraised at a value of \$575,000. The seller had paid \$300,000 for the building 6 years ago. Which accounting principle would require Superior to record the building on its records at \$500,000?

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

103 On December 15 of the current year, Conrad Accounting Services signed a \$40,000 contract with a client to provide bookkeeping services to the client in the following year. Which accounting principle would require Conrad Accounting Services to record the bookkeeping revenue in the following year and not the year the cash was received?

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

104 Marsha Bogswell is the owner of Bogswell Legal Services, Inc. Which accounting principle requires Marsha to keep her personal financial information separate from the financial information of Bogswell Legal Services, Inc.?

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

105 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. May only have two partners.

106 A partnership:

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- A. Is also called a sole proprietorship.
- B. Has unlimited liability for its partners.
- 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.

107 Which of the following accounting principles require that all goods and services purchased be recorded at actual cost?

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

108 Which of the following accounting principles prescribes that a company record its expenses incurred to generate the revenue reported?

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

109 Revenue is properly recognized:

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

110 Which of the following purposes would financial statements serve for external users?

- A. To find information about projected costs and revenues of proposed products.
- B. To assess employee performance and compensation.
- C. To assist in monitoring consumer needs and price concerns.
- D. To fulfill regulatory requirements for companies whose stock is sold to the public.
- E. To determine purchasing needs.

111 In a business decision where there are ethical concerns, the preferred course of action should be one that:

- A. Is agreed upon by the most managers.
- B. Maximizes the company's profits.
- C. Results in maintaining operations at the current level.
- D. Costs the least to implement.
- E. Avoids casting doubt on the decision maker and upholds trust.

112 If a company uses \$1,300 of its cash to purchase supplies, the effect on the accounting equation would be:

- A. Assets increase \$1,300 and liabilities decrease \$1,300.
- B. One asset increases \$1,300 and another asset decreases \$1,300, causing no effect.
- C. Assets decrease \$1,300 and equity decreases \$1,300.
- D. Assets decrease \$1,300 and equity increases \$1,300.
- E. Assets increase \$1,300 and liabilities increase \$1,300.

113 If a company receives \$12,000 from the stockholders to establish a corporation, the effect on the accounting equation would be:

- A. Assets decrease \$12,000 and equity decreases \$12,000.
- B. Assets increase \$12,000 and liabilities decrease \$12,000.
- C. Assets increase \$12,000 and liabilities increase \$12,000.
- D. Liabilities increase \$12,000 and equity decreases \$12,000.
- E. Assets increase \$12,000 and equity increases \$12,000.

114 If a company purchases equipment costing \$4,500 on credit, the effect on the accounting equation would be:

- A. Assets increase \$4,500 and liabilities decrease \$4,500.
- B. Equity decreases \$4,500 and liabilities increase \$4,500.
- C. Liabilities decrease \$4,500 and assets increase \$4,500.
- D. Assets increase \$4,500 and liabilities increase \$4,500.
- E. Equity increases \$4,500 and liabilities decrease \$4,500.

115 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.

116 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.

117 Operating activities:

- A. Are the means organizations 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.

118 An example of an investing activity is:

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- A. Paying wages of employees.
- B. Dividends paid by the company.
- C. Purchase of land.
- D. Selling inventory.
- E. Contributions from stockholders.

119 Net Income:

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

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

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

121 If assets are \$300,000 and liabilities are \$192,000, then equity equals:

.

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

122 Resources a company owns or controls that are expected to yield future benefits are:

.

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

123 Increases in equity from a company's sales of products or services are:

.

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

124 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.

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

.

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

126 Decreases in equity that represent costs of providing products or services to customers, used to earn revenues are called:

.

- A. Liabilities.
- B. Equity.
- C. Dividends.
- D. Expenses.
- E. Common Stock.

127 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.

128 Revenues are:

- A. The same as net income.
- B. The excess of expenses over assets.
- C. Resources owned or controlled by a company.
- D. The increase in equity from a company's sales of products and services.
- E. The costs of assets or services used.

129 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.

130 Another name for equity is:

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

131 When expenses exceed revenues, the resulting change in equity is:

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

132 A resource that the stockholder receives from the company is called a(n):

.

- A. Liability.
- B. Dividend.
- C. Expense.
- D. Common stock.
- E. Investment.

133 Distributions of cash or other resources by a business to its stockholders are called:

.

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

134 The assets of a company total \$700,000; the liabilities, \$200,000. What are the net assets?

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

135 On May 31 of the current year, the assets and liabilities of Riser, Inc. are as follows: Cash \$20,500; Accounts Receivable, \$7,250; Supplies, \$650; Equipment, \$12,000; Accounts Payable, \$9,300. What is the amount of stockholders' equity as of May 31 of the current year?

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- A. \$8,300
- B. \$13,050
- C. \$20,500
- D. \$31,100
- E. \$40,400

136 On August 31 of the current year, the assets and liabilities of Gladstone, Inc. are as follows: Cash \$30,000; Supplies, \$600; Equipment, \$10,000; Accounts Payable, \$8,500. What is the amount of stockholders' equity as of August 31 of the current year?

- A. \$49,100
- B. \$32,100
- C. \$12,100
- D. \$10,900
- E. \$30,900

137 Assets created by selling goods and services on credit are:

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

138 An exchange of value between two entities that yields a change in the accounting equation is called:

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

139 Saddleback 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; equity, \$30,000 increase.
- B. Assets, \$30,000 decrease; liabilities, \$30,000 decrease.
- C. Assets, \$30,000 decrease; liabilities, \$30,000 increase.
- D. Liabilities, \$30,000 decrease; equity, \$30,000 increase.
- E. Assets, \$30,000 decrease; equity \$30,000 decrease.

140 If Houston Company billed a client for \$10,000 of consulting work completed, the accounts receivable asset increases by \$10,000 and:

- A. Accounts payable decreases \$10,000.
- B. Accounts payable increases \$10,000.
- C. Cash increases \$10,000.
- D. Revenue increases \$10,000.
- E. Revenue decreases \$10,000.

141 Alpha Company has assets of \$600,000, liabilities of \$250,000, and equity of \$350,000. It buys office equipment on credit for \$75,000. What would be the effects of this transaction on the accounting equation?

- 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.

142 Contessa Company collected \$42,000 cash on its accounts receivable. The effects of this transaction as reflected in the accounting equation are:

- A. Total assets decrease and equity increases.
- B. Both total assets and total liabilities decrease.
- C. Neither assets, total liabilities, nor equity are changed.
- D. Both total assets and equity are unchanged and liabilities increase.
- E. Total assets increase and equity decreases.

143 If the liabilities of a business increased \$75,000 during a period of time and the stockholders' 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.

144 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.

145 If the liabilities of a company increased \$74,000 during a period of time and equity in the company decreased \$19,000 during the same period, what was the effect on the assets?

- A. Assets would have increased \$55,000.
- B. Assets would have decreased \$55,000.
- C. Assets would have increased \$19,000.
- D. Assets would have decreased \$19,000.
- E. None of these.

146 If a company paid \$38,000 of its accounts payable in cash, what was the effect on the accounting equation?

- A. Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would decrease \$38,000.
- B. Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would increase \$38,000.
- C. Assets would decrease \$38,000 and liabilities would decrease \$38,000.
- D. There would be no effect on the accounts because the accounts are affected by the same amount.
- E. Assets would increase \$38,000 and liabilities would decrease \$38,000.

147 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.

148 Rushing had income of \$150 million and average invested assets of \$1,800 million. Its return on assets is:

- A. 8.3%.
- B. 83.3%.
- C. 12%.
- D. 120%.
- E. 16.7%.

149 Cage Company had income of \$350 million and average invested assets of \$2,000 million. Its return on assets (ROA) is:

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

150 Speedy has net income of \$18,955, and assets at the beginning of the year of \$200,000. 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%.

151 Chou Co. has a net income of \$43,000, assets at the beginning of the year are \$250,000 and assets at the end of the year are \$300,000. Compute its return on assets.

- A. 8.4%
- B. 17.2%
- C. 14.3%
- D. 15.6%
- E. 1.5%

152 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.

153 Risk is:

.

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

154 The statement of cash flows reports all of the following *except*:

.

- A. Cash flows from operating activities.
- B. Cash flows from investing activities.
- C. Cash flows from financing activities.
- D. The net increase or decrease in assets for the period reported.
- E. The net increase or decrease in cash for the period reported.

155 The basic financial statements include all of the following *except*:

.

- A. Balance Sheet.
- B. Income Statement.
- C. Statement of Retained Earnings.
- D. Statement of Cash Flows.
- E. Statement of Changes in Assets.

156 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.

157 The financial statement that reports whether the business earned a profit and also lists the revenues and expenses is called the:

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

158 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 equity during a time period.
- C. The types and amounts of assets, liabilities, and equity of a business as of a specific date.
- D. The inflows and outflows of cash during the period.
- E. The assets and liabilities of a company but not the retained earnings.

159 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.

160 The financial statement that identifies a company's cash receipts and cash payments over a period of time is the:

- A. Statement of financial position.
- B. Statement of cash flows.
- C. Balance sheet.
- D. Income statement.
- E. Statement of changes in stockholders' equity.

161 The financial statement that shows the beginning balance of retained earnings; the changes in retained earnings that resulted from net income (or net loss); dividends; and the ending balance, is the:

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

162 Cash investments by stockholders 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. All of the above.

163 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.

164 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.

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

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

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

166 Use the following information for Meeker Corp. to determine the amount of equity to report.

Cash	\$70,000
Buildings	125,000
Land	205,000
Liabilities	130,000

- A. \$390,000.
- B. \$140,000.
- C. \$20,000.
- D. \$530,000.
- E. \$270,000.

167 Determine the net income of a company for which the following information is available for the month of July.

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.

168 Determine the net income of a company for which the following information is available for the month of September.

Service revenue	\$300,000
Rent expense	48,000
Utilities expense	3,200
Salaries expense	81,000

- A. \$263,800.
- B. \$432,200.
- C. \$171,000.
- D. \$167,800.
- E. \$252,000.

169 Determine the net income (net loss) of a company for which the following information is available for the month of September.

Service revenue	\$200,000
Rent expense	68,000
Utilities expense	15,000
Salaries expense	121,000

- A. \$404,000.
- B. (\$4,000).
- C. \$162,000.
- D. \$4,000.
- E. (\$204,000).

170 Determine the net income (net loss) of a company for which the following information is available for the month of July.

Service revenue	\$250,000
Rent expense	28,000
Utilities expense	15,000
Salaries expense	41,000
Dividends	20,000

- A. \$166,000.
- B. \$146,000.
- C. \$186,000.
- D. (\$146,000).
- E. (\$166,000).

171 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.

172 A company borrows \$125,000 from the Northern 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.

173 Zippy had cash inflows from operations \$60,500; cash outflows from investing activities of

. \$47,000; and cash inflows from financing of \$25,000. The net change in cash was:

- A. \$38,500 increase.
- B. \$38,500 decrease.
- C. \$132,500 decrease.
- D. \$132,000 increase.
- E. \$11,500 decrease.

174 Zapper has beginning equity of \$257,000, net income of \$51,000, dividends of \$40,000 and

. investments by stockholders of \$6,000. Its ending equity is:

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

175 Cragmont has beginning equity of \$277,000, net income of \$63,000, dividends of \$25,000, and

. no additional investments by stockholders during the period. Its ending equity is:

- A. \$365,000.
- B. \$239,000.
- C. \$189,000.
- D. \$315,000.
- E. \$277,000.

176 Rent expense appears on which of the following statements?

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

177 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 stockholders' equity?

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

178 A company reported total equity of \$145,000 at the beginning of the year. The company reported \$210,000 in revenues and \$165,000 in expenses for the year. Liabilities at the end of the year totaled \$92,000. What are the total assets of the company at the end of the year?

- A. \$45,000.
- B. \$92,000.
- C. \$98,000.
- D. \$210,000.
- E. \$282,000.

179 Prevor Corporation reports the following account balances at the end of its first year of operation:

Accounts Payable	\$30,000
Accounts Receivable	16,500
Cash	14,000
Common Stock	20,000
Expenses	110,500
Land	40,000
Revenues	133,000
Supplies	2,000

Prevor's total assets equal:

- A. \$70,500.
- B. \$72,500.
- C. \$205,500.
- D. \$22,500.
- E. \$106,000.

180 Prevor Corporation reports the following account balances at the end of its first year of operation:

Accounts Payable	\$30,000
Accounts Receivable	16,500
Cash	14,000
Common Stock	20,000
Expenses	110,500
Land	40,000
Revenues	133,000
Supplies	2,000

Prevor's total liabilities equal:

- A. \$46,500.
- B. \$42,500.
- C. \$50,000.
- D. \$72,500.
- E. \$30,000.

181 Prevor Corporation reports the following account balances at the end of its first year of operation:

Accounts Payable	\$30,000
Accounts Receivable	16,500
Cash	14,000
Common Stock	20,000
Expenses	110,500
Land	40,000
Revenues	133,000
Supplies	2,000

Prevor's total equity equals:

- A. \$20,000.
- B. \$50,000.
- C. \$42,500.
- D. \$34,000.
- E. \$22,500.

182 Flitter reported net income of \$17,500 for the past year. At the beginning of the year the company had \$200,000 in assets and \$50,000 in liabilities. By the end of the year, assets had increased to \$300,000 and liabilities were \$75,000. Calculate its return on assets:

- A. 8.8%
- B. 7.0%
- C. 5.8%
- D. 35.0%
- E. 23.3%

183 Dawson Electronic Services had revenues of \$80,000 and expenses of \$50,000 for the year. 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.

- A. 7.1%
- B. 7.5%
- C. 6.7%
- D. 20.0%
- E. 18.8%

184 Rico's Taqueria 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.

- A. \$61,000 increase.
- B. \$37,000 increase.
- C. \$7,000 decrease.
- D. \$7,000 increase.
- E. \$34,000 decrease.

185 Charlie's Chocolates Inc.'s stockholders made investments of \$50,000 and dividends of \$20,000. The company has revenues of \$83,000 and expenses of \$64,000. Calculate its net income.

- A. \$30,000.
- B. \$83,000.
- C. \$64,000.
- D. \$19,000.
- E. \$49,000.

186 Savvy Sightseeing had beginning equity of \$72,000; revenues of \$90,000, expenses of \$65,000, and dividends to stockholders of \$9,000. Calculate the ending equity.

- A. \$88,000.
- B. \$25,000.
- C. \$97,000.
- D. \$38,000.
- E. \$47,000.

187 Doc's Ribhouse had beginning equity of \$52,000; net income of \$35,000, and Dividends by the company of \$12,000. Calculate the ending equity.

- A. \$(5,000).
- B. \$29,000.
- C. \$5,000.
- D. \$99,000.
- E. \$75,000.

188 A company's balance sheet shows: cash \$24,000, accounts receivable \$30,000, equipment \$50,000, and equity \$72,000. What is the amount of liabilities?

- A. \$104,000.
- B. \$76,000.
- C. \$32,000.
- D. \$68,000.
- E. \$176,000.

