CHAPTER 2

A FURTHER LOOK AT FINANCIAL STATEMENTS

SUMMARY OF QUESTIONS BY STUDY OBJECTIVE AND BLOOM'S TAXONOMY

Item	SO	BT	Item	SO	BT	Item	SO	BT	Item	SO	BT	Item	SO	BT
True-False Statements														
1.	1	K	12.	3	C	23.	5	K	34.	7	K	45.	7	K
2.	1	K	13.	3	C	24.	5	K	35.	7	C	46.	7	K
3.	1	K	14.	3	K	25.	5	C	36.	7	K	47.	7	K
4.	1	K	15.	4	K	26.	6	K	37.	7	K	48.	7	K
5.	1	C	16.	4	C	27.	6	K	38.	7	C	49.	7	C
6.	1	K	17.	4	K	28.	6	K	39.	7	K	50.	7	K
7.	1	C	18.	4	K	29.	7	K	40.	7	K	51.	7	C
8.	2	K	19.	4	K	30.	7	K	41.	7	K	52.	7	C
9.	2	C	20.	5	K	31.	7	K	42.	7	K	53.	7	K
10.	2	K	21.	5	K	32.	7	C	43.	7	K	54.	7	K
11.	3	K	22.	5	K	33.	7	K	44.	7	K	55.	7	K
Multiple Choice Questions														
56.	1	K	86.	1	AP	116.	4	K	146.	4	AP	176.	7	K
57.	1	K	87.	1	AP	117.	4	K	147.	4	AP	177.	7	C
58.	1	K	88.	1	AP	118.	4	C	148.	5	K	178.	7	C
59.	1	K	89.	1	AP	119.	4	K	149.	5	K	179.	7	C
60.	1	K	90.	4	AP	120.	4	K	150.	5	K	180.	7	K
61.	1	K	91.	4	AP	121.	4	K	151.	5	K	181.	7	C
62.	1	K	92.	2	K	122.	4	K	152.	5	AP	182.	7	C
63.	1	K	93.	2	AP	123.	4	C	153.	5	AP	183.	7	C
64.	1	K	94.	2	AP	124.	4	C	154.	5	AN	184.	7	C
65.	1	K	95.	2	K	125.	4	K	155.	5	AP	185.	7	K
66.	1	K	96.	2	K	126.	4	K	156.	5	AP	186.	7	C
67.	1	K	97.	2	C	127.	1	AP	157.	5	C	187.	7	C
68.	1	K	98.	2	K	128.	4	AP	158.	6	K	188.	7	K
69.	1	K	99.	2	AN	129.	4	AP	159.	6	K	189.	7	K
70.	1	K	100.	2	AN	130.	4	AP	160.	6	K	190.	7	K
71.	1	K	101.	2	AP	131.	2	AP	161.	6	K	191.	7	K
72.	1	AP	102.	2	AN	132.	4	AP	162.	7	K	192.	7	C
73.	1	K	103.	3	AP	133.	4	AP	163.	7	K	193.	7	K
74.	1	K	104.	3	AP	134.	4	AP	164.	7	K	194.	7	K
75.	1	AP	105.	3	C	135.	2	AP	165.	7	K	195.	7	K
76.	1	AP	106.	3	K	136.	4	AP	166.	7	K	196.	7	K
77.	1	AP	107.	3	K	137.	4	K	167.	7	K	197.	7	K
78.	4	AP	108.	3	C	138.	4	K	168.	7	K	198.	7	C
79.	4	AP	109.	3	C	139.	4	K	169.	7	K	199.	7	C
80.	1	AP	110.	3	C	140.	4	C	170.	7	K	200.	7	K
81.	1	AP	111.	3	AP	141.	4	C	171.	7	K	201.	7	K
82.	1	AP	112.	3	AP	142.	4	C	172.	7	K	202.	7	C
83.	4	AP	113.	3	AN	143.	4	C	173.	7	K	203.	7	C
84.	4	AP	114.	3	AN	144.	4	AP	174.	7	K	204.	7	C
85.	1	AP	115.	4	K	145.	4	AP	175.	7	K			
Brief Exercises														
205.	1	AP	207.	3	C	209.	7	K	211.	7	C	213.	7	C
206.	2	AP	208.	4	AP	210.	7	K	212.	7	C	214.	7	K

Exercises														
215.	1	AP	219.	1, 2, 4	AP	223.	2, 4	AP	227.	2, 4, 5	K			
216.	1	K	220.	1, 3	AP	224.	2, 4	AP	228.	2, 4	AP			
217.	1.	AP	221.	1, 3	AP	225.	2, 4	AP	229.	3	AP			
218.	1, 2, 3	AP	222.	2	AP	226.	2, 4, 5	AN	230.	4	AN			
Completion Statements														
231.	6	K	233.	7	K	235.	4	K	237.	4	K	238.	5	K
232.	7	K	234.	7	K	236.	1	K						
Matching														
239.	1-7	K												
Short Answer Essay														
240.	1	K	243.	2, 4	C	246.	7	C	249.	4	E	250.	7	E
241.	2,4	K	244.	7	C	247.	7	K						
242.	1, 4	K	245.	7	C	248.	7	K						

SUMMARY OF STUDY OBJECTIVES BY QUESTION TYPE

Study Objective 1											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
1.	TF	58.	MC	67.	MC	76.	MC	89.	MC	221.	Ma
2.	TF	59.	MC	68.	MC	77.	MC	127.	MC	236.	CS
3.	TF	60.	MC	69.	MC	80.	MC	205.	BE	239.	Ma
4.	TF	61.	MC	70.	MC	81.	MC	215.	Ex	240.	SA
5.	TF	62.	MC	71.	MC	82.	MC	216.	Ma	242.	SA
6.	TF	63.	MC	72.	MC	85.	MC	217.	Ma		
7.	TF	64.	MC	73.	MC	86.	MC	218.	Ma		
56.	MC	65.	MC	74.	MC	87.	MC	219.	Ex		
57.	MC	66.	MC	75.	MC	88.	MC	220.	Ma		
Study Objective 2											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
8.	TF	94.	MC	99.	MC	135.	MC	223.	Ex	228.	Ma
9.	TF	95.	MC	100.	MC	206.	BE	224.	Ma	239.	Ma
10.	TF	96.	MC	101.	MC	218.	Ma	225.	Ma	241.	SA
92.	MC	97.	MC	102.	MC	219.	Ex	226.	Ma	243.	SA
93.	MC	98.	MC	131.	MC	222.	Ma	227.	Ex		
Study Objective 3											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
11.	TF	103.	MC	107.	MC	111.	MC	207.	BE	229.	Ma
12.	TF	104.	MC	108.	MC	112.	MC	218.	Ma	239.	Ma
13.	TF	105.	MC	109.	MC	113.	MC	220.	Ma		
14.	TF	106.	MC	110.	MC	114.	MC	221.	Ma		

Study Objective 4											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
15.	TF	91.	MC	124.	MC	137.	MC	147.	MC	235.	CS
16.	TF	115.	MC	125.	MC	138.	MC	208.	BE	237.	CS
17.	TF	116.	MC	126.	MC	139.	MC	219.	Ex	239.	Ma
18.	TF	117.	MC	128.	MC	140.	MC	223.	Ex	241.	SA
19.	TF	118.	MC	129.	MC	141.	MC	224.	Ma	242.	SA
78.	MC	119.	MC	130.	MC	142.	MC	225.	Ma	243.	SA
79.	MC	120.	MC	132.	MC	143.	MC	226.	Ma	249.	SA
83.	MC	121.	MC	133.	MC	144.	MC	227.	Ex		
84.	MC	122.	MC	134.	MC	145.	MC	228.	Ma		
90.	MC	123.	MC	136.	MC	146.	MC	230.	Ma		

Study Objective 5											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
20.	TF	24.	TF	150.	MC	154.	MC	226.	Ma		
21.	TF	25.	TF	151.	MC	155.	MC	227.	Ex		
22.	TF	148.	MC	152.	MC	156.	MC	238.	CS		
23.	TF	149.	MC	153.	MC	157.	MC	239.	Ma		