189 If a company has excess space in its building that it rents to another company for \$700, what is the effect on the accounting equation when the first rent payment is collected?

- A. Assets would decrease \$700 and liabilities would decrease \$700.
- B. Assets would decrease \$700 and equity would increase \$700.
- C. Assets would increase \$700 and equity would decrease \$700.
- D. Assets would increase \$700 and equity would increase \$700.
- E. Liabilities would decrease \$700 and equity would increase \$700.

190 All of the following are classified as assets *except*:

- A. Accounts Receivable.
- B. Supplies.
- C. Equipment.
- D. Accounts Payable.
- E. Land.

191 Which of the following accounts is not included in the calculation of a company's ending stockholders' equity?

- A. Revenues.
- B. Expenses.
- C. Dividends.
- D. Common stock.
- E. Cash.

192 All of the following are classified as liabilities *except*:

- A. Supplies.
- B. Bonds Payable.
- C. Wages Payable.
- D. Accounts Payable.
- E. Interest Payable.

193 Billington Corp. borrows \$80,000 cash from Second National Bank. How does this transaction affect the accounting equation for Billington?

- A. Assets would decrease \$80,000 and liabilities would decrease \$80,000.
- B. Assets would decrease \$80,000 and equity would increase \$80,000.
- C. Assets would increase \$80,000 and equity would decrease \$80,000.
- D. Assets would increase \$80,000 and liabilities would increase \$80,000.
- E. Liabilities would decrease \$80,000 and equity would increase \$80,000.

194 If the assets of a company increase by \$55,000 during the year and its liabilities increase by \$25,000 during the same year, then the change in equity of the company during the year must have been:

- A. An increase of \$80,000.
- B. A decrease of \$80,000.
- C. An increase of \$30,000.
- D. A decrease of \$30,000.
- E. An increase of \$25,000.

195 All of the following are classified as liabilities *except*:

- A. Accounts Receivable.
- B. Notes Payable.
- C. Wages Payable.
- D. Accounts Payable.
- E. Taxes Payable.

196 Grandmark Printing pays \$2,000 rent to the landlord of the building where its facilities are located. How does this transaction affect the accounting equation for Grandmark?

- A. Assets would decrease \$2,000 and liabilities would decrease \$2,000.
- B. Assets would decrease \$2,000 and equity would decrease \$2,000.
- C. Assets would increase \$2,000 and equity would increase \$2,000.
- D. Assets would increase \$2,000 and liabilities would increase \$2,000.
- E. Liabilities would decrease \$2,000 and equity would increase \$2,000.

197 Atkins Company collected \$1,750 as payment for the amount owed by a customer from services provided the prior month on credit. How does this transaction affect the accounting equation for Atkins?

- A. Assets would decrease \$1,750 and liabilities would decrease \$1,750.
- B. One asset would increase \$1,750 and a different asset would decrease \$1,750, causing no effect.
- C. Assets would increase \$1,750 and equity would increase \$1,750.
- D. Assets would increase \$1,750 and liabilities would increase \$1,750.
- E. Liabilities would decrease \$1,750 and equity would increase \$1,750.

198 The accounting equation for Ying Company shows a decrease in its assets and a decrease in its equity. Which of the following transactions could have caused that effect?

- A. Cash was received from providing services to a customer.
- B. The company paid an amount due on credit.
- C. Equipment was purchased for cash.
- D. A utility bill was received for the current month, to be paid in the following month.
- E. Advertising expense for the month was paid in cash.

199 The accounting equation for Long Company shows an increase in its assets and an increase in its liabilities. Which of the following transactions could have caused that effect?

- A. Cash was received from providing services to a customer.
- B. Cash was received in exchange for common stock.
- C. Equipment was purchased on credit.
- D. Supplies were purchased for cash.
- E. Advertising expense for the month was paid in cash.

200 In recent years, the FASB and IASB have pursued a process aimed at reducing inconsistencies and improving comparability between U.S. GAAP and IFRS. This process is known as:

- A. Consistency
- B. Matching
- C. Quantifying
- D. Convergence
- E. Globalization

Matching Questions

201 Match each of the following terms with the appropriate definitions

- | | | |
|--------------------------------------|--|-------|
| 1. Internal users | The area of accounting aimed at serving external users by providing them with general-purpose financial statements. | _____ |
| 2. Fraud triangle | Beliefs that distinguish right from wrong, considered accepted standards of good and bad behavior. | _____ |
| 3. Recordkeeping | The part of accounting that involves recording transactions and events, either electronically or manually. | _____ |
| 4. Financial accounting | Persons using accounting information who are directly involved in managing and operating the organization. | _____ |
| 5. External users | An information and measurement system that identifies, records and communicates relevant reliable and comparable information about an organization's business activities. | _____ |
| 6. Accounting | Accounting specialists that have met educational and experience requirements, passed an examination and exhibit ethical characteristics to achieve a professional certification. | _____ |
| 7. Certified Public Accountant (CPA) | A model that asserts the factors that must exist for a person to commit fraud. | _____ |
| 8. Ethics | The area of accounting that serves the decision-making needs of internal users. | _____ |
| 9. Managerial accounting | Persons using accounting information who are not directly involved in running the organization. | _____ |

202 Match each of the following terms with the appropriate definitions

- | | | |
|------------------------|---|-------|
| 1. Liabilities | A financial ratio stated as income divided by assets invested. | _____ |
| 2. Return on assets | Resources a company owns or controls that are expected to yield future benefit. | _____ |
| 3. Expenses | Decreases in equity from costs of providing products or services to customers. | _____ |
| 4. Accounting equation | The uncertainty about the return to be earned. | _____ |
| 5. Dividends | Creditor's claims on a company's assets. | _____ |
| 6. Common stock | Resources such as cash that a stockholder receives from the company for personal use. | _____ |
| 7. Assets | Expresses the relation of assets, liabilities and equity in a company, comparing the resources the company owns to the sources of funds to acquire the resources. | _____ |
| 8. Risk | The part of contributed capital that reflects what is received by stockholders in exchange for resources such as cash or other net assets. | _____ |

203 Match each of the following terms with the appropriate definitions

- | | | |
|------------------------|--|-------|
| 1. Purchasing Managers | Judge the soundness of a customer before making sales on credit. | _____ |
| 2. Shareholders | Assess whether an organization is likely to repay its loans with interest. | _____ |
| 3. Lenders | Decide whether to buy, hold, or sell a company's stock. | _____ |
| 4. Suppliers | Know what, when, and how much to purchase. | _____ |
| 5. Regulators | Assess whether a company has paid all required taxes and complied with securities rules. | _____ |

204 Match each of the following terms with the appropriate definitions

	The concepts and rules that govern financial accounting.	_____
1. Cost principle		
2. Statement of retained earnings	Presumes that the life of a company can be divided into periods for reporting purposes.	_____
3. Generally accepted accounting principles	A financial statement that reports the changes in retained earnings over the reporting period; including increases such as net income and for decreases such as dividends or net loss.	_____
4. Balance sheet	A report that describes a company's financial position at a point in time.	_____
5. Time period assumption	A principle that requires the information in financial statements to be supported by independent unbiased evidence.	_____
6. Objectivity principle	Prescribes that assets and services to be recorded initially on a cash or equal-to-cash basis.	_____
7. IASB	The governmental agency that has the legal authority to establish accounting rules.	_____
8. Securities and Exchange Commission	An independent group consisting of individuals from many countries that identify preferred accounting practices.	_____
9. Statement of cash flows	Prescribes that a company report the details behind financial statements that would impact user decisions.	_____
10. Full disclosure principle	A report that identifies cash receipts and cash payments over a period of time.	_____

205 Match each of the following terms with the appropriate definitions

1. Statement of cash flows	A financial statement that lists cash inflows (receipts) and cash outflows (payments); the cash flows are arranged by operating, investing, and financing activities. _____
2. Monetary unit principle	Happenings, such as changes in market value, that effect the accounting equation and are reliably measured. _____
3. Revenue recognition principle	The principle that assumes transactions and events can be expressed in money units. _____
4. Expenses	The principle that requires a business to be accounted for separately from its owners. _____
5. Income statement	The principle that revenue is recorded when earned through providing goods or services. _____
6. Business entity principle	The relation between a company's assets, liabilities, and equity. _____
7. Liabilities	Describes a company's revenues and expenses along with the resulting net income or loss over a period of time. _____
8. Accounting equation	Wages paid to earn revenues. _____
9. Events	Creditor's claims on assets. _____

Short Answer Questions

206 Match each of the following business activities 1 through 8 to the appropriate category a, b, or c.

- a. Operating
- b. Investing
- c. Financing

- _____ 1. Paid utilities expenses.
- _____ 2. Withdrawal of funds by stockholders.
- _____ 3. Purchase of land.
- _____ 4. Sale of used equipment.
- _____ 5. Borrowed money from a bank on a long-term note.
- _____ 6. Paid employee wages.
- _____ 7. Received investment from owner.
- _____ 8. Paid an amount due on a long-term bank loan.

207 Match each of the following items 1 through 8 with the financial statement a through d in which each item would most likely appear. An item may appear on more than one statement.

- a. Income statement
- b. Statement of retained earnings
- c. Balance sheet
- d. Statement of cash flows

- _____ 1. Assets.
- _____ 2. Dividends.
- _____ 3. Revenues.
- _____ 4. Cash from investing activities.
- _____ 5. Expenses.
- _____ 6. Liabilities.
- _____ 7. Cash from operating activities.
- _____ 8. Cash from financing activities.

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

- a. Operating activity
- b. Investing activity
- c. Financing activity

- _____ 1. Cash received from a one-time sale of used office equipment.
- _____ 2. Cash paid for dividends to stockholders.
- _____ 3. Cash received from customers.
- _____ 4. Cash received from owner contributions.
- _____ 5. Cash paid for utilities.
- _____ 6. Cash paid for a delivery van to be used in the business.

209 Explain the role of accounting in the information age.

.

210 What is the balance sheet? What is its purpose?

.

211 Identify the users and uses of accounting information.

.

212 Identify several opportunities in accounting and distinguish between private accounting and public accounting.

.

213 Explain why ethics are an integral part of accounting.

.

214 Describe the three important guidelines for revenue recognition.

.

215 Identify the three basic forms of business organizations and their key attributes.

.

216 How does the objectivity principle support ethical behavior?

.

217 Identify and describe the two main groups involved in establishing generally accepted accounting principles.

.

218 How does the going-concern principle affect reporting asset values of a business?

.

219 Describe the income statement and the relation between revenues, expenses, and net income or loss.

220 Explain the accounting equation and define its terms.

221 What distinguishes liabilities from equity?

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

.

223 Define risk and return and discuss the relation between them.

.

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

.

225 Identify and describe the four basic financial statements.

.

Essay Questions

226 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. Individual owners are personally liable for debts of the business.
- d. Is a separately taxable entity.
- e. Is a business entity.
- f. May have a contract specifying the division of profits among the partners.
- 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.

	Proprietorship	Partnership	Corporation
a.			
b.			
c.			
d.			
e.			
f.			
g.			

227 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 sold for \$570,000. At what amount should the land be recorded in the purchaser's books? What accounting principle supports your answer?

228 You are reviewing the accounting records of Buddy's Foreign Automotive, Inc., owned by Bruce Jones. You have uncovered the following situations. List the appropriate accounting principle related to each independent scenario and suggest a correct action for each.

1. In August, a check for \$500 was written to Community Sports. This amount represents soccer camp for his daughter Cassie.
2. Bruce plans a Going Out of Business Sale for June, since he will be closing the business for a month-long vacation in July. He plans to reopen August 1 and will continue operating Buddy's Foreign Automotive indefinitely.
3. Buddy received a shipment of tools from Ontario, Canada. The invoice was stated in Canadian dollars.
4. Sandy Lane paid \$1,500 for a major repair services. The amount was recorded as revenue. The parts for the repair must be ordered from overseas and the service won't be complete until the following month.

229 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.

230 At the beginning of the period, a company had \$350,000 worth of assets, \$110,000 worth of liabilities, and \$240,000 worth of equity. Assume the only change during the period was a \$30,000 purchase of equipment by issuing a note payable. Show the accounting equation with the appropriate amounts at the end of the period.

231 The accounts of Odie Company 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	

Except for net income, an investment of \$3,000 by the stockholder, and a dividend of \$11,000 by the stockholder, no other items affected the stockholders' equity balance. Using the balance sheet equation, compute net income for the past year.

232 The accounts of Mason Company at the end of the past year report the following amounts:

Accounts	Amount
Dividends	\$15,500
Revenues	\$97,000
Expenses	\$43,800
Common stock	2,000

If the beginning equity for the year was \$173,000, calculate the ending equity for Mason Company.

233 Cornelia's Closet has the following account balances for the dates given:

	October 1	October 31
Cash	\$40,000	60,000
Accounts Receivable	40,000	38,000
Accounts payable	6,000	?

Also, its net income, for October 1 through October 31 was \$20,000 and there were no investments or withdrawals by the owner. Determine the equity at both October 1 and October 31.

- 234 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? By what amount?

235 Soo Lin, the sole stockholder, began an Internet Consulting practice organized as a corporation and completed these transactions during April of the current year:

April	1	Invested \$100,000 of her personal savings into a checking account opened in the name of the business.
	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	The corporation paid a \$2,000 dividend.

Show the effects of the above transactions on the accounting equation of Soo Lin, Consultant. 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:			
April 1	I	N	I

236 For each of the following transactions, identify the effects as reflected in 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. Chester invested \$100,000 in a corporation.	+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.		

237 The following schedule reflects shows the first month's transactions of the Green Construction Company Inc.:

		Acco unts				Acco unts					
	Cas h	+	Recei vable	+	Sup plies	+	Equip ment	=	Paya ble	+	Stockh olders' Equity
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.

238 The accountant of Action Adventure Games, Inc. prepared a balance sheet after every 10 day period. The only resources invested by the owner were at the start of the company on June 1. During June, the first month of operation, the following balance sheets were prepared:

ACTION ADVENTURE GAMES, Inc. Balance Sheet June 10			
Assets		Stockholders' Equity	
Cash	<u>\$60,000</u>	Common stock + Retained earnings	<u>\$60,000</u>
Total assets	<u>\$60,000</u>	Total liabilities and equity	<u>\$60,000</u>

ACTION ADVENTURE GAMES, Inc. Balance Sheet June 20			
Assets		Liabilities	
Cash	\$48,000	Notes payable	\$18,000
Land	10,000	Stockholders' Equity	
Building	<u>20,000</u>	Common stock + Retained earnings	<u>60,000</u>
Total assets	<u>\$78,000</u>	Total liabilities and equity	<u>\$78,000</u>

ACTION ADVENTURE GAMES, Inc. Balance Sheet June 30			
Assets		Liabilities	
Cash	\$51,000	Accounts payable	\$2,000
Office supplies	2,000	Notes payable	18,000
Land	10,000	Stockholders' Equity	
Building	<u>20,000</u>	Common stock + Retained earnings	<u>63,000</u>
Total assets	<u>\$83,000</u>	Total liabilities and equity	<u>\$83,000</u>

Required:

Describe the nature of each of the four transactions that took place between the balance sheet dates shown. Assume only one transaction affected each account.