Study Objective 6											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
26.	TF	28.	TF	159.	MC	161.	MC	239.	Ma		
27.	TF	158.	MC	160.	MC	231.	CS				

Study Objective 7											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
29.	TF	44.	TF	165.	MC	180.	MC	195.	MC	214.	BE
30.	TF	45.	TF	166.	MC	181.	MC	196.	MC	232.	CS
31.	TF	46.	TF	167.	MC	182.	MC	197.	MC	233.	CS
32.	TF	47.	TF	168.	MC	183.	MC	198.	MC	234.	CS
33.	TF	48.	TF	169.	MC	184.	MC	199.	MC	239.	Ma
34.	TF	49.	TF	170.	MC	185.	MC	200.	MC	244.	SA
35.	TF	50.	TF	171.	MC	186.	MC	201.	MC	245.	SA
36.	TF	51.	TF	172.	MC	187.	MC	202.	MC	246.	SA
37.	TF	52.	TF	173.	MC	188.	MC	203.	MC	247.	SA
38.	TF	53.	TF	174.	MC	189.	MC	204.	MC	248.	SA
39.	TF	54.	TF	175.	MC	190.	MC	209.	BE	250.	SA
40.	TF	55.	TF	176.	MC	191.	MC	210.	BE		
41.	TF	162.	MC	177.	MC	192.	MC	211.	BE		
42.	TF	163.	MC	178.	MC	193.	MC	212.	BE		
43.	TF	164.	MC	179.	MC	194.	MC	213.	BE		

Note: TF = True-False; C = Completion
MC = Multiple Choice; Ex = Exercise
Ma = Matching; SA = Short Answer Essay

CHAPTER STUDY OBJECTIVES

1. ***Identify the sections of a classified balance sheet.*** In a classified balance sheet, companies classify assets as current assets; long-term investments; property, plant, and equipment; and intangibles. They classify liabilities as either current or long-term. A stockholders' equity section shows common stock and retained earnings.

2. ***Identify and compute ratios for analyzing a company's profitability.*** Profitability ratios, such as earnings per share (EPS), measure aspects of the operating success of a company for a given period of time.

3. ***Explain the relationship between a retained earnings statement and a statement of stockholders' equity.*** The retained earnings statement presents the factors that changed the retained earnings balance during the period. A statement of stockholders' equity presents the factors that changed stockholders' equity during the period, including those that changed retained earnings. Thus, a statement of stockholders' equity is more inclusive.

4. ***Identify and compute ratios for analyzing a company's liquidity and solvency using a balance sheet.*** Liquidity ratios, such as the current ratio, measure the short-term ability of a company to pay its maturing obligations and to meet unexpected needs for cash. Solvency ratios, such as the debt to total assets ratio, measure the ability of an enterprise to survive over a long period.

5. ***Use the statement of cash flows to evaluate solvency.*** Free cash flow indicates a company's ability to generate cash from operations that is sufficient to pay debts, acquire assets, and distribute dividends.

6. ***Explain the meaning of generally accepted accounting principles.*** Generally accepted accounting principles are a set of rules and practices recognized as a general guide for financial reporting purposes. The basic objective of financial reporting is to provide information that is useful for decision making.

7. ***Discuss financial reporting concepts.*** To be judged useful, information should posses these qualitative characteristics relevance, faithful representation, comparability, and consistency.

   The *monetary unit assumption* requires that companies include in the accounting records of the economic entity only transaction data that can be expressed in terms of money. The *economic entity assumption* states that economic events can be identified with a particular unit of accountability. The *periodicity assumption* states that the economic life of a business can be divided into artificial time periods and that meaningful accounting reports can be prepared for each period. The *going concern assumption* states that the enterprise will continue in operation long enough to carry out its existing objectives and commitments. Accrual-basis accounting means that transactions are recorded in the periods in which the events occur.

   The *cost principle* states that the companies should record assets at their cost. The fair value principle indicates that assets and liabilities should be reported at fair value. The *full disclosure principle* requires that companies disclose circumstances and events that matter to financial statement users.

   The major constraints are materiality and cost.

TRUE-FALSE STATEMENTS

1. Cash and supplies are both classified as current assets.

Ans: T, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

2. Long-term investments appear in the property, plant, and equipment section of the balance sheet.

Ans: F, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

3. A liability is classified as a current liability if it is to be paid within the coming year.

Ans: T, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

4. Stockholders' equity is divided into two parts: common stock and retained earnings.

Ans: T, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

5. It is possible for an asset to be a current asset even though the expected conversion of that asset into cash is to be longer than one year or the normal operating cycle.

Ans: F, SO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

6. The investment category on the balance sheet normally includes investments that are intended to be held for a short period of time (less than one year).

Ans: F, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

7. The main difference between intangible assets and property, plant and equipment is the length of the asset's life.

Ans: F, SO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

8. Profitability means having enough funds on hand to pay debts when they fall due.

Ans: F, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Business Economics

9. Earnings per share is calculated by dividing net income minus preferred stock dividends for the period by the average number of common shares outstanding during the period.

Ans: T, SO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

10. Earnings per share measures the net income earned on each share of common stock.

Ans: T, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

11. The retained earnings statement describes the changes in retained earnings during the period.

Ans: T, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

12. The retained earnings statement is more comprehensive than the statement of shareholders' equity.

Ans: F, SO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

13. Revenues have the effect of increasing retained earnings.

Ans: T, SO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

14. Most companies use a retained earnings statement rather than a statement of stockholders' equity.

Ans: F, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

15. The excess of current assets over current liabilities is called working capital.

Ans: T, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

16. The current ratio takes into account the composition of current assets.

Ans: F, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

17. Solvency ratios measure the short-term ability of the company to pay its maturing obligations.

Ans: F, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

18. The debt to total assets ratio measures the percentage of assets financed by creditors.

Ans: T, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

19. Two primary objectives of management are to achieve profitability and liquidity.

Ans: T, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Management, AICPA PC: Project Management, IMA:

20. Companies get cash from just two sources: operating activities and financing activities.

Ans: F, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

21. Both investors and creditors have an interest in a company's ability to generate favorable cash flows.

Ans: T, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

22. The statement of cash flows is divided into two sections corresponding to investing activities and financing activities.

Ans: F, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

23. The statement of cash flows discloses significant events related to the operating, investing, and financing activities of a business.

Ans: T, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

24. Free cash flow is cash from operations less dividends.

Ans: F, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

25. Long term creditors consider a high free cash flow amount an indication of solvency.

Ans: T, SO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Business Economics

26. The primary accounting standard-setting body in the United States is the Securities and Exchange Commission.

Ans: F, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

27. Generally accepted accounting principles are rules and practices that are recognized as a general guide for financial reporting purposes.

Ans: T, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

28. GAAP stands for generally accepted accounting procedures.

Ans: F, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

29. To be faithfully representative, accounting information should predict future events, confirm prior expectations, and be reported on a timely basis.

Ans: F, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

30. In order for information to be relevant, it must be reported on a monthly basis.

Ans: F, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

31. For information to be useful, it must be both relevant and faithfully representative.

Ans: T, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

32. Consistent use of the same accounting principles and methods is necessary for meaningful analysis of trends within a company.

Ans: T, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

33. A major function of management is to provide the accountant with relevant and useful information.

Ans: F, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

34. The advantage of accounting information is that it provides exact and completely reliable measures.

Ans: F, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

35. Consistency in accounting means that a company uses the same generally accepted accounting principles from one accounting period to the next accounting period.

Ans: T, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

36. The convention of consistency pertains to the use of the same accounting principles by firms in the same industry.

Ans: F, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

37. The periodicity assumption states that the business will remain in operation for the foreseeable future.

Ans: F, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Business Economics

38. If a building is offered for sale at $100,000 and the buyer pays $95,000 cash for it, the buyer would record the building at $100,000.

Ans: F, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

39. The most generally accepted value used in accounting is market value.

Ans: F, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

40. For accounting purposes, business transactions should be kept separate from the personal transactions of the stockholders of the business.

Ans: T, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

41. The economic entity assumption states that economic events can be identified with a particular unit of accountability.

Ans: T, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

42. The economic entity assumption states that assets should be recorded at their cost.

Ans: F, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

43. The monetary unit assumption states that transactions that can be measured in terms of money should be recorded in the accounting records.

Ans: T, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

44. The monetary unit assumption has led to an increase in the notes to financial statements.

Ans: F, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

45. The going concern assumption is that the business will continue in operation long enough to carry out its existing objectives and commitments.

Ans: T, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Business Economics

46. When preparing financial statements, the accountant assumes that the business will stay in business for the foreseeable future.

Ans: T, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

47. Full disclosure of all important facts aids in overcoming the limitations of accounting information.

Ans: T, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

48. The economic entity assumption is that an enterprise will remain in operations for the foreseeable future.

Ans: F, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

49. A common application of the materiality constraint is weighing the factual nature of cost figures versus the relevance of fair value.

Ans: F, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

50. Materiality and cost are two constraints in accounting.

Ans: T, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Business Economics

51. The concept of materiality requires a large company to record the purchase of a $10 wastepaper basket as an asset and depreciate it over its useful life.

Ans: F, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

52. The concept of materiality permits a large company to report amounts in its financial statements to the nearest thousand of dollars.

Ans: T, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

53. In general, the FASB indicates that most assets must follow the fair value principle.

Ans: F, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

54. A material item is one that is likely to affect a user's decision.

Ans: T, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

55. The periodicity assumption states that every economic entity can be separately identified and accounted for.

Ans: F, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to True-False Statements

1.	T	12.	F	23.	T	34.	F	46.	T
2.	F	13.	T	24.	F	35.	T	47.	T
3.	T	14.	F	25.	T	36.	F	48.	F
4.	T	15.	T	26.	F	37.	F	49.	F
5.	F	16.	F	27.	T	38.	F	50.	T
6.	F	17.	F	28.	F	39.	F	51.	F
7.	F	18.	T	29.	F	40.	T	52.	T
8.	F	19.	T	30.	F	41.	T	53.	F
9.	T	20.	F	31	T	42.	F	54.	T
10.	T	21.	T	32.	T	43.	T	55.	F
11.	T	22.	F	33.	F	44	F		
						45.	T		

MULTIPLE CHOICE QUESTIONS

56. In a classified balance sheet, assets are usually classified as:
    a. current assets; long-term assets; property, plant, and equipment; and intangible assets.
    b. current assets; long-term investments; property, plant, and equipment; and common stocks.
    c. current assets; long-term investments; tangible assets; and intangible assets.
    d. current assets; long-term investments; property, plant, and equipment; and intangible assets.

Ans: D, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

57. On a classified balance sheet, marketable securities are classified as
    a. an intangible asset.
    b. property, plant, and equipment.
    c. a current asset.
    d. a long-term investment.

Ans: C, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

58. A current asset is
    a. the last asset purchased by a business.
    b. an asset which is currently being used to produce a product or service.
    c. usually found as a separate classification in the income statement.
    d. expected to be converted to cash or used in the business within a relatively short period of time.

Ans: D, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

59. Which of the following is not classified properly as a current asset?
    a. Supplies
    b. Marketable securities
    c. A fund to be used to purchase a building within the next year
    d. A receivable from the sale of an asset to be collected in two years

Ans: D, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

60. An intangible asset
    a. derives its value from the rights and privileges it provides the owner.
    b. is worthless because it has no physical substance.
    c. is converted into a tangible asset during the operating cycle.
    d. cannot be classified on the balance sheet because it lacks physical substance.

Ans: A, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

61. Which of the following is not considered an asset?
    a. Equipment
    b. Dividends
    c. Accounts receivable
    d. Inventory

Ans: B, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

62. Trademarks would appear in which balance sheet section?
    a. Intangible assets
    b. Investments
    c. Property, plant, and equipment
    d. Current assets

Ans: A, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

63. Liabilities are generally classified on a balance sheet as
    a. small liabilities and large liabilities.
    b. present liabilities and future liabilities.
    c. tangible liabilities and intangible liabilities.
    d. current liabilities and long-term liabilities.

Ans: D, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

64. Which of the following would not be classified as a long-term liability?
    a. Current maturities of long-term debt
    b. Bonds payable
    c. Mortgage payable
    d. Lease liabilities

Ans: A, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

65. Which of the following is not a current liability?
    a. Wages payable
    b. Accounts payable
    c. Taxes payable
    d. Bonds payable

Ans: D, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

66. Equipment is classified on the balance sheet as
    a. a current asset.
    b. property, plant, and equipment.
    c. an intangible asset.
    d. a long-term investment.

Ans: B, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

67. It is not true that current assets are resources that are expected to be
    a. realized in cash within one year.
    b. sold within one year.
    c. consumed within one year.
    d. acquired within one year.

Ans: D, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

68. The operating cycle of a company is the average time that is required to go from cash to
    a. sales in producing revenues.
    b. cash in producing revenues.
    c. inventory in producing revenues.
    d. accounts receivable in producing revenues.

Ans: B, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

69. On a classified balance sheet, companies usually list current assets
    a. in alphabetical order.
    b. with the largest dollar amounts first.
    c. in the order in which they are expected to be converted into cash.
    d. in the order of acquisition.

Ans: C, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

70. Intangible assets are
    a. listed directly under current assets on the balance sheet.
    b. not listed on the balance sheet because they do not have physical substance.
    c. listed after property, plant, and equipment.
    d. listed as a long-term investment on the balance sheet.

Ans: C, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

71. Which statement about long-term investments is not true?
    a. They will be held for more than one year.
    b. They are not currently used in the operation of the business.
    c. They include investments in stock of other companies and land held for future use.
    d. They can never include cash accounts.

Ans: D, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

72. These are selected account balances on December 31, 2012.

Land	$100,000
Land (held for future use)	150,000
Buildings	600,000
Inventory	200,000
Equipment	450,000
Furniture	100,000
Accumulated Depreciation	300,000

What is the total amount of property, plant, and equipment that will appear on the balance sheet?
    a. $1,300,000
    b. $1,100,000
    c. $1,600,000
    d. $950,000

Ans: D, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

73. What is the order in which assets are generally listed on a classified balance sheet?
    a. current and long-term
    b. current; property, plant and equipment; long-term investments; intangibles
    c. current; property, plant and equipment; intangibles; long-term investments
    d. current; long-term investments; property, plant and equipment, intangibles

Ans: D, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

74. Ratios that measure the income or operating success of a company for a given period of time are
    a. liquidity ratios.
    b. profitability ratios.
    c. solvency ratios.
    d. trending ratios.

Ans: B, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

75. Use the following data to determine the total dollar amount of assets to be classified as current assets.

Koonce Office Supplies
Balance Sheet
December 31, 2012

Cash		$ 130,000	Accounts Payable	$ 140,000
Prepaid Insurance		60,000	Salaries Payable	20,000
Accounts Receivable		100,000	Mortgage Payable	160,000
Inventory		140,000	Total Liabilities	$320,000
Land held for Investment		150,000		
Land		180,000		
Buildings	$200,000		Common Stock	$240,000
Less Accumulated			Retained Earnings	500,000
Depreciation	(40,000)	160,000	Total Stockholders' Equity	$740,000
Trademarks		140,000	Total Liabilities and	
Total Assets		$1,060,000	Stockholders' Equity	$1,060,000

a. $580,000.
b. $430,000.
c. $360,000.
d. $290,000.

Ans: B, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

76. Use the following data to determine the total dollar amount of assets to be classified as property, plant, and equipment.