June		
	10	
	20	
	30	

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

- a. Investing \$500 in a certificate of deposit 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.

240 Prepare a April 30 balance sheet in proper form for Two Rivers Vending Service, Inc. from the following alphabetical list of the accounts at April 30:

Accounts receivable	\$10,000
Accounts payable	18,000
Building	28,000
Cash	10,000
Notes payable	47,000
Office equipment	12,000
Common stock	20,000
Retained earnings	?
Trucks	55,000

241 Prepare a December 31 balance sheet in proper form for Smokey River Supplies, Inc. from the following list of the accounts:

Cash	\$10,000
Accounts receivable	8,000
Supplies	12,000
Equipment	35,000
Land	18,000
Accounts payable	13,000
Notes payable	41,000
Stockholders' equity	29,000

242 Prepare a December 31 balance sheet in proper form for Cane Property Management, Inc. using the following accounts and amounts:

Commissions earned	\$40,000
Accounts payable	3,500
Accounts receivable	5,000
Stockholders' equity	104,500
Office equipment	10,000
Advertising expense	3,200
Cash	7,500
Land	35,000
Note payable	50,000
Office supplies	1,500
Salaries expense	12,000
Salaries payable	1,000
Building	100,000

- 243 From the information given below, prepare a November income statement, a November statement of retained earnings, and a November 30 balance sheet. On November 1 of the current year, Victoria Garza began Garza Décor, Inc. with an initial investment of \$50,000 cash. On November 30, her records showed the following (alphabetically arranged) items and amounts.

Accounts payable	\$12,000	Office furnishings	\$40,000
Accounts receivable	19,000	Dividends	6,000
Cash	21,200	Rent expense	9,600
Fees earned	34,000	Salaries expense	4,200
Notes payable	4,250	Telephone expense	250

244 Data for Kennedy Realty are as follows:

Total assets at January 1	\$100,000
Total liabilities at January 1	35,000
Total revenues for the year	79,000
Total expenses for the year	47,000

The owner, Finn Kennedy, received a dividend of \$30,000 during the year. Using the above data, prepare Kennedy Realty's Statement of Retained Earnings for the year ended December 31.

245 Jet Styling, Inc. 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 owner	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 dividend to stockholder	2,000
i.	Cash payment of wages	4,000

- 246 The records of Roadmaster Auto Rentals, Inc. show the following information as of December 31.
- The owner, Rob Fletcher, the sole stockholder, received a dividend of \$52,000 during the year.
- Prepare a December income statement, a December statement of retained earnings, and a December 30 balance sheet.

Accounts payable	\$36,000	Wages expense	\$75,000
Insurance expense	2,000	Advertising expense	22,000
Accounts receivable	24,000	Cash	11,000
Common stock	50,000		
Retained earnings, January 1	100,000	Office Furniture	15,000
Airplanes	150,000	Maintenance expense	39,000
Notes payable	47,000	Revenues	217,000
Hangar	60,000		

247 Verity Siding Company, Inc., owned by S. Verity, began operations in May and completed the following transactions during that first month of operations. Show the effects of the transactions on the accounts of the accounting equation by recording increases and decreases in the appropriate columns in the table below. Do not determine new account balances after each transaction. Determine the final total for each account and verify that the equation is in balance.

May 1	S. Verity invested \$90,000 cash in the company.
2	The company purchased \$25,000 in office equipment. It paid \$10,000 in cash and signed a note payable promising to pay the \$15,000 over the next three years.
2	The company rented office space and paid \$3,000 for the May rent.
6	The company installed new vinyl siding for a customer and immediately collected \$5,000.
7	The company paid a supplier \$2,000 for siding materials used on the May 6 job.
8	The company purchased a \$2,500 copy machine for office use on credit.
9	The company completed work for additional customers on credit in the amount of \$16,000.
15	The company paid its employees' salaries \$2,300 for the first half of the month.
17	The company installed new siding for a customer and immediately collected \$2,400.
20	The company received \$10,000 in payments from the customers billed on May 9.
28	The company paid \$1,500 on the copy machine purchased on May 8. It will pay the remaining balance in June.
31	The company paid its employees' salaries \$2,400 for the second half of the month.
31	The company paid a supplier \$5,300 for siding materials used on the remaining jobs completed during May.
31	The company paid \$450 for this month's utility bill.

VERITY SIDING CO.		
Assets =	Liabilities +	Equity

D a t e		Acco unts		Acc oun ts	Not es				
M a y	C a s h	Rece ivabl e	Equi pme nt	Pay able	Pay abl e	Co mm on stoc k	Divi den ds	Rev enu es	Exp ens es
1									
2									
2									
6									
7									
8									
9									
1 5									
1 7									
2 0									
2 8									
3 1									
3 1									
3 1									
	\$ -	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-

Fill in the Blank Questions

248 _____ is an information and measurement system that identifies, records and communicates relevant, reliable and comparable information about an organization's economic activities.

249 A _____ is a business that is owned by only one person.

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

251 _____ is the area of accounting aimed at serving external users by providing them with general-purpose financial statements.

252 Congress passed the _____ to help curb financial abuses at companies that issue their stock to the public.

253 _____ are beliefs that separate right from wrong and are considered accepted standards of good and bad behavior.

254 The assumption that requires that a business be accounted for separately from its owners is the _____ assumption.

255 The _____ principle requires that financial information is supported by independent, unbiased evidence.

256 The _____ assumption assumes business will continue operating indefinitely instead of being closed or sold.

257 The _____ assumption states that transactions and events are expressed in money units.

258 In accounting, the rule that requires that assets, services, and liabilities be recorded initially at the cash or cash-equivalent value of what was given up or of the item received is called the _____.

259 A disadvantage of a sole proprietorship is the fact that the owner has _____.

260 There are at least three types of partnerships that limit the partners' liability. They are 1) _____, 2) _____, and 3) _____.

261 There are three major types of business activities. _____ activities are the means organizations use to pay for resources such as land, building, and equipment to carry out plans.

262 There are three major types of business activities. _____ activities involve the acquisition and disposal of resources that an organization uses to acquire and sell its products or services.

263 There are three major types of business activities. _____ activities involve using resources to research, develop, purchase, produce, distribute, and market products and services and receiving amounts from selling products and services.

264 Resources such as cash removed from the business by the business owner for personal use are called _____.

265 _____ are the increases in equity from a company's sales of products and services to customers.

266 A common characteristic of _____ is their ability to yield expected future benefits to a business.

267 Creditors' claims on assets that reflect company obligations to provide assets, products, or services to others are called _____.

268 The stockholders' claim on assets, also known as net assets, is called _____.

269 The accounting equation is _____.

270 The term _____ refers to a liability that promises a future outflow of resources.

271 Using the accounting equation, equity is equal to _____.

272 _____, which is one part of accounting, is the recording of transactions and events, either manually or electronically.

273 _____ is net income divided by average total assets.

274 Risk is the _____ about the return an investor expects to earn.

275 _____ explains changes in the stockholders' claim on the business's assets from net income or loss, and dividends over a period of time.

276 The _____ describes a company's revenues and expenses along with the resulting net income or net loss over a period of time due to earnings activities.

277 _____ is the process undertaken in recent years by the FASB and IASB
aimed at reducing inconsistencies between U.S. GAAP and IFRS.

Chapter 01 Introducing Financial Statements **Answer Key**

True / False Questions

1. Accounting is an information and measurement system that identifies, records, and communicates relevant, reliable, and comparable information about an organization's business activities.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C1 Explain the purpose and importance of accounting.
Topic: Importance of Accounting

2. Bookkeeping is the recording of transactions and events and is only one part of accounting.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C1 Explain the purpose and importance of accounting.
Topic: Importance of Accounting

3. An accounting information system communicates data to help users make better decisions.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C1 Explain the purpose and importance of accounting.
Topic: Importance of Accounting

4. Financial accounting is the area of accounting that serves the decision making needs of internal users.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.
Topic: Users of Accounting Information

5. Internal operating activities include research and development, distribution, and human resources.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.
Topic: Users of Accounting Information

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

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.
Topic: Users of Accounting Information

7. External auditors examine financial statements to verify that they are prepared according to generally accepted accounting principles.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.

8. External users include lenders, shareholders, customers, and regulators.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.
Topic: Users of Accounting Information

9. Regulators often have legal authority over certain activities of organizations.

TRUE

AACSB: Communication
AICPA: BB Legal
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.
Topic: Users of Accounting Information

10. Internal users include lenders, shareholders, brokers and managers.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.
Topic: Users of Accounting Information

11. Opportunities in accounting include auditing, consulting, market research, and tax planning.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.
Topic: Users of Accounting Information

12. Identifying the proper ethical path is usually easy.

FALSE

AACSB: Ethics
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-C3 Explain why ethics are crucial to accounting.
Topic: Ethics

13. The Sarbanes-Oxley Act (SOX) requires each issuer of securities to disclose whether it has adopted a code of ethics for its senior financial officers and the contents of that code.

TRUE

AACSB: Ethics
AICPA: BB Legal
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-C3 Explain why ethics are crucial to accounting.
Topic: Ethics

14. The fraud triangle asserts that the three factors that must exist for a person to commit fraud are opportunity, pressure, and rationalization.

TRUE

AACSB: Ethics
AICPA: BB Industry
AICPA: BB Legal
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-C3 Explain why ethics are crucial to accounting.
Topic: Ethics

15. The Sarbanes-Oxley Act (SOX) does not require public companies to apply both accounting oversight and stringent internal controls.

FALSE

AACSB: Ethics
AICPA: BB Legal
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

16. A partnership is a business owned by two or more people.

TRUE

AACSB: Communication
AICPA: BB Legal
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

17. Owners of a corporation are called shareholders or stockholders.

TRUE

AACSB: Communication
AICPA: BB Legal
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

18. In the partnership form of business, the owners are called stockholders.

FALSE

AACSB: Communication
AICPA: BB Legal
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

19. The balance sheet shows a company's net income or loss due to earnings activities over a period of time.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

20. The Financial Accounting Standards Board is the governmental agency that sets both broad and specific accounting principles.

FALSE

AACSB: Communication
AICPA: BB Legal
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.
Topic: Generally Accepted Accounting Principles

21. The business entity principle means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.
Topic: Generally Accepted Accounting Principles

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

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.
Topic: Generally Accepted Accounting Principles

23. The business entity assumption means that a business is accounted for separately from other business entities, including its owner or owners.

TRUE

AACSB: Communication

AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

24. As a general rule, revenues should not be recognized in the accounting records when earned, but rather when cash is received.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

25. Specific accounting principles are basic assumptions, concepts, and guidelines for preparing financial statements and arise out of long-used accounting practice.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

26. General accounting principles arise from long-used accounting practices.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

27. A sole proprietorship is a business owned by one or more persons.

FALSE

AACSB: Communication
AICPA: BB Legal
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.
Topic: Generally Accepted Accounting Principles

28. Unlimited liability and separate taxation of the business are advantages of a sole proprietorship.

FALSE

AACSB: Communication
AICPA: BB Legal
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.
Topic: Generally Accepted Accounting Principles

29. Understanding generally accepted accounting principles is not necessary to effectively use and interpret financial statements.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.
Topic: Generally Accepted Accounting Principles

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

FALSE

AACSB: Communication
AICPA: BB Global
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

31. Objectivity means that financial information is supported by independent, unbiased evidence.

TRUE

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

32. The idea that a business will continue to operate instead of being closed or sold underlies the going-concern assumption.

TRUE

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

33. According to the cost principle, it is necessary for managers to report an approximation of an asset's market value upon purchase.

FALSE

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

34. The monetary unit assumption means that all companies doing business in the United States must express transactions and events in U.S. dollars.

FALSE

AACSB: Communication

AICPA: BB Global
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

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

FALSE

AACSB: Communication
AICPA: BB Global
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

36. A limited liability company offers the limited liability of a partnership or proprietorship and the tax treatment of a corporation.

FALSE

AACSB: Communication
AICPA: BB Legal
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

37. The Securities and Exchange Commission (SEC) is a government agency that has legal authority to establish GAAP.

TRUE

AACSB: Communication
AICPA: BB Legal
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

38. The FASB and IASB are attempting to converge and enhance the conceptual framework that guides standard setting, however the differences between U.S. GAAP and IFRS greatly outweigh the similarities.

FALSE

AACSB: Communication
AICPA: BB Global
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

39. The three major types of business activities are operating, financing, and investing.

TRUE

AACSB: Communication
AICPA: BB Resource Management
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C5 Appendix 1B Identify and describe the three major activities of organizations.

Topic: Business Activities

40. Planning involves defining an organization's ideas, goals, and actions.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C5 Appendix 1B Identify and describe the three major activities of organizations.

Topic: Business Activities

41. A company's operating and financing totals are always equal.

FALSE

AACSB: Communication
AICPA: BB Resource Management
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C5 Appendix 1B Identify and describe the three major activities of organizations.

Topic: Business Activities

42. Investing activities are the means an organization uses to pay for resources like land, buildings, and equipment to carry out its plans.

FALSE

AACSB: Communication
AICPA: BB Resource Management
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C5 Appendix 1B Identify and describe the three major activities of organizations.
Topic: Business Activities

43. Investing activities are the acquiring and disposing of resources that an organization uses to acquire and sell its products or services.

TRUE

AACSB: Communication
AICPA: BB Resource Management
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C5 Appendix 1B Identify and describe the three major activities of organizations.
Topic: Business Activities

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

FALSE

AACSB: Communication
AICPA: BB Resource Management
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C5 Appendix 1B Identify and describe the three major activities of organizations.
Topic: Business Activities

45. Revenues are increases in equity from a company's sales of products and services to customers.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

46. A net loss occurs when revenues exceed expenses.

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

47. Net income occurs when revenues exceed expenses.

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

48. Liabilities are the owner's claim on assets.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

49. Assets are the resources a company owns or controls that are expected to yield future benefits.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

50. Dividends are expenses.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

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

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

52. The accounting equation implies that: Assets + Liabilities = Equity.

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

53. Common stock is an increase in equity from a company's earnings activities.

FALSE

AACSB: Analytical Thinking
AICPA: BB Resource Management
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

54. Every business transaction leaves the accounting equation in balance.

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-P1 Analyze business transactions using the accounting equation.
Topic: Transaction Analysis

55. An external transaction is an exchange within an entity that may or may not affect the accounting equation.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-P1 Analyze business transactions using the accounting equation.
Topic: Transaction Analysis

56. From an accounting perspective, an event is a happening that affects the accounting equation, but cannot be measured.

FALSE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-P1 Analyze business transactions using the accounting equation.
Topic: Transaction Analysis

57. Stockholders' equity is increased when cash is received from customers in payment of previously recorded accounts receivable.

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-P1 Analyze business transactions using the accounting equation.
Topic: Transaction Analysis

58. A stockholder's investment in a business normally creates an asset (cash), a liability (note payable), and stockholders' equity (investment).

FALSE

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

59. Return on assets is often stated in ratio form as the amount of average total assets divided by income.

FALSE

AACSB: Analytical Thinking

AICPA: BB Resource Management

AICPA: FN Risk Analysis

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-A2 Compute and interpret return on assets.