Koonce Office Supplies
Balance Sheet
December 31, 2012

Cash		$ 130,000	Accounts Payable	$ 140,000
Prepaid Insurance		60,000	Salaries Payable	20,000
Accounts Receivable		100,000	Mortgage Payable	160,000
Inventory		140,000	Total Liabilities	$320,000
Land held for Investment		150,000		
Land		180,000		
Buildings	$200,000		Common Stock	$240,000
Less Accumulated			Retained Earnings	500,000
Depreciation	(40,000)	160,000	Total Stockholders' Equity	$740,000
Trademarks		140,000	Total Liabilities and	
Total Assets		$1,060,000	Stockholders' Equity	$1,060,000

a. $640,000.
b. $340,000.
c. $490,000.
d. $380,000.

Ans: B, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

77. Use the following data to determine the total dollar amount of assets to be classified as investments.

Koonce Office Supplies
Balance Sheet
December 31, 2012

Cash		$ 130,000	Accounts Payable	$ 140,000
Prepaid Insurance		60,000	Salaries Payable	20,000
Accounts Receivable		100,000	Mortgage Payable	160,000
Inventory		140,000	Total Liabilities	$320,000
Land held for Investment		150,000		
Land		180,000		
Buildings	$200,000		Common Stock	$240,000
Less Accumulated			Retained Earnings	500,000
Depreciation	(40,000)	160,000	Total Stockholders' Equity	$740,000
Trademarks		140,000	Total Liabilities and	
Total Assets		$1,060,000	Stockholders' Equity	$1,060,000

a. $0.
b. $300,000.
c. $150,000.
d. $360,000.

Ans: C, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

78. Use the following data to determine the total amount of working capital.

Koonce Office Supplies
Balance Sheet
December 31, 2012

Cash		$ 130,000	Accounts Payable	$ 140,000
Prepaid Insurance		60,000	Salaries Payable	20,000
Accounts Receivable		100,000	Mortgage Payable	160,000
Inventory		140,000	Total Liabilities	$320,000
Land held for Investment		150,000		
Land		180,000		
Buildings	$200,000		Common Stock	$240,000
Less Accumulated			Retained Earnings	500,000
Depreciation	(40,000)	160,000	Total Stockholders' Equity	$740,000
Trademarks		140,000	Total Liabilities and	
Total Assets		$1,060,000	Stockholders' Equity	$1,060,000

a. $270,000.
b. $590,000.
c. $150,000.
d. $120,000.

Ans: A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

79. Use the following data to calculate the current ratio.

Koonce Office Supplies
Balance Sheet
December 31, 2012

Cash		$ 130,000	Accounts Payable	$ 140,000
Prepaid Insurance		60,000	Salaries Payable	20,000
Accounts Receivable		100,000	Mortgage Payable	160,000
Inventory		140,000	Total Liabilities	$320,000
Land held for Investment		150,000		
Land		180,000		
Buildings	$200,000		Common Stock	$240,000
Less Accumulated			Retained Earnings	500,000
Depreciation	(40,000)	160,000	Total Stockholders' Equity	$740,000
Trademarks		140,000	Total Liabilities and	
Total Assets		$1,060,000	Stockholders' Equity	$1,060,000

a. 1.81 : 1.
b. 1.44 : 1.
c. 3.07 : 1.
d. 2.69 : 1.

Ans: D, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

80. Use the following data to determine the total dollar amount of assets to be classified as current assets.

Carne Auto Supplies
Balance Sheet
December 31, 2012

Cash		$ 60,000	Accounts Payable	$ 65,000
Prepaid Insurance		40,000	Salaries Payable	10,000
Accounts Receivable		50,000	Mortgage Payable	90,000
Inventory		70,000	Total Liabilities	$165,000
Land held for investment		80,000		
Land		95,000		
Buildings	$100,000		Common Stock	$120,000
Less Accumulated			Retained Earnings	250,000
Depreciation	(30,000)	70,000	Total stockholders' equity	$370,000
Trademarks		70,000	Total Liabilities and	
Total Assets		$535,000	Stockholders' Equity	$535,000

a. $220,000.
b. $150,000.
c. $300,000.
d. $180,000.

Ans: A, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

81. Use the following data to determine the total dollar amount of assets to be classified as property, plant, and equipment.

Carne Auto Supplies
Balance Sheet
December 31, 2012

Cash		$ 60,000	Accounts Payable	$ 65,000
Prepaid Insurance		40,000	Salaries Payable	10,000
Accounts Receivable		50,000	Mortgage Payable	90,000
Inventory		70,000	Total Liabilities	$165,000
Land held for investment		80,000		
Land		95,000		
Buildings	$100,000		Common Stock	$120,000
Less Accumulated			Retained Earnings	250,000
Depreciation	(30,000)	70,000	Total stockholders' equity	$370,000
Trademarks		70,000	Total Liabilities and	
Total Assets		$535,000	Stockholders' Equity	$535,000

a. $315,000.
b. $245,000.
c. $165,000.
d. $195,000.

Ans: C, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

82. Use the following data to determine the total dollar amount of assets to be classified as investments.

Carne Auto Supplies
Balance Sheet
December 31, 2012

Cash		$ 60,000	Accounts Payable	$ 65,000
Prepaid Insurance		40,000	Salaries Payable	10,000
Accounts Receivable		50,000	Mortgage Payable	90,000
Inventory		70,000	Total Liabilities	$165,000
Land held for investment		80,000		
Land		95,000		
Buildings	$100,000		Common Stock	$120,000
Less Accumulated			Retained Earnings	250,000
Depreciation	(30,000)	70,000	Total stockholders' equity	$370,000
Trademarks		70,000	Total Liabilities and	
Total Assets		$535,000	Stockholders' Equity	$535,000

a. $0.
b. $150,000.
c. $80,000.
d. $180,000.

Ans: C, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

83. Use the following data to determine the total amount of working capital.

Carne Auto Supplies
Balance Sheet
December 31, 2012

Cash		$ 60,000	Accounts Payable	$ 65,000
Prepaid Insurance		40,000	Salaries Payable	10,000
Accounts Receivable		50,000	Mortgage Payable	90,000
Inventory		70,000	Total Liabilities	$165,000
Land held for investment		80,000		
Land		95,000		
Buildings	$100,000		Common Stock	$120,000
Less Accumulated			Retained Earnings	250,000
Depreciation	(30,000)	70,000	Total stockholders' equity	$370,000
Trademarks		70,000	Total Liabilities and	
Total Assets		$535,000	Stockholders' Equity	$535,000

a. $155,000.
b. $145,000.
c. $60,000.
d. $150,000.

Ans: B, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

84. Use the following data to calculate the current ratio.

Carne Auto Supplies
Balance Sheet
December 31, 2012

Cash		$ 60,000	Accounts Payable	$ 65,000
Prepaid Insurance		40,000	Salaries Payable	10,000
Accounts Receivable		50,000	Mortgage Payable	90,000
Inventory		70,000	Total Liabilities	$165,000
Land held for investment		80,000		
Land		95,000		
Buildings	$100,000		Common Stock	$120,000
Less Accumulated			Retained Earnings	250,000
Depreciation	(30,000)	70,000	Total stockholders' equity	$370,000
Trademarks		70,000	Total Liabilities and	
Total Assets		$535,000	Stockholders' Equity	$535,000

a. 1.86 : 1.
b. 2.00 : 1.
c. 3.38 : 1.
d. 2.93 : 1.

Ans: D, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

85. N3 Corporation has assets of $3.6 million, common stock of $936,000, and retained earnings of $571,000. What are the creditors' claims on their assets?
a. $3,235,000
b. $1,507,000
c. $2,093,000
d. $3,965,000

Ans: C, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

86. K2 Corporation has assets of $1.80 million, common stock of $468,000, and retained earnings of $285,000. What are the creditors' claims on their assets?
a. $1,617,000
b. $ 753,000
c. $1,047,000
d. $1,983,000

Ans: C, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

87. Use the following data to determine the total dollar amount of assets to be classified as current assets.

Eddy Auto Supplies
Balance Sheet
December 31, 2012

Cash		$ 100,000	Accounts Payable	$ 110,000
Prepaid Insurance		60,000	Salaries Payable	20,000
Accounts Receivable		80,000	Mortgage Payable	180,000
Inventory		140,000	Total Liabilities	$310,000
Land held for investment		160,000		
Land		150,000		
Buildings	$220,000		Common Stock	$240,000
Less Accumulated			Retained Earnings	500,000
Depreciation	(40,000)	180,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total Liabilities and	
Total Assets		$1,050,000	Stockholders' Equity	$1,050,000

a. $540,000.
b. $240,000.
c. $380,000.
d. $260,000.

Ans: C, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

88. Use the following data to determine the total dollar amount of assets to be classified as property, plant, and equipment.

Eddy Auto Supplies
Balance Sheet
December 31, 2012

Cash		$ 100,000	Accounts Payable	$ 110,000
Prepaid Insurance		60,000	Salaries Payable	20,000
Accounts Receivable		80,000	Mortgage Payable	180,000
Inventory		140,000	Total Liabilities	$310,000
Land held for investment		160,000		
Land		150,000		
Buildings	$220,000		Common Stock	$240,000
Less Accumulated			Retained Earnings	500,000
Depreciation	(40,000)	180,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total Liabilities and	
Total Assets		$1,050,000	Stockholders' Equity	$1,050,000

a. $670,000.
b. $510,000.
c. $410,000.
d. $330,000.

Ans: D, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

89. Use the following data to determine the total dollar amount of assets to be classified as investments.

Eddy Auto Supplies
Balance Sheet
December 31, 2012

Cash		$ 100,000	Accounts Payable	$ 110,000
Prepaid Insurance		60,000	Salaries Payable	20,000
Accounts Receivable		80,000	Mortgage Payable	180,000
Inventory		140,000	Total Liabilities	$310,000
Land held for investment		160,000		
Land		150,000		
Buildings	$220,000		Common Stock	$240,000
Less Accumulated			Retained Earnings	500,000
Depreciation	(40,000)	180,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total Liabilities and	
Total Assets		$1,050,000	Stockholders' Equity	$1,050,000

a. $0.
b. $310,000.
c. $160,000.
d. $370,000.

Ans: C, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

90. Use the following data to determine the total amount of working capital.

Eddy Auto Supplies
Balance Sheet
December 31, 2012

Cash		$ 100,000	Accounts Payable	$ 110,000
Prepaid Insurance		60,000	Salaries Payable	20,000
Accounts Receivable		80,000	Mortgage Payable	180,000
Inventory		140,000	Total Liabilities	$310,000
Land held for investment		160,000		
Land		150,000		
Buildings	$220,000		Common Stock	$240,000
Less Accumulated			Retained Earnings	500,000
Depreciation	(40,000)	180,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total Liabilities and	
Total Assets		$1,050,000	Stockholders' Equity	$1,050,000

a. $410,000.
b. $250,000.
c. $100,000.
d. $160,000.

Ans: B, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

91. Use the following data to calculate the current ratio.

Eddy Auto Supplies
Balance Sheet
December 31, 2012

Cash		$ 50,000	Accounts Payable	$ 55,000
Prepaid Insurance		30,000	Salaries Payable	10,000
Accounts Receivable		40,000	Mortgage Payable	90,000
Inventory		70,000	Total Liabilities	$155,000
Land held for investment		80,000		
Land		75,000		
Buildings	$110,000		Common Stock	$120,000
Less Accumulated			Retained Earnings	250,000
Depreciation	(20,000)	90,000	Total stockholders' equity	$370,000
Trademarks		70,000	Total Liabilities and	
Total Assets		$525,000	Stockholders' Equity	$525,000

a. 1.85 : 1.
b. 2.92 : 1.
c. 3.45 : 1.
d. 1.38 : 1.

Ans: B, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

92. A measure of profitability is the
a. current ratio.
b. debt to total assets ratio.
c. earnings per share.
d. working capital.

Ans: C, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

93. For 2012 Kuhlman Corporation reported net income of $28,000; net sales $400,000; and average share outstanding 12,000. There were no preferred stock dividends. What was the 2012 earnings per share?
a. $2.33
b. $0.43
c. $33.33
d. $7.43

Ans: A, SO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

94. For 2012 Fielder Corporation reported net income of $30,000; net sales $400,000; and average share outstanding 12,000. There were no preferred stock dividends. What was the 2012 earnings per share?
a. $2.33
b. $0.40
c. $33.33
d. $2.50

Ans: D, SO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

95. Earnings per share are calculated by dividing
    a. gross profit by average common shares outstanding.
    b. (net income less preferred stock dividends) by average common shares outstanding.
    c. net income by average common shares outstanding.
    d. net sales by average common shares outstanding.

Ans: B, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

96. Earnings per share is a
    a. profitability ratio.
    b. liquidity ratio.
    c. solvency ratio.
    d. trending ratio.

Ans: A, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

97. Which of the following statements is true?
    a. Earnings per share is an internal measure and is not used by shareholders.
    b. The denominator used in computing earnings per share represents the shares of common stock outstanding on the last day of the accounting period.
    c. Net income is not adjusted when computing earnings per share.
    d. By comparing earnings per share of a single corporation over time, a shareholder can evaluate the corporation's relative earnings performance.

Ans: D, SO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

98. Earnings available to common stockholders is equal to:
    a. Total revenues
    b. Net income + Preferred stock dividends
    c. Preferred stock dividends – Net income
    d. Net income – Preferred stock dividends

Ans: D, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

99. The following information is available for Bradshaw Corporation and Newell Corporation:

	Bradshaw Corporation		Newell Corporation	
(in millions)	2012	2011	2012	2011
Preferred stock dividends	25	10	0	30
Net income	500	480	490	520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on this information, the earnings per share calculations (rounded to two decimals) suggest:
    a. Lower performance in 2011 than in 2012 for Bradshaw Corporation.
    b. Higher performance in 2012 than in 2011 for Bradshaw Corporation.
    c. Fewer earnings available to Bradshaw's common stockholders in 2012 than in 2011.
    d. An increase in the average number of common shares outstanding between 2011 and 2012 for Bradshaw Corporation.

Ans: D, SO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC:

Problem Solving, IMA: Reporting

100. The following information is available for Bradshaw Corporation and Newell Corporation:

	Bradshaw Corporation		Newell Corporation	
(in millions)	2012	2011	2012	2011
Preferred stock dividends	25	10	0	30
Net income	500	480	490	520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on this information, which of the following is suggested by the earnings per share calculations (rounded to two decimals) and the information given?

a. There is lower performance in 2011 than in 2012 for Newell Corporation.
b. There is higher performance in 2011 than in 2012 for Newell Corporation.
c. There are fewer earnings available to Newell's common stockholders in 2012 than in 2011.
d. There is a decrease in preferred shares of stock in 2012 as compared with 2011.

Ans: A, SO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

101. The following information is available for Bradshaw Corporation and Newell Corporation:

	Bradshaw Corporation		Newell Corporation	
(in millions)	2012	2011	2012	2011
Preferred stock dividends	25	10	0	30
Net income	500	480	490	520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on this information, what is the amount of Bradshaw's earnings per share (rounded to two decimals) for 2012?

a. $2.76
b. $2.50
c. $1.25
d. $1.32

Ans: B, SO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

102. The following information is available for Bradshaw Corporation and Newell Corporation:

(in millions)	Bradshaw Corporation		Newell Corporation	
	2012	2011	2012	2011
Preferred stock dividends	25	10	0	30
Net income	500	480	490	520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on the information for both Bradshaw and Newell over the two-year period, the earnings per share calculations (rounded to two decimals) indicate that:

a. Bradshaw is seeing a greater performance improvement than Newell.
b. The earnings available to common stockholders is decreasing for Newell and increasing for Bradshaw.
c. The earnings per share calculations for both companies assume that changes in shares between 2011 and 2012 occur in the middle of the year.
d. Newell is more financially stable than Bradshaw.