Topic: Return on Assets

60. Return on assets is also known as return on investment.

TRUE

AACSB: Communication

AICPA: BB Resource Management

AICPA: FN Risk Analysis

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-A2 Compute and interpret return on assets.

Topic: Return on Assets

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

TRUE

AACSB: Communication

AICPA: BB Resource Management

AICPA: FN Risk Analysis

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-A2 Compute and interpret return on assets.

62. Arrow's net income of \$117 million and average assets of \$1,400 million results in a return on assets of 8.36%.

TRUE

Return on Assets = Net Income/Average Assets

Return on Assets = \$117 million/\$1,400 million = 8.36%

AACSB: Analytical Thinking
AICPA: BB Resource Management
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-A2 Compute and interpret return on assets.
Topic: Return on Assets

63. Return on assets reflects a company's ability to generate profit through productive use of its assets.

TRUE

AACSB: Analytical Thinking
AICPA: BB Resource Management
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-A2 Compute and interpret return on assets.
Topic: Return on Assets

64. Risk is the uncertainty about the return we will earn.

TRUE

AACSB: Analytical Thinking
AICPA: BB Resource Management
AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-A3 Appendix 1A Explain the relation between return and risk.
Topic: Return and Risk

65. Generally the lower the risk, the higher the return that can be expected.

FALSE

AACSB: Analytical Thinking
AICPA: BB Resource Management

AICPA: FN Risk Analysis
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-A3 Appendix 1A Explain the relation between return and risk.
Topic: Return and Risk

66. U.S. Government Treasury bonds provide low return and low risk to investors.

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-A3 Appendix 1A Explain the relation between return and risk.
Topic: Return and Risk

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

TRUE

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

68. An income statement reports on investing and financing activities.

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

69. A balance sheet covers activities over a period of time such as a month or year.

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation

Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

70. The income statement describes revenues earned and expenses incurred over a specified period of time due to earnings activities.

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

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

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

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

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

73. The first section of the income statement reports cash flows from operating activities.

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation

Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

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

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

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

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

76. Operating activities include long-term borrowing and repaying cash from lenders, and cash investments or dividends to stockholders.

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

77. The purchase of supplies appears on the statement of cash flows as an investing activity because it involves the purchase of assets.

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

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

FALSE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

79. The statement of cash flows identifies cash flows separated into operating, investing, and financing activities over a period of time.

TRUE

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

80. Ending retained earnings on the statement of retained earnings is calculated by adding stockholder investments and net losses and subtracting net income and dividends.

FALSE

AACSB: Analytical Thinking
AICPA: BB Critical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 3 Hard
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

Multiple Choice Questions

81. Accounting is an information and measurement system that does all of the following *except*:

- A. Identifies business activities.
- B. Records business activities.
- C. Communicates business activities.
- D.** Eliminates the need for interpreting financial data.
- E. Helps people make better decisions.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-C1 Explain the purpose and importance of accounting.

Topic: Importance of Accounting

82. Technology:

- A. Has replaced accounting.
- B. Has not improved the clerical accuracy of accounting.
- C.** Reduces the time, effort and cost of recordkeeping.
- D. In accounting has replaced the need for decision makers.
- E. In accounting is only available to large corporations.

AACSB: Technology

AICPA: BB Industry

AICPA: FN Leveraging Technology

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-C1 Explain the purpose and importance of accounting.

Topic: Importance of Accounting

83. The primary objective of financial accounting is to:

- A. Serve the decision-making needs of internal users.
- B.** Provide accounting information that serves external users.
- C. Monitor and control company activities.
- D. Provide information on both the costs and benefits of looking after products and services.
- E. Know what, when, and how much product to produce.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

84. 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. Bookkeeping.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.
Topic: Users of Accounting Information

85. External users of accounting information include all of the following *except*:

- A. Shareholders.
- B. Customers.
- C. Purchasing managers.**
- D. Government regulators.
- E. Creditors.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.
Topic: Users of Accounting Information

86. All of the following regarding a Certified Public Accountant are true *except*:

- A. Must meet education and experience requirements.
- B. Must pass an examination.
- C. Must exhibit ethical character.
- D. May also be a Certified Management Accountant.
- E. Cannot hold any certificate other than a CPA.**

AACSB: Communication
AICPA: BB Industry

AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.
Topic: Users of Accounting Information

87. Ethical behavior requires that:

- A.** Auditors' pay not depend on the success of the client's business.
- B. Auditors invest in businesses they audit.
- C. Analysts report information favorable to their companies.
- D. Managers use accounting information to benefit themselves.
- E. Auditors' pay depends on the success of the client's business.

AACSB: Ethics
AICPA: BB Legal
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C3 Explain why ethics are crucial to accounting.
Topic: Ethics

88. The conceptual framework that the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are attempting to converge and enhance includes the following broad areas to guide standard setting *except*:

- A. Objectives
- B. Qualitative characteristics
- C.** Uniformity
- D. Elements
- E. Recognition and measurement

AACSB: Communication
AICPA: BB Legal
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.
Topic: Generally Accepted Accounting Principles

89. All of the following are true regarding ethics *except*:

- A. Ethics are beliefs that separate right from wrong.
- B. Ethics rules are often set for CPAs.
- C.** Ethics do not affect the operations or outcome of a company.
- D. Are critical in accounting.
- E. Ethics can be difficult to apply.

AACSB: Ethics

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-C3 Explain why ethics are crucial to accounting.

Topic: Ethics

90. The accounting concept that requires financial statement information to be supported by independent, unbiased evidence is:

- A. Business entity assumption.
- B. Revenue recognition principle.
- C. Going-concern assumption.
- D. Time-period assumption.
- E.** Objectivity principle.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

91. A corporation is:

- A.** A business legally separate from its owners.
- B. Controlled by the FASB.
- C. Not responsible for its own acts and own debts.
- D. The same as a limited liability partnership.
- E. Not subject to double taxation.

AACSB: Communication

AICPA: BB Legal

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

92. The independent group that issues standards that identify preferred accounting practices and is attempting to harmonize the accounting practices globally is the:

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

AACSB: Communication

AICPA: BB Global

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

93. The private-sector group that currently has the authority to establish generally accepted accounting principles in the United States is the:

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

AACSB: Communication

AICPA: BB Legal

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

94. The accounting concept that requires every business to be accounted for separately from other business entities, including its owner or owners is known as the:

- A. Time-period assumption.
- B. Business entity assumption.**
- C. Going-concern assumption.
- D. Revenue recognition principle.
- E. Cost principle.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

95. The rule that requires financial statements to 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 assumption.**
- B. Business entity assumption.
- C. Objectivity principle.
- D. Cost Principle.
- E. Monetary unit assumption.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

96. If a company is considering the purchase of a parcel of land that was originally acquired by the seller for \$85,000, is offered for sale at \$150,000, is assessed for tax purposes at \$95,000, is recognized by the purchaser as easily being worth \$140,000, and is 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.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

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

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

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

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

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

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

99. The rule 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 noncash assets received from customers in exchange for goods or services, is called the:

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

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

100. 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 assumption.
- C. Objectivity principle.
- D. Business entity assumption.
- E. Cost principle.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

101. The International Accounting Standards Board (IASB):

- A.** Hopes to create harmony among accounting practices globally to improve comparability.
- B. Is the government group that establishes reporting requirements for companies that issue stock to the investing public.
- C. Has the authority to impose its standards on companies around the world.
- D. Is the only source of generally accepted accounting principles (GAAP).
- E. Only applies to companies that are members of the European Union.

AACSB: Communication

AICPA: BB Global

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

102. The Superior Company acquired a building for \$500,000. The building was appraised at a value of \$575,000. The seller had paid \$300,000 for the building 6 years ago. Which accounting principle would require Superior to record the building on its records at \$500,000?

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

AACSB: Analytical Thinking

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

103. On December 15 of the current year, Conrad Accounting Services signed a \$40,000 contract with a client to provide bookkeeping services to the client in the following year. Which accounting principle would require Conrad Accounting Services to record the bookkeeping revenue in the following year and not the year the cash was received?

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

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

104. Marsha Bogswell is the owner of Bogswell Legal Services, Inc. Which accounting principle requires Marsha to keep her personal financial information separate from the financial information of Bogswell Legal Services, Inc.?

- A. Monetary unit assumption.
- B. Going-concern assumption.
- C. Cost principle.
- D. Business entity assumption.**
- E. Matching principle.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

105. 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. May only have two partners.

AACSB: Communication

AICPA: BB Legal

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

106. A partnership:

- A. Is also called a sole proprietorship.
- B. Has unlimited liability for its partners.**
- 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.

AACSB: Communication

AICPA: BB Legal
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

107. Which of the following accounting principles require that all goods and services purchased be recorded at actual cost?

- A. Going-concern assumption.
- B. Matching principle.
- C. Cost principle.**
- D. Business entity assumption.
- E. Consideration assumption.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

108. Which of the following accounting principles prescribes that a company record its expenses incurred to generate the revenue reported?

- A. Going-concern assumption.
- B. Matching principle.**
- C. Cost principle.
- D. Business entity assumption.
- E. Consideration assumption.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

109. Revenue is properly recognized:

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

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

110. Which of the following purposes would financial statements serve for external users?

- A. To find information about projected costs and revenues of proposed products.
- B. To assess employee performance and compensation.
- C. To assist in monitoring consumer needs and price concerns.
- D.** To fulfill regulatory requirements for companies whose stock is sold to the public.
- E. To determine purchasing needs.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.

Topic: Users of Accounting Information

111. In a business decision where there are ethical concerns, the preferred course of action should be one that:

- A. Is agreed upon by the most managers.
- B. Maximizes the company's profits.
- C. Results in maintaining operations at the current level.
- D. Costs the least to implement.
- E.** Avoids casting doubt on the decision maker and upholds trust.

AACSB: Ethics

AICPA: BB Industry

AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C3 Explain why ethics are crucial to accounting.
Topic: Ethics

112. If a company uses \$1,300 of its cash to purchase supplies, the effect on the accounting equation would be:

- A. Assets increase \$1,300 and liabilities decrease \$1,300.
- B. One asset increases \$1,300 and another asset decreases \$1,300, causing no effect.**
- C. Assets decrease \$1,300 and equity decreases \$1,300.
- D. Assets decrease \$1,300 and equity increases \$1,300.
- E. Assets increase \$1,300 and liabilities increase \$1,300.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.
Topic: Transaction Analysis

113. If a company receives \$12,000 from the stockholders to establish a corporation, the effect on the accounting equation would be:

- A. Assets decrease \$12,000 and equity decreases \$12,000.
- B. Assets increase \$12,000 and liabilities decrease \$12,000.
- C. Assets increase \$12,000 and liabilities increase \$12,000.
- D. Liabilities increase \$12,000 and equity decreases \$12,000.
- E. Assets increase \$12,000 and equity increases \$12,000.**

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.
Topic: Transaction Analysis

114. If a company purchases equipment costing \$4,500 on credit, the effect on the accounting equation would be:

- A. Assets increase \$4,500 and liabilities decrease \$4,500.
- B. Equity decreases \$4,500 and liabilities increase \$4,500.
- C. Liabilities decrease \$4,500 and assets increase \$4,500.
- D. Assets increase \$4,500 and liabilities increase \$4,500.**
- E. Equity increases \$4,500 and liabilities decrease \$4,500.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

115. 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.

AACSB: Analytical Thinking

AICPA: BB Resource Management

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

116. 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.

AACSB: Analytical Thinking

AICPA: BB Resource Management

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

117. Operating activities:

- A. Are the means organizations 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.

AACSB: Communication
AICPA: BB Resource Management
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-C5 Appendix 1B Identify and describe the three major activities of organizations.
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Business Activities
Topic: Financial Statements

118. An example of an investing activity is:

- A. Paying wages of employees.
- B. Dividends paid by the company.
- C.** Purchase of land.
- D. Selling inventory.
- E. Contributions from stockholders.

AACSB: Analytical Thinking
AICPA: BB Resource Management
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

119. Net Income:

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

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

120. 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.

Assets = Liabilities + Stockholders' Equity

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

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

121. If assets are \$300,000 and liabilities are \$192,000, then equity equals:

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

Assets = Liabilities + Stockholders' Equity
Equity = \$300,000 - \$192,000 = \$108,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

122. Resources a company owns or controls that are expected to yield future benefits are:

- A.** Assets.
- B. Revenues.
- C. Liabilities.
- D. Stockholders' Equity.
- E. Expenses.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

123. Increases in equity from a company's sales of products or services are:

- A. Assets.
- B.** Revenues.
- C. Liabilities.
- D. Stockholders' Equity.
- E. Expenses.

AACSB: Communication

AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

124. 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.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

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

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

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

126. Decreases in equity that represent costs of providing products or services to customers, used to earn revenues are called:

- A. Liabilities.
- B. Equity.
- C. Dividends.
- D. Expenses.**
- E. Common Stock.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

127. 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.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

128. Revenues are:

- A. The same as net income.
- B. The excess of expenses over assets.
- C. Resources owned or controlled by a company.
- D. The increase in equity from a company's sales of products and services.**
- E. The costs of assets or services used.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

129. 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.

Assets = Liabilities + Stockholders' Equity

\$99,000 = \$32,000 + Stockholders' Equity; Stockholders' Equity = \$67,000

AACSB: Analytical Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

130. Another name for equity is:

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

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

131. When expenses exceed revenues, the resulting change in equity is:

- A. Net assets.
- B. Negative equity.
- C. Net loss.**
- D. Net income.
- E. A liability.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

132. A resource that the stockholder receives from the company is called a(n):

- A. Liability.
- B. Dividend.**
- C. Expense.
- D. Common stock.
- E. Investment.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

133. Distributions of cash or other resources by a business to its stockholders are called:

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

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

134. The assets of a company total \$700,000; the liabilities, \$200,000. What are the net assets?

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

Assets = Liabilities + Stockholders' Equity

\$700,000 = \$200,000 + Stockholders' Equity (or Claims of the Stockholders); Stockholders' Equity = \$500,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

135. On May 31 of the current year, the assets and liabilities of Riser, Inc. are as follows: Cash \$20,500; Accounts Receivable, \$7,250; Supplies, \$650; Equipment, \$12,000; Accounts Payable, \$9,300. What is the amount of stockholders' equity as of May 31 of the current year?

- A. \$8,300
- B. \$13,050
- C. \$20,500
- D. \$31,100**
- E. \$40,400

Assets = Liabilities + Stockholders' Equity

Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + Stockholders' Equity

\$20,500 + \$7,250 + \$650 + \$12,000 = \$9,300 + Stockholders' Equity

\$40,400 = \$9,300 + Stockholders' Equity; Stockholders' Equity = \$31,100

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

136. On August 31 of the current year, the assets and liabilities of Gladstone, Inc. are as follows: Cash \$30,000; Supplies, \$600; Equipment, \$10,000; Accounts Payable, \$8,500. What is the amount of stockholders' equity as of August 31 of the current year?