Ans: C, SO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

103 Dawson Corporation has the following information available for 2011:

	(in millions)
Issued common stock	$45
Retired common stock	$65
Paid dividends	$75
Net income	$130
Beginning Common Stock balance	$575
Beginning Retained Earnings balance	$425

Based in this information, what is Dawson's Common Stock balance at the end of the year?

a. $555
b. $685
c. $195
d. $630

Ans: A, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

104. Dawson Corporation has the following information available for 2011:

	(in millions)
Issued common stock	$45
Retired common stock	$65
Paid dividends	$75
Net income	$130
Beginning Common Stock balance	$575
Beginning Retained Earnings balance	$425

Based on this information, what is Dawson's Retained Earnings balance at the end of the year?
a. $630
b. $480
c. $370
d. $555

Ans: B, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

105. Which of the following is the least likely consideration that management uses when deciding whether to pay a dividend?
a. Does the company have more cash than it has opportunities?
b. Is the company's average number of common shares outstanding decreasing?
c. Does the company have uses for cash that will increase its value?
d. What are the company's cash needs?

Ans: B, SO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Decision Modeling, AICPA PC: Project Management, IMA: Business Economics

106. Most companies use a(n) _________ rather than a retained earnings statement.
a. balance sheet
b. income statement
c. statement of cash flows
d. statement of stockholders' equity

Ans: D, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

107. Dividends appear on
a. the retained earnings statement only.
b. the income statement only.
c. both the retained earnings statement and the balance sheet.
d. the balance sheet only.

Ans: A, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

108. Issuing new shares of common stock will
a. increase retained earnings.
b. decrease retained earnings.
c. increase common stock.
d. decrease common stock.

Ans: C, SO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

109. Declaring a cash dividend will
   a. increase retained earnings.
   b. decrease retained earnings.
   c. increase common stock.
   d. decrease common stock.

Ans: B, SO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

110. Reporting a net income of $95,000 will
   a. increase retained earnings.
   b. decrease retained earnings.
   c. increase common stock.
   d. decrease common stock.

Ans: A, SO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

111. McKinney Corporation had beginning retained earnings of $2,292,000 and ending retained earnings of $2,499,000. During the year they issued common stock totaling $141,000. What was their net income for the year?
   a. $207,000
   b. $ 66,000
   c. $348,000
   d. $273,000

Ans: A, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

112. Wilton Corporation had beginning retained earnings of $764,000 and ending retained earnings of $833,000. During the year they issued common stock totaling $47,000. What was their net income for the year?
   a. $69,000
   b. $22,000
   c. $116,000
   d. $91,000

Ans: A, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

113. At December 31, 2012 Lowery Company had retained earnings of $2,184,000. During 2012 they issued stock for $98,000, and paid dividends of $34,000. Net income for 2012 was $402,000. The retained earnings balance at the beginning of 2012 was:
   a. $2,552,000
   b. $1,816,000
   c. $1,914,000
   d. $2,454,000

Ans: B, SO: 3, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

114. At December 31, 2012 Keen Company had retained earnings of $1,092,000. During 2012 they issued stock for $49,000, and paid dividends of $17,000. Net income for 2012 was $201,000. The retained earnings balance at the beginning of 2012 was:
  a. $1,276,000
  b. $908,000
  c. $957,000
  d. $1,227,000

Ans: B, SO: 3, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

115. The relationship between current assets and current liabilities is important in evaluating a company's
  a. profitability.
  b. liquidity.
  c. market value.
  d. solvency.

Ans: B, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

116. Which of the following is a measure of liquidity?
  a. Working capital
  b. Profit margin
  c. Earnings per share
  d. Debt to equity ratio

Ans: A, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

117. Current assets divided by current liabilities is known as the
  a. working capital.
  b. current ratio.
  c. profit margin.
  d. capital structure.

Ans: B, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

118. The most important information needed to determine if companies can pay their current obligations is the
  a. net income for this year.
  b. projected net income for next year.
  c. relationship between current assets and current liabilities.
  d. relationship between short-term and long-term liabilities.

Ans: C, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

119. A short-term creditor is primarily interested in the __________ of the borrower.
  a. liquidity
  b. profitability
  c. consistency
  d. solvency

Ans: A, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

120. The current ratio is
   a. current assets plus current liabilities.
   b. current assets minus current liabilities.
   c. current assets divided by current liabilities.
   d. current assets times current liabilities.

Ans: C, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

121. Working capital is calculated by taking
   a. current assets plus current liabilities.
   b. current assets minus current liabilities.
   c. current assets divided by current liabilities.
   d. current assets times current liabilities.

Ans: B, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

122. Working capital is a measure of
   a. consistency.
   b. liquidity.
   c. profitability.
   d. solvency.

Ans: B, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

123. Long-term creditors are usually most interested in evaluating
   a. liquidity and profitability.
   b. consistency and profitability.
   c. liquidity and solvency.
   d. consistency and solvency.

Ans: C, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

124. A liquidity ratio measures the
   a. income or operating success of a company over a period of time.
   b. ability of a company to survive over a long period of time.
   c. short-term ability of a company to pay its maturing obligations and to meet unexpected needs for cash.
   d. percentage of total financing provided by creditors.

Ans: C, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

125. Working capital is
   a. calculated by dividing current assets by current liabilities.
   b. used to evaluate a company’s liquidity and short-term debt paying ability.
   c. used to evaluate a company’s solvency and long-term debt paying ability.
   d. calculated by subtracting current assets from current liabilities.

Ans: B, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

126. The ability of a business to pay obligations that are expected to become due within the next year or operating cycle is
   a. leverage.
   b. liquidity.
   c. profitability.
   d. wealth.

Ans: B, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

127. Based on the following data, what is the amount of current assets?

Accounts payable…………………………………………………………..	$62,000
Accounts receivable……………………………………………………..	100,000
Cash……………………………………………………………………….	30,000
Intangible assets…………………………………………………………	100,000
Inventory………………………………………………………………….	138,000
Long-term investments………………………………………………….	160,000
Long-term liabilities………………………………………………………	200,000
Short-term investments………………………………………………….	80,000
Notes payable…………………………………………………………….	56,000
Plant assets………………………………………………………………	1,340,000
Prepaid expenses………………………………………………………..	2,000

   a. $192,000
   b. $350,000
   c. $212,000
   d. $210,000

Ans: B, SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

128. Based on the following data, what is the amount of working capital?

Accounts payable…………………………………………………………..	$64,000
Accounts receivable……………………………………………………..	114,000
Cash……………………………………………………………………….	40,000
Intangible assets…………………………………………………………	100,000
Inventory………………………………………………………………….	138,000
Long-term investments………………………………………………….	160,000
Long-term liabilities…………………………… ……………………	200,000
Short-term investments………………………………………………….	80,000
Notes payable (short-term)………………………………………………	56,000
Plant assets………………………………………………………………	1,340,000
Prepaid expenses………………………………………………………..	2,000

   a. $254,000
   b. $302,000
   c. $340,000
   d. $296,000

Ans: A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

129. Using the following balance sheet and income statement data, what is the total amount of working capital?

Current assets	$ 14,000	Net income	$ 24,000
Current liabilities	8,000	Stockholders' equity	42,000
Average assets	80,000	Total liabilities	18,000
Total assets	60,000		

Average common shares outstanding was 10,000

a. $ 2,000
b. $14,000
c. $ 4,000
d. $ 6,000

Ans: D, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

130. Using the following balance sheet and income statement data, what is the current ratio?

Current assets	$ 14,000	Net income	$ 24,000
Current liabilities	8,000	Stockholders' equity	42,000
Average assets	80,000	Total liabilities	18,000
Total assets	60,000		

Average common shares outstanding was 10,000

a. 1.75 : 1
b. 1.6 : 1
c. 0.57 : 1
d. 3.3 : 1

Ans: A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

131. Using the following balance sheet and income statement data, what is the earnings per share?

Current assets	$ 14,000	Net income	$ 24,000
Current liabilities	8,000	Stockholders' equity	42,000
Average assets	80,000	Total liabilities	18,000
Total assets	60,000		