- A. \$49,100
- B. \$32,100**
- C. \$12,100
- D. \$10,900
- E. \$30,900

Assets - Liabilities = Stockholders' Equity

Cash + Supplies + Equipment - Accounts Payable = Stockholders' Equity

\$30,000 + \$600 + \$10,000 - \$8,500 = \$32,100

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

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

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

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

138. An exchange of value between two entities that yields a change in the accounting equation is called:

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

AACSB: Communication

AICPA: BB Industry

AICPA: FN Decision Making

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

139. Saddleback 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; equity, \$30,000 increase.
- B. Assets, \$30,000 decrease; liabilities, \$30,000 decrease.**
- C. Assets, \$30,000 decrease; liabilities, \$30,000 increase.
- D. Liabilities, \$30,000 decrease; equity, \$30,000 increase.
- E. Assets, \$30,000 decrease; equity \$30,000 decrease.

Assets = Liabilities + Stockholders' Equity

Assets would decrease by \$30,000 in Cash due to the payment of the accounts payable.

Liabilities would also decrease by \$30,000 in Accounts Payable due to the payment of an obligation. There is no effect on Stockholders' Equity.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

140. If Houston Company billed a client for \$10,000 of consulting work completed, the accounts receivable asset increases by \$10,000 and:

- A. Accounts payable decreases \$10,000.
- B. Accounts payable increases \$10,000.
- C. Cash increases \$10,000.
- D. Revenue increases \$10,000.**
- E. Revenue decreases \$10,000.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

141. Alpha Company has assets of \$600,000, liabilities of \$250,000, and equity of \$350,000. It buys office equipment on credit for \$75,000. What would be the effects of this transaction on the accounting equation?

- 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.**

Assets = Liabilities + Stockholders' Equity

\$600,000 = \$250,000 + \$350,000

Assets increase by \$75,000 (Equipment) due to the purchase.

Liabilities also increase by \$75,000 (Accounts Payable) due to the purchase on credit.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

142. Contessa Company collected \$42,000 cash on its accounts receivable. The effects of this transaction as reflected in the accounting equation are:

- A. Total assets decrease and equity increases.
- B. Both total assets and total liabilities decrease.
- C.** Neither assets, total liabilities, nor equity are changed.
- D. Both total assets and equity are unchanged and liabilities increase.
- E. Total assets increase and equity decreases.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

143. If the liabilities of a business increased \$75,000 during a period of time and the stockholders' 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.

Assets = Liabilities + Stockholders' Equity

Change in Assets = Change in Liabilities + Change in Stockholders' Equity

Change in Assets = Increase of \$75,000 + Decrease of \$30,000

Change in Assets = Increase of \$45,000

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

144. 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.

Assets = Liabilities + Stockholders' Equity

Change in Assets = Change in Liabilities + Change in Stockholders' Equity

Increase of \$89,000 = Increase of \$67,000 + Change in Stockholders' Equity

Change in Stockholders' Equity = Increase of \$22,000

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

145. If the liabilities of a company increased \$74,000 during a period of time and equity in the company decreased \$19,000 during the same period, what was the effect on the assets?

- A.** Assets would have increased \$55,000.
- B. Assets would have decreased \$55,000.
- C. Assets would have increased \$19,000.
- D. Assets would have decreased \$19,000.
- E. None of these.

Assets = Liabilities + Stockholders' Equity

Change in Assets = Change in Liabilities + Change in Stockholders' Equity

Change in Assets = Increase of \$74,000 + Decrease of \$19,000

Change in Assets = Increase of \$55,000

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

146. If a company paid \$38,000 of its accounts payable in cash, what was the effect on the accounting equation?
- A. Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would decrease \$38,000.
 - B. Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would increase \$38,000.
 - C.** Assets would decrease \$38,000 and liabilities would decrease \$38,000.
 - D. There would be no effect on the accounts because the accounts are affected by the same amount.
 - E. Assets would increase \$38,000 and liabilities would decrease \$38,000.

Assets = Liabilities + Stockholders' Equity

Assets will decrease by \$38,000 in Cash due to the payment of the debt.

Liabilities will decrease by \$38,000 in Accounts payable due to the payment of the debt.

Stockholders' Equity would not be affected by this transaction.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-P1 Analyze business transactions using the accounting equation.
Topic: Transaction Analysis

147. 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.

Assets = Liabilities + Stockholders' Equity

\$365,000 = Liabilities + \$120,000

Liabilities = \$245,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

148. Rushing had income of \$150 million and average invested assets of \$1,800 million. Its return on assets is:

- A.** 8.3%.
- B. 83.3%.
- C. 12%.
- D. 120%.
- E. 16.7%.

Return on Assets = Net Income/Average Assets

Return on Assets = \$150 million/\$1,800 million = 0.833 = 8.3%

AACSB: Analytical Thinking
AICPA: BB Resource Management
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-A2 Compute and interpret return on assets.
Topic: Return on Assets

149. Cage Company had income of \$350 million and average invested assets of \$2,000 million. Its return on assets (ROA) is:

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

Return on Assets = Net Income/Average Assets

Return on Assets = \$350 million/\$2,000 million = 0.175 = 17.5%

AACSB: Analytical Thinking
AICPA: BB Resource Management
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-A2 Compute and interpret return on assets.
Topic: Return on Assets

150. Speedy has net income of \$18,955, and assets at the beginning of the year of \$200,000. 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%.

Return on Assets = Net Income/Average Assets

Return on Assets = $\$18,955 / [(\$200,000 + \$246,000) / 2]$

Return on Assets = $\$18,955 / \$223,000 = 0.085 = 8.5\%$

AACSB: Analytical Thinking
AICPA: BB Resource Management
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 01-A2 Compute and interpret return on assets.
Topic: Return on Assets

151. Chou Co. has a net income of \$43,000, assets at the beginning of the year are \$250,000 and assets at the end of the year are \$300,000. Compute its return on assets.

- A. 8.4%
- B. 17.2%
- C. 14.3%
- D. 15.6%**
- E. 1.5%

Return on Assets = Net Income/Average Assets

Return on Assets = $\$43,000 / [(\$250,000 + \$300,000) / 2]$

Return on Assets = $\$43,000 / \$275,000 = 0.15636 = 15.6\%$

AACSB: Analytical Thinking
AICPA: BB Resource Management
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 01-A2 Compute and interpret return on assets.
Topic: Return on Assets

152. 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.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Risk Analysis

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-A3 Appendix 1A Explain the relation between return and risk.

Topic: Return and Risk

153. Risk is:

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

AACSB: Communication

AICPA: BB Industry

AICPA: FN Risk Analysis

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-A3 Appendix 1A Explain the relation between return and risk.

Topic: Return and Risk

154. The statement of cash flows reports all of the following *except*:

- A. Cash flows from operating activities.
- B. Cash flows from investing activities.
- C. Cash flows from financing activities.
- D. The net increase or decrease in assets for the period reported.**
- E. The net increase or decrease in cash for the period reported.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

155. The basic financial statements include all of the following *except*:

- A. Balance Sheet.
- B. Income Statement.
- C. Statement of Retained Earnings.
- D. Statement of Cash Flows.
- E. Statement of Changes in Assets.**

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

156. 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.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

157. The financial statement that reports whether the business earned a profit and also lists the revenues and expenses is called the:

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

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

158. 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 equity during a time period.
- C. The types and amounts of assets, liabilities, and equity of a business as of a specific date.**
- D. The inflows and outflows of cash during the period.
- E. The assets and liabilities of a company but not the retained earnings.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

159. 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.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

160. The financial statement that identifies a company's cash receipts and cash payments over a period of time is the:

- A. Statement of financial position.
- B. Statement of cash flows.**
- C. Balance sheet.
- D. Income statement.
- E. Statement of changes in stockholders' equity.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

161. The financial statement that shows the beginning balance of retained earnings; the changes in retained earnings that resulted from net income (or net loss); dividends; and the ending balance, is the:

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

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

162. Cash investments by stockholders 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. All of the above.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

163. 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.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

164. 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.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

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

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

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

Assets = Liabilities + Stockholders' Equity

Cash + Equipment + Buildings = Liabilities + Stockholders' Equity

\$57,000 + \$206,000 + \$175,000 = \$141,000 + Stockholders' Equity

\$438,000 = \$141,000 + Stockholders' Equity; Stockholders' Equity = \$297,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

166. Use the following information for Meeker Corp. to determine the amount of equity to report.

Cash	\$70,000
Buildings	125,000
Land	205,000
Liabilities	130,000

- A. \$390,000.
- B. \$140,000.
- C. \$20,000.
- D. \$530,000.
- E. \$270,000.**

Assets - Liabilities = Stockholders' Equity

Cash + Equipment + Land - Liabilities = Stockholders' Equity

\$70,000 + \$125,000 + \$205,000 - \$130,000 = \$270,000

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

167. Determine the net income of a company for which the following information is available for the month of July.

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.

Net Income = Revenues - Expenses

Net Income = Consulting Revenue - Employee Salaries Expense - Interest Expense - Rent Expense

Net Income = \$400,000 - \$180,000 - \$10,000 - \$20,000; Net Income = \$190,000

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

168. Determine the net income of a company for which the following information is available for the month of September.

Service revenue	\$300,000
Rent expense	48,000
Utilities expense	3,200
Salaries expense	81,000

- A. \$263,800.
- B. \$432,200.
- C. \$171,000.
- D.** \$167,800.
- E. \$252,000.

Revenues - Expenses = Net Income

Service Revenue - Rent Expense - Utilities Expense - Salaries Expense

\$300,000 - \$48,000 - \$3,200 - \$81,000 = \$167,800

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

169. Determine the net income (net loss) of a company for which the following information is available for the month of September.

Service revenue	\$200,000
Rent expense	68,000
Utilities expense	15,000
Salaries expense	121,000

- A. \$404,000.
- B. (\$4,000).**
- C. \$162,000.
- D. \$4,000.
- E. (\$204,000).

Revenues - Expenses = Net Income (loss)

Service Revenue - Rent Expense - Utilities Expense - Salaries Expense

\$200,000 - \$68,000 - \$15,000 - \$121,000 = (\$4,000) Net loss

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

170. Determine the net income (net loss) of a company for which the following information is available for the month of July.

Service revenue	\$250,000
Rent expense	28,000
Utilities expense	15,000
Salaries expense	41,000
Dividends	20,000

- A.** \$166,000.
B. \$146,000.
C. \$186,000.
D. (\$146,000).
E. (\$166,000).

Revenues - Expenses = Net Income (loss)

Service Revenue - Rent Expense - Utilities Expense - Salaries Expense

\$250,000 - \$28,000 - \$15,000 - \$41,000 = \$166,000; Dividends are not reported on the income statement.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

171. 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.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

172. A company borrows \$125,000 from the Northern 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.**

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

173. Zippy had cash inflows from operations \$60,500; cash outflows from investing activities of \$47,000; and cash inflows from financing of \$25,000. The net change in cash was:

- A. \$38,500 increase.**
- B. \$38,500 decrease.
- C. \$132,500 decrease.
- D. \$132,000 increase.
- E. \$11,500 decrease.

Net Change in Cash = Cash Flows from Operating Activities + Cash Flows from Investing Activities + Cash Flows from Financing Activities

Net Change in Cash = \$60,500 + (\$47,000) + \$25,000; Net Change in Cash = \$38,500

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

174. Zapper has beginning equity of \$257,000, net income of \$51,000, dividends of \$40,000 and investments by stockholders of \$6,000. Its ending equity is:

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

Ending Equity = Beginning Equity + Common Stock + Net Income - Dividends

Ending Equity = \$257,000 + \$6,000 + \$51,000 - \$40,000; Ending Equity = \$274,000

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

175. Cragmont has beginning equity of \$277,000, net income of \$63,000, dividends of \$25,000, and no additional investments by stockholders during the period. Its ending equity is:

A. \$365,000.
B. \$239,000.
C. \$189,000.
D. \$315,000.
E. \$277,000.

Beginning Equity + Common Stock + Net Income - Dividends = Ending Equity

\$277,000 + \$0 + \$63,000 - \$25,000 = \$315,000

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

176. Rent expense appears on which of the following statements?

- A. Balance sheet.
- B. Income statement.**
- C. Statement of retained earnings.
- D. Statement of periodic expenses.
- E. Statement of cash flows only.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

177. 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 stockholders' equity?

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

Assets = Liabilities + Stockholders' Equity

Cash + Accounts Receivable + Office Equipment = Accounts Payable + Stockholders' Equity

\$22,000 + \$16,000 + \$50,000 = \$17,000 + Stockholders' Equity

\$88,000 = \$17,000 + Stockholders' Equity; Stockholders' Equity = \$71,000

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

178. A company reported total equity of \$145,000 at the beginning of the year. The company reported \$210,000 in revenues and \$165,000 in expenses for the year. Liabilities at the end of the year totaled \$92,000. What are the total assets of the company at the end of the year?

- A. \$45,000.
- B. \$92,000.
- C. \$98,000.
- D. \$210,000.
- E. \$282,000.**

Assets = Liabilities + Stockholders' Equity

Assets = \$92,000 + (Beginning Equity + Revenues - Expenses)

Assets = \$92,000 + (\$145,000 + \$210,000 - \$165,000)

Assets = \$92,000 + \$190,000; Assets = \$282,000

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

179. Previor Corporation reports the following account balances at the end of its first year of operation:

Accounts Payable	\$30,000
Accounts Receivable	16,500
Cash	14,000
Common Stock	20,000
Expenses	110,500
Land	40,000
Revenues	133,000
Supplies	2,000

Previor's total assets equal:

- A. \$70,500.
- B. \$72,500.**
- C. \$205,500.
- D. \$22,500.
- E. \$106,000.

Accounts Receivable + Cash + Land + Supplies = Total Assets
 $\$16,500 + \$14,000 + \$40,000 + \$2,000 = \$72,500$

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

180. Previor Corporation reports the following account balances at the end of its first year of operation:

Accounts Payable	\$30,000
Accounts Receivable	16,500
Cash	14,000
Common Stock	20,000
Expenses	110,500
Land	40,000
Revenues	133,000
Supplies	2,000

Previor's total liabilities equal:

- A. \$46,500.
- B. \$42,500.
- C. \$50,000.
- D. \$72,500.
- E. \$30,000.

Accounts Payable of \$30,000 is the only liability of Previor Corporation.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

181. Previor Corporation reports the following account balances at the end of its first year of operation:

Accounts Payable	\$30,000
Accounts Receivable	16,500
Cash	14,000
Common Stock	20,000
Expenses	110,500
Land	40,000
Revenues	133,000
Supplies	2,000

Previor's total equity equals:

- A. \$20,000.
- B. \$50,000.
- C. \$42,500.**
- D. \$34,000.
- E. \$22,500.