Average common shares outstanding was 10,000

a. $4.20
b. $6.00
c. $2.40
d. $0.42

Ans: C, SO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

132. Using the following balance sheet and income statement data, what is the debt to total assets?

Current assets	$ 14,000	Net income	$ 24,000
Current liabilities	8,000	Stockholders' equity	42,000
Average assets	80,000	Total liabilities	18,000
Total assets	60,000		

Average common shares outstanding was 10,000

a. 23 percent
b. 13 percent
c. 70 percent
d. 30 percent

Ans: D, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

133. Using the following balance sheet and income statement data, what is the total amount of working capital?

Current assets	$ 9,000	Net income	$ 12,000
Current liabilities	4,000	Stockholders' equity	24,000
Average assets	44,000	Total liabilities	6,000
Total assets	30,000		

Average common shares outstanding was 10,000

a. $9,000
b. $7,000
c. $5,000
d. $2,000

Ans: C, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

134. Using the following balance sheet and income statement data, what is the current ratio?

Current assets	$ 9,000	Net income	$ 12,000
Current liabilities	4,000	Stockholders' equity	24,000
Average assets	44,000	Total liabilities	6,000
Total assets	30,000		

Average common shares outstanding was 10,000

a. 1.75 : 1
b. 2.00 : 1
c. 0.44 : 1
d. 2.25: 1

Ans: D, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

135. Using the following balance sheet and income statement data, what is the earnings per share?

Current assets	$ 9,000	Net income	$ 12,000
Current liabilities	4,000	Stockholders' equity	24,000
Average assets	44,000	Total liabilities	6,000
Total assets	30,000		

Average common shares outstanding was 10,000

a. $1.20
b. $2.00
c. $0.83
d. $0.44

Ans: A, SO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

136. Using the following balance sheet and income statement data, what is the debt to total assets?

Current assets	$ 9,000	Net income	$ 12,000
Current liabilities	4,000	Stockholders' equity	24,000
Average assets	44,000	Total liabilities	6,000
Total assets	30,000		

Average common shares outstanding was 10,000

a. 13.6 percent
b. 20 percent
c. 75 percent
d. 27.3 percent

Ans: B, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

137. The debt to total assets ratio is computed by dividing
a. long-term liabilities by total assets.
b. long-term liabilities by average assets.
c. total liabilities by total assets.
d. total liabilities by average assets.

Ans: C, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

138. A useful measure of solvency is the
a. current ratio.
b. earnings per share.
c. return on assets ratio.
d. debt to total assets ratio.

Ans: D, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

139. Which of the following is not considered a measure of liquidity?
a. Current ratio
b. Working capital
c. Debt to total assets ratio
d. Each of the above are liquidity measures

Ans: C, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

140. Which measure would a long-term creditor be least interested in reviewing?
   a. free cash flow
   b. debt to total assets ratio
   c. current ratio
   d. solvency measure

Ans: C, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

141. Bathlinks Corporation has a debt to total assets ratio of 73%. This tells the user of Bathlinks's financial statements
   a. Bathlinks is getting a 27% return on its assets.
   b. There is a risk that Bathlinks cannot pay its debts as they come due.
   c. 73% of the assets are financed by the stockholders.
   d. Based on this measure, the user should not invest in Bathlinks.

Ans: B, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

142. Ace Company is a retail store. Due to competition, it is having trouble selling its products. Thus, inventory has been building up. Ace's current ratio has not changed for the past three years, in spite of the inventory build up. Which of the following statements is true?
   a. As long as the current ratio remains constant, there is no need for concern.
   b. The composition of current assets and current liabilities does not matter.
   c. The management of Ace should consider the affect of slow moving inventory on its liquidity.
   d. Since inventory is a current asset, any increases should automatically cause the current ratio to rise.

Ans: C, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

143. How can a company improve its current ratio?
   a. Work with a creditor to reclassify some current debt into long-term debt
   b. Use cash to reduce current liabilities
   c. Nothing can ethically be done to improve the current ratio
   d. Use excess cash to buy new equipment

Ans: A, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

144. Kingery Corporation has current assets of $1,500,000 and current liabilities of $750,000. If they pay $250,000 of their accounts payable what will their new current ratio be?
   a. 2.5:1
   b. 2.0:1
   c. 3.0:1
   d. 1.7:1

Ans: A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

145. Kingery Corporation has current assets of $1,500,000 and current liabilities of $750,000. If they issue $100,000 of new stock what will their new current ratio be? (rounded)
   a. 2.1:1
   b. 1.8:1
   c. 1.9:1
   d. 2.0:1

Ans: A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

146. Mitchell Corporation has current assets of $1,200,000 million and current liabilities of $750,000. If they pay $250,000 of their accounts payable what will their new current ratio be?
   a. 1.9:1
   b. 2.4:1
   c. 1.27:1
   d. 1.33:1

Ans: A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

147. Mitchell Corporation has current assets of $1,200,000 and current liabilities of $750,000. If they issue $100,000 of new stock what will their new current ratio be? (rounded)
   a. 1.73:1
   b. 1.53:1
   c. 1.41:1
   d. 1.60:1

Ans: A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

148. The statement of cash flows begins with cash flows from
   a. financing activities.
   b. investing activities.
   c. operating activities.
   d. solvent activities.

Ans: C, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

149. Free cash flow provides an indication of a company’s ability to
   a. generate cash to invest in new capital expenditures.
   b. generate net income.
   c. generate cash to pay dividends.
   d. both a and c.

Ans: D, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

150. Free cash flow represents
   a. cash provided by operations less adjustments for capital expenditures and dividends
   b. a measurement of a company’s cash generating ability
   c. a measure of solvency
   d. all of the above

Ans: D, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

151. Which financial statement is used to determine cash generated from operations?
   a. income statement
   b. statement of operations
   c. statement of cash flows
   d. retained earnings statement

Ans: C, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

152. In 2012 Grider Corporation had cash receipts of $42,000 and cash disbursements of $24,000. Grider's ending cash balance at December 31, 2012 was $66,000. What was Grider's beginning cash balance?
   a. $48,000
   b. $60,000
   c. $90,000
   d. $84,000

Ans: A, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

153. In 2012 Grider Corporation had cash receipts of $28,000 and cash disbursements of $16,000. Grider's ending cash balance at December 31, 2012 was $44,000. What was Grider's beginning cash balance?
   a. $32,000
   b. $40,000
   c. $60,000
   d. $56,000

Ans: A, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

154. Suppose that Morgan Corporation produced and sold 4,800 laptop computers during 2012. It reported $250,000 cash provided by operating activities. In order to maintain production at 4,800 laptops, Morgan invested in $8,600 in equipment. Morgan paid $1,400 in dividends. What is Morgan's free cash flow?
   a. $240,000
   b. $260,000
   c. $257,000
   d. $250,000

Ans: A, SO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

155. The following information is available for Cooke Corporation:

	(in million)
Cash receipts from operating activities	$920
Cash payments from operating activities	$240
Net cash used by investing	$210
Net cash provided by financing	$750
Net increase in cash and equivalents	?
Cash and equivalents at start of year	$550
Cash and equivalents at year-end	?

What is the net increase in cash and equivalents?
   a. $1,640
   b. $1,220
   c. $670
   d. $2,190

Ans: B, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

156. The following information is available for Cooke Corporation:

	(in million)
Cash receipts from operating activities	$920
Cash payments from operating activities	$240
Net cash used by investing	$210
Net cash provided by financing	$750
Net increase in cash and equivalents	?
Cash and equivalents at start of year	$550
Cash and equivalents at year-end	?

What is the cash and equivalents amount at year-end?
a. $1,230
b. $670
c. $1,770
d. $2,670

Ans: C, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

157. If Morris Corporation has a negative $131 million free cash flow, which of the following statements is most likely true?
a. Morris' capital expenditures plus its cash dividends are less than its cash provided by operations.
b. This free cash flow indicates that Morris is in good shape to repay its long-term obligations when they come due.
c. This free cash flow indicates that Morris presents good cash generating ability to retire stock.
d. Morris' cash provided by operations is less than its cash dividends plus capital expenditures.