Beginning Retained Earnings + Revenues - Expenses = Ending Retained Earnings

$\$0 + 133,000 - 110,500 = 22,500$

Common Stock + Retained Earnings = Total Equity

$\$20,000 + 22,500 = \$42,500$

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

182. Flitter reported net income of \$17,500 for the past year. At the beginning of the year the company had \$200,000 in assets and \$50,000 in liabilities. By the end of the year, assets had increased to \$300,000 and liabilities were \$75,000. Calculate its return on assets:

- A. 8.8%
- B. 7.0%**
- C. 5.8%
- D. 35.0%
- E. 23.3%

Return on Assets = Net Income/Average Assets

Return on Assets = $\$17,500 / [(\$200,000 + \$300,000) / 2]$

Return on Assets = $\$17,500 / \$250,000 = 0.07 = 7.0\%$

AACSB: Analytical Thinking
AICPA: BB Resource Management
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 01-A2 Compute and interpret return on assets.
Topic: Return on Assets

183. Dawson Electronic Services had revenues of \$80,000 and expenses of \$50,000 for the year. 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.

- A. 7.1%**
- B. 7.5%
- C. 6.7%
- D. 20.0%
- E. 18.8%

Return on Assets = Net Income/Average Assets

Return on Assets = Revenues - Expenses/Average Assets

Return on Assets = $(\$80,000 - \$50,000) / [(\$400,000 + \$450,000) / 2]$

Return on Assets = $\$30,000 / \$425,000 = 0.0705 = 7.1\%$

AACSB: Analytical Thinking
AICPA: BB Resource Management
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 01-A2 Compute and interpret return on assets.
Topic: Return on Assets

184. Rico's Taqueria 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.

- A. \$61,000 increase.
- B. \$37,000 increase.
- C. \$7,000 decrease.**
- D. \$7,000 increase.
- E. \$34,000 decrease.

Net Increase/(Decrease) in Cash = Cash Flows from Operating Activities + Cash Flows from Investing Activities + Cash Flows from Financing Activities

Net Increase/(Decrease) in Cash = \$27,000 + (\$22,000) + (\$12,000)

Net Increase/(Decrease) in Cash = (\$7,000)

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

185. Charlie's Chocolates Inc.'s stockholders made investments of \$50,000 and dividends of \$20,000. The company has revenues of \$83,000 and expenses of \$64,000. Calculate its net income.

- A. \$30,000.
- B. \$83,000.
- C. \$64,000.
- D. \$19,000.**
- E. \$49,000.

Net Income = Revenues - Expenses

Net Income = \$83,000 - \$64,000; Net Income = \$19,000

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

186. Savvy Sightseeing had beginning equity of \$72,000; revenues of \$90,000, expenses of \$65,000, and dividends to stockholders of \$9,000. Calculate the ending equity.

- A.** \$88,000.
- B. \$25,000.
- C. \$97,000.
- D. \$38,000.
- E. \$47,000.

Ending Equity = Beginning Equity + Revenues - Expenses - Dividends
Ending Equity = \$72,000 + \$90,000 - \$65,000 - \$9,000
Ending Equity = \$88,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

187. Doc's Ribhouse had beginning equity of \$52,000; net income of \$35,000, and Dividends by the company of \$12,000. Calculate the ending equity.

- A. \$(5,000).
- B. \$29,000.
- C. \$5,000.
- D. \$99,000.
- E.** \$75,000.

Ending Equity = Beginning Equity + Net Income - Dividends
Ending Equity = \$52,000 + \$35,000 - \$12,000 = \$75,000

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

188. A company's balance sheet shows: cash \$24,000, accounts receivable \$30,000, equipment \$50,000, and equity \$72,000. What is the amount of liabilities?

A. \$104,000.
B. \$76,000.
C. \$32,000.
D. \$68,000.
E. \$176,000.

Assets - Equity = Liabilities

Cash + Accounts Receivable + Equipment - Equity = Liabilities

$\$24,000 + \$30,000 + \$50,000 - \$72,000 = \$32,000$

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

189. If a company has excess space in its building that it rents to another company for \$700, what is the effect on the accounting equation when the first rent payment is collected?

A. Assets would decrease \$700 and liabilities would decrease \$700.
B. Assets would decrease \$700 and equity would increase \$700.
C. Assets would increase \$700 and equity would decrease \$700.
D. Assets would increase \$700 and equity would increase \$700.
E. Liabilities would decrease \$700 and equity would increase \$700.

Cash collected increases an asset and the rental of the space generates a revenue, which increases equity.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

190. All of the following are classified as assets *except*:

- A. Accounts Receivable.
- B. Supplies.
- C. Equipment.
- D.** Accounts Payable.
- E. Land.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements
Topic: The Accounting Equation

191. Which of the following accounts is not included in the calculation of a company's ending stockholders' equity?

- A. Revenues.
- B. Expenses.
- C. Dividends.
- D. Common stock.
- E.** Cash.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

192. All of the following are classified as liabilities *except*:

- A.** Supplies.
- B. Bonds Payable.
- C. Wages Payable.
- D. Accounts Payable.
- E. Interest Payable.

AACSB: Communication
AICPA: BB Industry

AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

193. Billington Corp. borrows \$80,000 cash from Second National Bank. How does this transaction affect the accounting equation for Billington?

- A. Assets would decrease \$80,000 and liabilities would decrease \$80,000.
- B. Assets would decrease \$80,000 and equity would increase \$80,000.
- C. Assets would increase \$80,000 and equity would decrease \$80,000.
- D.** Assets would increase \$80,000 and liabilities would increase \$80,000.
- E. Liabilities would decrease \$80,000 and equity would increase \$80,000.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-P1 Analyze business transactions using the accounting equation.
Topic: Transaction Analysis

194. If the assets of a company increase by \$55,000 during the year and its liabilities increase by \$25,000 during the same year, then the change in equity of the company during the year must have been:

- A. An increase of \$80,000.
- B. A decrease of \$80,000.
- C.** An increase of \$30,000.
- D. A decrease of \$30,000.
- E. An increase of \$25,000.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 1 Easy
Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

195. All of the following are classified as liabilities *except*:

- A.** Accounts Receivable.
- B. Notes Payable.
- C. Wages Payable.
- D. Accounts Payable.
- E. Taxes Payable.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

196. Grandmark Printing pays \$2,000 rent to the landlord of the building where its facilities are located. How does this transaction affect the accounting equation for Grandmark?

- A. Assets would decrease \$2,000 and liabilities would decrease \$2,000.
- B.** Assets would decrease \$2,000 and equity would decrease \$2,000.
- C. Assets would increase \$2,000 and equity would increase \$2,000.
- D. Assets would increase \$2,000 and liabilities would increase \$2,000.
- E. Liabilities would decrease \$2,000 and equity would increase \$2,000.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

197. Atkins Company collected \$1,750 as payment for the amount owed by a customer from services provided the prior month on credit. How does this transaction affect the accounting equation for Atkins?

- A. Assets would decrease \$1,750 and liabilities would decrease \$1,750.
- B.** One asset would increase \$1,750 and a different asset would decrease \$1,750, causing no effect.
- C. Assets would increase \$1,750 and equity would increase \$1,750.
- D. Assets would increase \$1,750 and liabilities would increase \$1,750.
- E. Liabilities would decrease \$1,750 and equity would increase \$1,750.

AACSB: Analytical Thinking

AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-P1 Analyze business transactions using the accounting equation.
Topic: Transaction Analysis

198. The accounting equation for Ying Company shows a decrease in its assets and a decrease in its equity. Which of the following transactions could have caused that effect?

- A. Cash was received from providing services to a customer.
- B. The company paid an amount due on credit.
- C. Equipment was purchased for cash.
- D. A utility bill was received for the current month, to be paid in the following month.
- E. Advertising expense for the month was paid in cash.**

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-P1 Analyze business transactions using the accounting equation.
Topic: Transaction Analysis

199. The accounting equation for Long Company shows an increase in its assets and an increase in its liabilities. Which of the following transactions could have caused that effect?

- A. Cash was received from providing services to a customer.
- B. Cash was received in exchange for common stock.
- C. Equipment was purchased on credit.**
- D. Supplies were purchased for cash.
- E. Advertising expense for the month was paid in cash.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-P1 Analyze business transactions using the accounting equation.
Topic: Transaction Analysis

200. In recent years, the FASB and IASB have pursued a process aimed at reducing inconsistencies and improving comparability between U.S. GAAP and IFRS. This process is known as:

- A. Consistency
- B. Matching
- C. Quantifying
- D. Convergence**
- E. Globalization

AACSB: Communication

AICPA: BB Global

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

Matching Questions

201. Match each of the following terms with the appropriate definitions

- | | |
|--------------------------------------|---|
| 1. Internal users | The area of accounting aimed at serving external users by providing them with general-purpose financial statements. <u>4</u> |
| 2. Fraud triangle | Beliefs that distinguish right from wrong, considered accepted standards of good and bad behavior. <u>8</u> |
| 3. Recordkeeping | The part of accounting that involves recording transactions and events, either electronically or manually. <u>3</u> |
| 4. Financial accounting | Persons using accounting information who are directly involved in managing and operating the organization. <u>1</u> |
| 5. External users | An information and measurement system that identifies, records and communicates relevant reliable and comparable information about an organization's business activities. <u>6</u> |
| 6. Accounting | Accounting specialists that have met educational and experience requirements, passed an examination and exhibit ethical characteristics to achieve a professional certification. <u>7</u> |
| 7. Certified Public Accountant (CPA) | A model that asserts the factors that must exist for a person to commit fraud. <u>2</u> |
| 8. Ethics | The area of accounting that serves the decision-making needs of internal users. <u>9</u> |
| 9. Managerial accounting | Persons using accounting information who are not directly involved in running the organization. <u>5</u> |

AACSB: Communication

AACSB: Ethics

AICPA: BB Industry

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C1 Explain the purpose and importance of accounting.

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.

Learning Objective: 01-C3 Explain why ethics are crucial to accounting.

Topic: Ethics

Topic: Importance of Accounting

Topic: Users of Accounting Information

202. Match each of the following terms with the appropriate definitions

- | | |
|------------------------|--|
| 1. Liabilities | A financial ratio stated as income divided by assets invested. <u>2</u> |
| 2. Return on assets | Resources a company owns or controls that are expected to yield future benefit. <u>7</u> |
| 3. Expenses | Decreases in equity from costs of providing products or services to customers. <u>3</u> |
| 4. Accounting equation | The uncertainty about the return to be earned. <u>8</u> |
| 5. Dividends | Creditor's claims on a company's assets. <u>1</u> |
| 6. Common stock | Resources such as cash that a stockholder receives from the company for personal use. <u>5</u> |
| | Expresses the relation of assets, liabilities and equity in a company, comparing the resources the company owns to the sources of funds to acquire the resources. <u>4</u> |
| 7. Assets | The part of contributed capital that reflects what is received by stockholders in exchange for resources such as cash or other net assets. <u>6</u> |
| 8. Risk | |

AACSB: Communication
 AICPA: BB Industry
 AICPA: BB Legal
 AICPA: FN Reporting
 AICPA: FN Risk Analysis
 Blooms: Remember
 Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Learning Objective: 01-A2 Compute and interpret return on assets.

Learning Objective: 01-A3 Appendix 1A Explain the relation between return and risk.

Topic: Return and Risk

Topic: Return on Assets

Topic: The Accounting Equation

203. Match each of the following terms with the appropriate definitions

- | | |
|------------------------|---|
| 1. Purchasing Managers | Judge the soundness of a customer before making sales on credit. <u>4</u> |
| 2. Shareholders | Assess whether an organization is likely to repay its loans with interest. <u>3</u> |
| 3. Lenders | Decide whether to buy, hold, or sell a company's stock. <u>2</u> |
| 4. Suppliers | Know what, when, and how much to purchase. <u>1</u> |
| 5. Regulators | Assess whether a company has paid all required taxes and complied with securities rules. <u>5</u> |

AACSB: Communication

AICPA: BB Industry

AICPA: BB Legal

AICPA: FN Reporting

AICPA: FN Risk Analysis

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.

Topic: Users of Accounting Information

204. Match each of the following terms with the appropriate definitions

	The concepts and rules that govern financial accounting.	<u>3</u>
1. Cost principle		
2. Statement of retained earnings	Presumes that the life of a company can be divided into periods for reporting purposes.	<u>5</u>
3. Generally accepted accounting principles	A financial statement that reports the changes in retained earnings over the reporting period; including increases such as net income and for decreases such as dividends or net loss.	<u>2</u>
4. Balance sheet	A report that describes a company's financial position at a point in time.	<u>4</u>
5. Time period assumption	A principle that requires the information in financial statements to be supported by independent unbiased evidence.	<u>6</u>
6. Objectivity principle	Prescribes that assets and services to be recorded initially on a cash or equal-to-cash basis.	<u>1</u>
7. IASB	The governmental agency that has the legal authority to establish accounting rules.	<u>8</u>
8. Securities and Exchange Commission	An independent group consisting of individuals from many countries that identify preferred accounting practices.	<u>7</u>
9. Statement of cash flows	Prescribes that a company report the details behind financial statements that would impact user decisions.	<u>10</u>
10. Full disclosure principle	A report that identifies cash receipts and cash payments over a period of time.	<u>9</u>

AACSB: Communication
AICPA: BB Industry
AICPA: BB Legal
AICPA: FN Measurement
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

Topic: Generally Accepted Accounting Principles

205. Match each of the following terms with the appropriate definitions

	A financial statement that lists cash inflows (receipts) and cash outflows (payments); the cash flows are arranged by operating, investing, and financing activities. <u>1</u>
1. Statement of cash flows	
	Happenings, such as changes in market value, that effect the accounting equation and are reliably measured. <u>9</u>
2. Monetary unit principle	
3. Revenue recognition principle	The principle that assumes transactions and events can be expressed in money units. <u>2</u>
	The principle that requires a business to be accounted for separately from its owners. <u>6</u>
4. Expenses	
5. Income statement	The principle that revenue is recorded when earned through providing goods or services. <u>3</u>
6. Business entity principle	The relation between a company's assets, liabilities, and equity. <u>8</u>
	Describes a company's revenues and expenses along with the resulting net income or loss over a period of time. <u>5</u>
7. Liabilities	
8. Accounting equation	Wages paid to earn revenues. <u>4</u>
9. Events	Creditor's claims on assets. <u>7</u>

AACSB: Communication
AICPA: BB Industry
AICPA: BB Legal
AICPA: FN Measurement
AICPA: FN Reporting
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Learning Objective: 01-C5 Appendix 1B Identify and describe the three major activities of organizations.
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Business Activities
Topic: Financial Statements
Topic: Generally Accepted Accounting Principles
Topic: The Accounting Equation

Short Answer Questions

206. Match each of the following business activities 1 through 8 to the appropriate category a, b, or c.

- a. Operating
- b. Investing
- c. Financing

- _____ 1. Paid utilities expenses.
- _____ 2. Withdrawal of funds by stockholders.
- _____ 3. Purchase of land.
- _____ 4. Sale of used equipment.
- _____ 5. Borrowed money from a bank on a long-term note.
- _____ 6. Paid employee wages.
- _____ 7. Received investment from owner.
- _____ 8. Paid an amount due on a long-term bank loan.

1. A; 2. C; 3. B; 4. B; 5. C; 6. A; 7. C; 8. C

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-C5 Appendix 1B Identify and describe the three major activities of organizations.

Topic: Business Activities

207. Match each of the following items 1 through 8 with the financial statement a through d in which each item would most likely appear. An item may appear on more than one statement.

- a. Income statement
- b. Statement of retained earnings
- c. Balance sheet
- d. Statement of cash flows

- _____ 1. Assets.
- _____ 2. Dividends.
- _____ 3. Revenues.
- _____ 4. Cash from investing activities.
- _____ 5. Expenses.
- _____ 6. Liabilities.
- _____ 7. Cash from operating activities.
- _____ 8. Cash from financing activities.

1. C; 2. B; 3. A; 4. D; 5. A; 6. C; 7. D; 8. D

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

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

- a. Operating activity
- b. Investing activity
- c. Financing activity

- _____ 1. Cash received from a one-time sale of used office equipment.
- _____ 2. Cash paid for dividends to stockholders.
- _____ 3. Cash received from customers.
- _____ 4. Cash received from owner contributions.
- _____ 5. Cash paid for utilities.
- _____ 6. Cash paid for a delivery van to be used in the business.

1. B; 2. C; 3. A; 4. C; 5. A; 6. B

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-C5 Appendix 1B Identify and describe the three major activities of organizations.

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Business Activities

Topic: Financial Statements

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

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. It is part of our everyday lives, through such activities as banking, paying taxes, and receiving payroll checks. Technology plays a major role in accounting by reducing the time, effort and cost of recordkeeping while improving clerical accuracy.

AACSB: Communication

AACSB: Technology

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-C1 Explain the purpose and importance of accounting.

Topic: Importance of Accounting

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

The balance sheet is one of the four required financial statements a company prepares periodically. It describes a company's financial position by listing 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.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

211. Identify the users and uses of accounting information.

There are two general types of users of accounting information. Internal users are managers and officers of businesses. They require information about business activities in order to make decisions about planning, monitoring, and control. 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 in owning shares.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.

Topic: Users of Accounting Information

212. Identify several opportunities in accounting and distinguish between private accounting and public accounting.

The four broad areas of accounting are financial accounting, managerial accounting, taxation and other accounting related employment. The majority of the employment opportunities are in private accounting where employees work for businesses. Private sector jobs would include general accounting, taxation, budgeting, and cost accounting activities. Public accounting offers opportunities to perform work such as auditing, tax services, and consulting.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Decision Making

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.

Topic: Users of Accounting Information

213. Explain why ethics are an integral part of accounting.

The purpose of accounting is to provide useful information for 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 decisions are made.

AACSB: Communication

AACSB: Ethics
AICPA: BB Industry
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C3 Explain why ethics are crucial to accounting.
Topic: Ethics

214. 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.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

215. Identify the three basic forms of business organizations and their key attributes.

The three basic forms of business organizations are sole proprietorships, partnerships, and corporations. Sole proprietorships are businesses owned by one person. They are separate entities for accounting purposes, but are not separate from the owner legally or for tax purposes. Partnerships are businesses owned by two or more people who are jointly liable for tax and other obligations. Corporations are businesses legally separate from their owners, making them responsible for their own acts and own debts. They conduct business with the rights, duties and responsibilities of a person.

AACSB: Communication
AICPA: BB Industry
AICPA: BB Legal
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

216. How does the objectivity principle support ethical behavior?

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

AACSB: Communication

AACSB: Ethics

AICPA: BB Industry

AICPA: FN Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-C3 Explain why ethics are crucial to accounting.

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Ethics

Topic: Generally Accepted Accounting Principles

217. Identify and describe the two main groups involved in establishing generally accepted accounting principles.

The Financial Accounting Standards Board (FASB) is the private-sector group that has been delegated the task to set both the broad and specific principles of GAAP. The Securities and Exchange Commission (SEC) is a government agency that has the legal authority to set GAAP and oversees proper use of GAAP by companies that issue stock and debt to the public.

AACSB: Communication

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

218. How does the going-concern principle affect reporting asset values of a business?

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 cost rather than at liquidation value.

AACSB: Communication

AICPA: BB Industry
AICPA: FN Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

219. Describe the income statement and the relation between revenues, expenses, and net income or loss.

The income statement describes a company's revenues and expenses along with the resulting net income or loss over a period of time due to earnings activities. Revenues are the increases in equity from sales of products and services to customers. Expenses are the costs of providing products and services to customers. When revenues exceed expenses, net income occurs. When expenses exceed revenues, a net loss occurs.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

220. Explain the accounting equation and define its terms.

The accounting equation is stated as: $\text{Assets} = \text{Liabilities} + \text{Equity}$. Assets are resources owned or controlled by a business that are expected to provide future benefit. Creditors' claims on assets are called liabilities. The stockholders' claim on assets is called equity. The accounting equation shows that the resources (assets) of the business equal the source of funds to acquire and the claims against those resources.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

221. What distinguishes liabilities from equity?

Liabilities are creditors' claims on assets. They reflect obligations to transfer assets or provide products or services to others in a future outflow of resources. Equity is stockholders' claim to assets. It includes the investments of the stockholders and what the company earns on the stockholders' behalf. Equity is also called net assets or residual interest.

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

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

Return on assets is useful in evaluating management, analyzing and forecasting profits, and planning activities. It shows the effectiveness of using assets to earn profit.

AACSB: Communication

AICPA: BB Industry

AICPA: BB Resource Management

AICPA: FN Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-A2 Compute and interpret return on assets.

Topic: Return on Assets

223. Define risk and return and discuss the relation between them.

Net income is often related to return, which is what is earned from investments. Risk is the uncertainty about the return that will be earned. All investments involve risk, but risk and return vary among investment opportunities. In general, the lower the risk of an investment; the lower the expected return. Higher return is expected in exchange for accepting higher risk.

AACSB: Communication

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Risk Analysis

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-A3 Appendix 1A Explain the relation between return and risk.

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

The three types of activities reported in the statement of cash flows are (1) operating, which involve using cash to research, develop, purchase, produce, distribute, and market products and services as well as receiving cash from selling products and services; (2) financing, which are the cash inflows and cash outflows related to owner investments and withdrawal and long-term borrowing and repaying cash from lending and (3) investing, which represent the cash inflows and outflows from the purchase and sale of long-term assets.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

225. Identify and describe the four basic financial statements.

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.

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
Topic: Financial Statements

Essay Questions

226. 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. Individual owners are personally liable for debts of the business.
- d. Is a separately taxable entity.
- e. Is a business entity.
- f. May have a contract specifying the division of profits among the partners.
- 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.

	Proprietorship	Partnership	Corporation
a.			
b.			
c.			
d.			
e.			
f.			
g.			

	Proprietorship	Partnership	Corporation
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

AACSB: Communication
AICPA: BB Legal
AICPA: FN Decision Making
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

227. 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 sold for \$570,000. At what amount should the land be recorded in the purchaser's books? What accounting principle supports your answer?

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

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

228. You are reviewing the accounting records of Buddy's Foreign Automotive, Inc., owned by Bruce Jones. You have uncovered the following situations. List the appropriate accounting principle related to each independent scenario and suggest a correct action for each.

1. In August, a check for \$500 was written to Community Sports. This amount represents soccer camp for his daughter Cassie.
2. Bruce plans a Going Out of Business Sale for June, since he will be closing the business for a month-long vacation in July. He plans to reopen August 1 and will continue operating Buddy's Foreign Automotive indefinitely.
3. Buddy received a shipment of tools from Ontario, Canada. The invoice was stated in Canadian dollars.
4. Sandy Lane paid \$1,500 for a major repair services. The amount was recorded as revenue. The parts for the repair must be ordered from overseas and the service won't be complete until the following month.

1. Business entity assumption. Buddy should refund the \$500 to the business or record it as a dividend. In the future, he should use a personal check to pay for soccer camp.
2. Going-concern assumption. Buddy's Foreign Automotive is not going out of business. The business is just closing for vacation. He could hold an appropriate sale to generate extra business before going on vacation.
3. Monetary unit assumption. The invoice should be restated in U.S. dollars for accounting purposes.
4. Revenue recognition principle. Since the service has not been completed, 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 service is completed.

AACSB: Analytical Thinking

AICPA: BB Industry
AICPA: BB Legal
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

229. 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.

Beginning equity = \$80,000; Ending equity = \$260,000

Feedback: Beginning Assets = Beginning Liabilities + Beginning Equity
 $\$200,000 = \$120,000 + \$80,000$

Ending Assets = Ending Liabilities + Ending Equity
 $\$360,000 = \$100,000 + \$260,000$

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements
Topic: The Accounting Equation

230. At the beginning of the period, a company had \$350,000 worth of assets, \$110,000 worth of liabilities, and \$240,000 worth of equity. Assume the only change during the period was a \$30,000 purchase of equipment by issuing a note payable. Show the accounting equation with the appropriate amounts at the end of the period.

$\$380,000 = \$140,000 + \$240,000$

Feedback: Ending assets = \$350,000 + \$30,000
Ending liabilities = \$110,000 + \$30,000
Ending equity = \$240,000 (no change)

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: The Accounting Equation

Topic: Transaction Analysis

231. The accounts of Odie Company 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	

Except for net income, an investment of \$3,000 by the stockholder, and a dividend of \$11,000 by the stockholder, no other items affected the stockholders' equity balance. Using the balance sheet equation, compute net income for the past year.

\$23,000

Feedback: Assets = Liabilities + Stockholders' Equity

Assets Increased by \$20,000; Liabilities Increased by \$5,000; Therefore, Equity needs to Increase by \$15,000.

Change in Equity = Investment + Net Income - Dividends

Increase of \$15,000 = \$3,000 + Net Income - \$11,000

\$15,000 = Net Income - \$8,000

Net Income = \$23,000

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

Topic: Transaction Analysis

232. The accounts of Mason Company at the end of the past year report the following amounts:

Accounts	Amount
Dividends	\$15,500
Revenues	\$97,000
Expenses	\$43,800
Common stock	2,000

If the beginning equity for the year was \$173,000, calculate the ending equity for Mason Company.

\$212,700

Feedback: Beginning Equity + Common Stock - Dividends + Revenues - Expenses = Ending Equity

$\$173,000 + \$2,000 - \$15,500 + \$97,000 - \$43,800 = \$212,700$

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

233. Cornelia's Closet has the following account balances for the dates given:

	October 1	October 31
Cash	\$40,000	60,000
Accounts Receivable	40,000	38,000
Accounts payable	6,000	?

Also, its net income, for October 1 through October 31 was \$20,000 and there were no investments or withdrawals by the owner. Determine the equity at both October 1 and October 31.

October 1st Equity = \$74,000; October 31st Equity = \$94,000

Feedback: Total assets:

	October 1	October 31
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 October 1:

Assets = Liabilities + Equity

\$80,000 = \$6,000 + Equity

Equity = \$74,000

At October 31:

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

or:

October 1 Equity + Net Income + October 31 Equity

\$74,000 + \$20,000 = \$94,000

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

234. 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? By what amount?

Assets increased by \$62,000.

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

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

235. Soo Lin, the sole stockholder, began an Internet Consulting practice organized as a corporation and completed these transactions during April of the current year:

April	1	Invested \$100,000 of her personal savings into a checking account opened in the name of the business.
	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	The corporation paid a \$2,000 dividend.

Show the effects of the above transactions on the accounting equation of Soo Lin, Consultant. 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:			
April 1	I	N	I

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

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

236. For each of the following transactions, identify the effects as reflected in 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. Chester invested \$100,000 in a corporation.	+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.		

- a. +A +E
b. +A +L
c. +A +E
d. +A -A
e. +A -A
f. -A -E
g. -A -L

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

237. The following schedule reflects shows the first month's transactions of the Green Construction Company Inc.:

		Acco unts				Acco unts		
	Cas h	+ Recei vable	+ Sup plies	+ Equip ment	= Paya ble	+ Stockh olders' Equity		
1	+20, 000						+20,000	
2	— 5,00 0			+5,00 0				
3			+ \$1,5 00		+1,50 0			
4	+3,0 00						+3,000	
5	+1,0 00	+1,500					+2,500	
6	—750				—750			
7	+50 0	—500						
8			—400				—400	
9	— 2,00 0						—2,000	

Provide descriptions for each transaction.

1. Investment of cash in business by owner *or* performed services for cash.
2. Purchased equipment for cash.
3. Purchased supplies on credit.
4. Business sold more common stock.
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. Dividends of cash from business to owner for personal use *or* paid expense of business.

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Accounting Equation

Topic: Transaction Analysis

238. The accountant of Action Adventure Games, Inc. prepared a balance sheet after every 10 day period. The only resources invested by the owner were at the start of the company on June 1. During June, the first month of operation, the following balance sheets were prepared:

ACTION ADVENTURE GAMES, Inc. Balance Sheet June 10			
Assets		Stockholders' Equity	
Cash	<u>\$60,000</u>	Common stock + Retained earnings	<u>\$60,000</u>
Total assets	<u>\$60,000</u>	Total liabilities and equity	<u>\$60,000</u>

ACTION ADVENTURE GAMES, Inc. Balance Sheet June 20			
Assets		Liabilities	
Cash	\$48,000	Notes payable	\$18,000
Land	10,000	Stockholders' Equity	
Building	<u>20,000</u>	Common stock + Retained earnings	<u>60,000</u>
Total assets	<u>\$78,000</u>	Total liabilities and equity	<u>\$78,000</u>

ACTION ADVENTURE GAMES, Inc. Balance Sheet June 30			
Assets		Liabilities	
Cash	\$51,000	Accounts payable	\$2,000
Office supplies	2,000	Notes payable	18,000
Land	10,000	Stockholders' Equity	
Building	<u>20,000</u>	Common stock + Retained earnings	<u>63,000</u>
Total assets	<u>\$83,000</u>	Total liabilities and equity	<u>\$83,000</u>

Required:

Describe the nature of each of the four transactions that took place between the balance sheet dates shown. Assume only one transaction affected each account.

June		
	10	
	20	
	30	

June	10	The owner invested \$60,000 cash in the corporation.
	20	Land and building were purchased for \$12,000 cash and an \$18,000 note payable.
	30	Office supplies were purchased for \$2,000 on account. Cash was received for \$3,000 of services provided.

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

Topic: Transaction Analysis

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

- a. Investing \$500 in a certificate of deposit 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.

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.

d. The risk is that the student might not be able to find a job that pays enough to live on and allow for loan payments with interest. The return is that the student would be able to finance an education and earn higher wages.

AACSB: Analytical Thinking

AICPA: BB Resource Management

AICPA: FN Risk Analysis

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-A3 Appendix 1A Explain the relation between return and risk.

Topic: Return and Risk

240. Prepare a April 30 balance sheet in proper form for Two Rivers Vending Service, Inc. from the following alphabetical list of the accounts at April 30:

Accounts receivable	\$10,000
Accounts payable	18,000
Building	28,000
Cash	10,000
Notes payable	47,000
Office equipment	12,000
Common stock	20,000
Retained earnings	?
Trucks	55,000

TWO RIVERS VENDING SERVICE, Inc. Balance Sheet April 30			
Assets		Liabilities	
Cash	\$10,000	Accounts payable	\$18,000
Accounts receivable	10,000	Notes payable	<u>47,000</u>
Office equipment	12,000	Total liabilities	\$65,000
Building	28,000		
Trucks	<u>55,000</u>	Stockholders' Equity	
		Common stock	20,000
		Retained earnings	<u>30,000</u>
		Total stockholders' equity	<u>50,000</u>
Total assets	<u>\$115,000</u>	Total liabilities and equity	<u>\$115,000</u>

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Create

Difficulty: 3 Hard

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

241. Prepare a December 31 balance sheet in proper form for Smokey River Supplies, Inc. from the following list of the accounts:

Cash	\$10,000
Accounts receivable	8,000
Supplies	12,000
Equipment	35,000
Land	18,000
Accounts payable	13,000
Notes payable	41,000
Stockholders' equity	29,000

SMOKEY RIVER SUPPLIES, Inc. Balance Sheet December 31			
Assets		Liabilities	
Cash	\$10,000	Accounts payable	\$13,000
Accounts receivable	8,000	Notes payable	<u>41,000</u>
Supplies	12,000	Total liabilities	\$54,000
Equipment	35,000		
Land	<u>18,000</u>	Stockholders' Equity	
		Common stock + Retained earnings	<u>29,000</u>
Total assets	<u>\$83,000</u>	Total liabilities and equity	<u>\$83,000</u>

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Create

Difficulty: 2 Medium

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

242. Prepare a December 31 balance sheet in proper form for Cane Property Management, Inc. using the following accounts and amounts:

Commissions earned	\$40,000
Accounts payable	3,500
Accounts receivable	5,000
Stockholders' equity	104,500
Office equipment	10,000
Advertising expense	3,200
Cash	7,500
Land	35,000
Note payable	50,000
Office supplies	1,500
Salaries expense	12,000
Salaries payable	1,000
Building	100,000

CANE PROPERTY MANAGEMENT, Inc. Balance Sheet December 31			
Assets		Liabilities	
Cash	\$7,500	Accounts payable	\$3,500
Accounts receivable	5,000	Salaries payable	1,000
Office supplies	1,500	Note payable	<u>50,000</u>
Land	35,000	Total liabilities	\$54,500
Building	100,000	Stockholders' Equity	
Office equipment	<u>10,000</u>	Common stock + Retained earnings	<u>104,500</u>
Total assets	<u>\$159,000</u>	Total liabilities and Equity	<u>\$159,000</u>

AACSB: Analytical Thinking
AICPA: BB Industry
AICPA: FN Reporting

Blooms: Create

Difficulty: 3 Hard

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

243. From the information given below, prepare a November income statement, a November statement of retained earnings, and a November 30 balance sheet. On November 1 of the current year, Victoria Garza began Garza Décor, Inc. with an initial investment of \$50,000 cash. On November 30, her records showed the following (alphabetically arranged) items and amounts.

Accounts payable	\$12,000	Office furnishings	\$40,000
Accounts receivable	19,000	Dividends	6,000
Cash	21,200	Rent expense	9,600
Fees earned	34,000	Salaries expense	4,200
Notes payable	4,250	Telephone expense	250

GARZA DÉCOR, Inc. Income Statement For Month Ended November 30		
Revenue:		
Fees earned		\$34,000
Operating expenses:		
Rent expense	\$9,600	
Salaries expense	4,200	
Telephone expense	<u>250</u>	<u>14,050</u>
Net income		<u>\$19,950</u>

GARZA DÉCOR, Inc. Statement of Retained Earnings For Month Ended November 30		
Retained earnings, November 1		\$0
Plus:		
Net income	<u>19,950</u>	<u>19,950</u>
		19,950
Less dividends		<u>(6,000)</u>
Retained earnings, November 30		<u>\$13,950</u>

GARZA DECOR, Inc.

Balance Sheet November 30			
Assets		Liabilities	
Cash	\$21,200	Accounts payable	\$12,000
Accounts receivable	19,000	Notes payable	<u>4,250</u>
Office furnishings	<u>40,000</u>	Total liabilities	\$16,250
		Stockholders' Equity	
		Common stock	50,000
		Retained earnings	<u>13,950</u>
Total assets	<u>\$80,200</u>	Total liabilities and equity	<u>\$80,200</u>

AACSB: Analytical Thinking
 AICPA: BB Industry
 AICPA: FN Reporting
 Blooms: Create
 Difficulty: 3 Hard

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
 Topic: Financial Statements

244. Data for Kennedy Realty are as follows:

Total assets at January 1	\$100,000
Total liabilities at January 1	35,000
Total revenues for the year	79,000
Total expenses for the year	47,000

The owner, Finn Kennedy, received a dividend of \$30,000 during the year. Using the above data, prepare Kennedy Realty's Statement of Retained Earnings for the year ended December 31.

KENNEDY REALTY Statement of Retained Earnings For year Ended December 31		
Retained earnings, January 1*	\$65,000	*
Plus Net income	<u>32,000</u>	
	\$97,000	
Less Dividends	<u>(30,000)</u>	
Retained earnings, December 31	<u>\$67,000</u>	
*Total assets at January 1	\$100,000	
Less total liabilities at January 1	<u>35,000</u>	
Total stockholder's equity at January 1	<u>\$65,000</u>	

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Create

Difficulty: 3 Hard

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

245. Jet Styling, Inc. 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 owner	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 dividend to stockholder	2,000
i.	Cash payment of wages	4,000

Jet Styling, Inc. 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 investing activities:		
Purchase of equipment		(7,500)
Cash flows from financing activities:		
Investment by stockholder	15,000	
Dividends	(2,000)	
Payment of loan	(1,000)	
Cash flows from financing activities		<u>12,000</u>
Net increase in cash		<u>\$4,950</u>
Beginning cash balance		<u>3,200</u>
Ending cash balance		<u>\$8,150</u>

AACSB: Analytical Thinking
AICPA: BB Industry

AICPA: FN Reporting

Blooms: Create

Difficulty: 3 Hard

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

246. The records of Roadmaster Auto Rentals, Inc. show the following information as of December 31. The owner, Rob Fletcher, the sole stockholder, received a dividend of \$52,000 during the year. Prepare a December income statement, a December statement of retained earnings, and a December 30 balance sheet.

Accounts payable	\$36,000	Wages expense	\$75,000
Insurance expense	2,000	Advertising expense	22,000
Accounts receivable	24,000	Cash	11,000
Common stock	50,000		
Retained earnings, January 1	100,000	Office Furniture	15,000
Airplanes	150,000	Maintenance expense	39,000
Notes payable	47,000	Revenues	217,000
Hangar	60,000		

ROADMASTER AUTO RENTALS, Inc. Income Statement For Year Ended December 31		
Revenues		\$217,000
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		<u>\$79,000</u>

ROADMASTER AUTO RENTALS, Inc. Statement of Retained Earnings For Year Ended December 31	
Retained earnings, January 1	\$100,000
Add: Net income	79,000
Less: Dividends	<u>(52,000)</u>
Retained earnings, December 31	<u>\$127,000</u>

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ROADMASTER AUTO RENTALS, Inc. Balance Sheet December 31			
Assets		Liabilities	
Cash	\$11,000	Accounts payable	\$36,000
Accounts receivable	24,000	Notes payable	<u>47,000</u>
Airplanes	150,000	Total liabilities	\$83,000
Hangar	60,000	Stockholder s' Equity	
Office furniture	15,000	Common stock	50,000
		Retained earnings	<u>127,000</u>
Total assets	<u>\$260,000</u>	Total liabilities and equity	<u>\$260,000</u>

AACSB: Analytical Thinking
 AICPA: BB Industry
 AICPA: FN Reporting
 Blooms: Create
 Difficulty: 3 Hard
 Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.
 Topic: Financial Statements

247. Verity Siding Company, Inc., owned by S. Verity, began operations in May and completed the following transactions during that first month of operations. Show the effects of the transactions on the accounts of the accounting equation by recording increases and decreases in the appropriate columns in the table below. Do not determine new account balances after each transaction. Determine the final total for each account and verify that the equation is in balance.

May	1	S. Verity invested \$90,000 cash in the company.
	2	The company purchased \$25,000 in office equipment. It paid \$10,000 in cash and signed a note payable promising to pay the \$15,000 over the next three years.
	2	The company rented office space and paid \$3,000 for the May rent.
	6	The company installed new vinyl siding for a customer and immediately collected \$5,000.
	7	The company paid a supplier \$2,000 for siding materials used on the May 6 job.
	8	The company purchased a \$2,500 copy machine for office use on credit.
	9	The company completed work for additional customers on credit in the amount of \$16,000.
	15	The company paid its employees' salaries \$2,300 for the first half of the month.
	17	The company installed new siding for a customer and immediately collected \$2,400.
	20	The company received \$10,000 in payments from the customers billed on May 9.
	28	The company paid \$1,500 on the copy machine purchased on May 8. It will pay the remaining balance in June.
	31	The company paid its employees' salaries \$2,400 for the second half of the month.
	31	The company paid a supplier \$5,300 for siding materials used on the remaining jobs completed during May.
	31	The company paid \$450 for this month's utility bill.

VERITY SIDING CO.		
Assets =	Lia bilit	Equity

						ies +			
D a t e		Acco unts		Acc oun ts	Not es				
M a y	C a s h	Rece ivabl e	Equi pme nt	Pay able	Pa yab le	Co mm on sto ck	Divi den ds	Rev enu es	Exp ens es
1									
2									
2									
6									
7									
8									
9									
1 5									
1 7									
2 0									
2 8									
3 1									
3 1									
3 1									
	\$ -	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-

Assets =						Lia bilit ies +	Equity		
D a t e		Acc ount		Acc oun	Not es				

e		s		ts					
M	Cash	Receivable	Equipment	Payable	Payable	Common stock	Dividends	Revenues	Expenses
1	90,000					90,000			
2	(10,000)		25,000		15,000				
2	(3,000)								(3,000)
6	5,000							5,000	
7	(2,000)								(2,000)
8			2,500	2,500					
9		16,000						16,000	
15	(2,300)								(2,300)
17	2,400							2,400	
20	10,000	(10,000)							
28	(1,500)			(1,500)					
31	(2,400)								(2,400)
31	(5,300)								(5,300)
31	(450)								(450)
	80,450	6,000	27,500	1,000	15,000	90,000	-	23,400	(15,450)

AACSB: Analytical Thinking

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Analyze

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.

Topic: Transaction Analysis

Fill in the Blank Questions

248. _____ is an information and measurement system that identifies, records and communicates relevant, reliable and comparable information about an organization's economic activities.

Accounting

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C1 Explain the purpose and importance of accounting.

Topic: Importance of Accounting

249. A _____ is a business that is owned by only one person.

Sole proprietorship

AACSB: Communication

AICPA: BB Legal

AICPA: FN Decision Making

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

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

External

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.

Topic: Users of Accounting Information

251. _____ is the area of accounting aimed at serving external users by providing them with general-purpose financial statements.

Financial accounting

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting.
Topic: Users of Accounting Information

252. Congress passed the _____ to help curb financial abuses at companies that issue their stock to the public.

Sarbanes-Oxley Act

AACSB: Communication
AACSB: Ethics
AICPA: BB Legal
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.
Topic: Generally Accepted Accounting Principles

253. _____ are beliefs that separate right from wrong and are considered accepted standards of good and bad behavior.

Ethics

AACSB: Communication
AACSB: Ethics
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C3 Explain why ethics are crucial to accounting.
Topic: Ethics

254. The assumption that requires that a business be accounted for separately from its owners is the _____ assumption.

business entity

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.
Topic: Generally Accepted Accounting Principles

255. The _____ principle requires that financial information is supported by independent, unbiased evidence.

objectivity

AACSB: Communication
AICPA: BB Industry
AICPA: FN Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

256. The _____ assumption assumes business will continue operating indefinitely instead of being closed or sold.

going-concern

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

257. The _____ assumption states that transactions and events are expressed in money units.

monetary unit

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

258. In accounting, the rule that requires that assets, services, and liabilities be recorded initially at the cash or cash-equivalent value of what was given up or of the item received is called the _____.

cost principle

AACSB: Communication

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles

259. A disadvantage of a sole proprietorship is the fact that the owner has _____.

unlimited liability

AACSB: Communication

AICPA: BB Legal
AICPA: FN Measurement
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.
Topic: Generally Accepted Accounting Principles

260. There are at least three types of partnerships that limit the partners' liability. They are 1) _____, 2) _____, and 3) _____.

limited partnership, limited liability partnership, limited liability company

answers can appear in any order

AACSB: Communication
AICPA: BB Legal
AICPA: FN Measurement
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.
Topic: Generally Accepted Accounting Principles

261. There are three major types of business activities. _____ activities are the means organizations use to pay for resources such as land, building, and equipment to carry out plans.

Financing

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C5 Appendix 1B Identify and describe the three major activities of organizations.
Topic: Business Activities

262. There are three major types of business activities. _____ activities involve the acquisition and disposal of resources that an organization uses to acquire and sell its products or services.

Investing

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C5 Appendix 1B Identify and describe the three major activities of organizations.
Topic: Business Activities

263. There are three major types of business activities. _____ activities involve using resources to research, develop, purchase, produce, distribute, and market products and services and receiving amounts from selling products and services.

Operating

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-C5 Appendix 1B Identify and describe the three major activities of organizations.
Topic: Business Activities

264. Resources such as cash removed from the business by the business owner for personal use are called _____.

dividends

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

265. _____ are the increases in equity from a company's sales of products and services to customers.

Revenues

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

266. A common characteristic of _____ is their ability to yield expected future benefits to a business.

assets

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

267. Creditors' claims on assets that reflect company obligations to provide assets, products, or services to others are called _____.

liabilities

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

268. The stockholders' claim on assets, also known as net assets, is called _____.

equity

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

269. The accounting equation is _____.

Assets = Liabilities + Stockholders' Equity

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

270. The term _____ refers to a liability that promises a future outflow of resources.

payable

AACSB: Communication
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.
Topic: The Accounting Equation

271. Using the accounting equation, equity is equal to _____.

assets minus liabilities

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.

Topic: The Accounting Equation

272. _____, which is one part of accounting, is the recording of transactions and events, either manually or electronically.

Record-keeping or Bookkeeping

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C1 Explain the purpose and importance of accounting.

Topic: Importance of Accounting

273. _____ is net income divided by average total assets.

Return on assets

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-A2 Compute and interpret return on assets.

Topic: Return on Assets

274. Risk is the _____ about the return an investor expects to earn.

uncertainty

AACSB: Communication

AICPA: BB Industry

AICPA: FN Risk Analysis

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-A3 Appendix 1A Explain the relation between return and risk.

Topic: Return and Risk

275. _____ explains changes in the stockholders' claim on the business's assets from net income or loss, and dividends over a period of time.

The statement of retained earnings

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

276. The _____ describes a company's revenues and expenses along with the resulting net income or net loss over a period of time due to earnings activities.

income statement

AACSB: Communication

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Topic: Financial Statements

277. _____ is the process undertaken in recent years by the FASB and IASB aimed at reducing inconsistencies between U.S. GAAP and IFRS.

Convergence

AACSB: Communication

AICPA: BB Global

AICPA: FN Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Topic: Generally Accepted Accounting Principles