Ans: D, SO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Business Economics

158. Which of the following organizations issues accounting standards for countries outside the United States?
a. SEC
b. GAAP
c. IASB
d. FASB

Ans: C, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

159. Generally accepted accounting principles
a. are accounting rules formulated by the Internal Revenue Service.
b. are sound in theory but rarely used in real life.
c. are accounting rules that are recognized as a general guide for financial reporting.
d. have eliminated all errors in accounting.

Ans: C, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

160. The agency of the United States Government that oversees the U.S. financial markets is the
    a. Internal Revenue Service
    b. Security Exchange Commission
    c. Financial Accounting Standards Board.
    d. International Auditing Standards Committee.

Ans: B, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

161. What organization issues U.S. accounting standards?
    a. Security Exchange Commission.
    b. International Accounting Standards Committee.
    c. International Auditing Standards Committee.
    d. Financial Accounting Standards Board.

Ans: D, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

162. Which one of the following is not a qualitative characteristic of useful accounting information?
    a. Relevance
    b. Faithful representation
    c. Materiality
    d. Comparability

Ans: C, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

163. All of the following are characteristics of accounting information except
    a. Faithful representation.
    b. Comparability.
    c. Relevance.
    d. Flexibility.

Ans: D, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

164. Two of the major characteristics that make accounting information useful are
    a. Relevance and Faithful representation.
    b. Verifiability and timeliness.
    c. Comparability and flexibility.
    d. Understandability and consistency.

Ans: A, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

165. The convention of consistency refers to consistent use of accounting principles
    a. among firms.
    b. among accounting periods.
    c. throughout the accounting periods.
    d. within industries.

Ans: B, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

166. The characteristic of consistency relates most closely to
   a. relevance.
   b. materiality.
   c. comparability.
   d. faithful representation.

Ans: C, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

167. Information that is presented in a clear fashion, so that reasonably informed users of that information can interpret it is an example of
   a. relevance.
   b. faithful representation.
   c. understandability.
   d. comparability.

Ans: C, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

168. In order for accounting information to be relevant, it must
   a. have very little cost.
   b. help predict future events or confirm prior expectations.
   c. not be reported to the public.
   d. be used by a lot of different firms.

Ans: B, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

169. Accounting information should be verifiable in order to enhance
   a. comparability.
   b. faithful representation.
   c. consistency.
   d. relevance.

Ans: B, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

170. Accounting information is relevant to business decisions because it
   a. has been verified by external audit.
   b. is prepared on an annual basis.
   c. confirms prior expectations.
   d. is neutral in its representations.

Ans: C, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

171. If accounting information has relevance, it is useful in making predictions about
   a. future IRS audits.
   b. new accounting principles.
   c. foreign currency exchange rates.
   d. the future events of a company.

Ans: D, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

172. Relevant accounting information
    a. is information that has been audited.
    b. must be reported within the operating cycle or one year, whichever is longer.
    c. has been objectively determined.
    d. is information that is capable of making a difference in a business decision.

Ans: D, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

173. Which of the following is not a qualitative characteristic associated with faithful representation?
    a. Verifiable
    b. materiality
    c. Neutral
    d. All of the above are a qualitative characteristic

Ans: B, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

174. Accounting information should be neutral in order to enhance
    a. faithful representation.
    b. consistency.
    c. comparability.
    d. relevance.

Ans: A, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

175. Qualitative characteristics associated with relevant accounting information are
    a. consistency, faithful representation, and timely.
    b. predict future events, confirm prior expectations, and timely.
    c. neutral, predict future events, and verifiable.
    d. consistency and materiality.

Ans: B, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

176. Qualitative characteristics associated with faithfully representative accounting information are
    a. verifiable and timely.
    b. materiality and neutral.
    c. neutral and verifiable.
    d. relevance and verifiable.

Ans: C, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

177. Which of the following statements is not true?
    a. Comparability means using the same accounting principles from year to year within a company.
    b. Faithful representation is the quality of information that gives assurance that it is free of error or bias.
    c. Relevant accounting information must be capable of making a difference in the decision.
    d. The FASB's overriding criterion is that the accounting rule adopted should be the one that generates the most useful financial information for making a decision.

Ans: A, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

178. A company can change to a new method of accounting if management can justify that the new method results in
   a. more meaningful financial information.
   b. a higher net income.
   c. a lower net income for tax purposes.
   d. less likelihood of clerical errors.

Ans: A, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

179. An item is considered material if
   a. it doesn't costs a lot of money.
   b. it is of a tangible good.
   c. it is likely to influence the decision of an investor or creditor.
   d. the cost of reporting the item is greater than its benefits.

Ans: C, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

180. The practice of large corporations reporting all financial statement amounts to the nearest thousand dollars is an example of the application of
   a. consistency.
   b. periodicity.
   c. full disclosure.
   d. materiality.

Ans: D, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

181. A company using the same accounting principles from year to year is an application of
   a. timeliness.
   b. consistency.
   c. full disclosure.
   d. materiality.

Ans: B, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

182. Expensing the purchase of a waste paper basket with an estimated useful life of 10 years is an application of
   a. materiality.
   b. consistency.
   c. going concern.
   d. economic entity.

Ans: A, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

183. Different companies using the same accounting principles is an application of
   a. consistency.
   b. materiality.
   c. full disclosure.
   d. comparability.

Ans: D, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

184. A practical decision to expense small capital expenditures rather than record them as property, plant, and equipment and depreciate them probably is made on the basis of the characteristic of
   a. consistency.
   b. materiality.
   c. full disclosure.
   d. relevance.

Ans: B, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

185. Which of the following is a constraint in accounting?
   a. Comparability
   b. Materiality
   c. Consistency
   d. Relevance

Ans: B, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

186. To determine the materiality of an account, an accountant would compare it with any of the following except
   a. total assets.
   b. total liabilities.
   c. total employees.
   d. net income.

Ans: C, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

187. A common application of the conservatism constraint is the use of the

   1. straight-line depreciation method for plant assets.
   2. lower of cost or market method for inventories.
   3. FIFO method for inventory valuation.

   a. 1
   b. 2
   c. 3
   d. 1 and 2

Ans: B, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

188. The periodicity assumption states that the economic life of a business can be divided into
   a. equal time periods.
   b. cyclical time periods.
   c. artificial time periods.
   d. perpetual time periods.

Ans: C, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

189. The going concern assumption underlies the
   a. cost principle.
   b. monetary unit assumption.
   c. periodicity assumption.
   d. full disclosure principle.

Ans: A, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

190. The going concern assumption is inappropriate when
   a. the business is just starting up.
   b. liquidation appears likely.
   c. market values are higher than costs.
   d. the business is organized as a proprietorship.

Ans: B, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Risk Management, AICPA PC: None, IMA: Business Economics

191. Which accounting assumption assumes that an enterprise will continue in operation long enough to carry out its existing objectives and commitments?
   a. Monetary unit assumption
   b. Economic entity assumption
   c. Periodicity assumption
   d. Going concern assumption

Ans: D, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

192. It is assumed that the activities of Ford Motor Corporation can be distinguished from those of General Motors because of the
   a. going concern assumption.
   b. economic entity assumption.
   c. monetary unit assumption.
   d. periodicity assumption.

Ans: B, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

193. The going concern assumption assumes that the business
   a. will be liquidated in the near future.
   b. will be purchased by another business.
   c. is in a growth industry.
   d. will remain in operation for the foreseeable future.

Ans: D, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

194. The economic entity assumption states that economic events
   a. of different entities can be combined if all the entities are corporations.
   b. must be reported to the Securities and Exchange Commission.
   c. of a sole proprietorship cannot be distinguished from the personal economic events of its owners.
   d. of every entity can be separately identified and accounted for.

Ans: D, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

195. The concept that a business has a reasonable expectation of remaining in business for the foreseeable future is called the
   a. economic entity assumption.
   b. monetary unit assumption.
   c. periodicity assumption.
   d. going concern assumption.

Ans: D, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

196. Which of the following is not an accounting assumption?
   a. Integrity
   b. Going concern
   c. Periodicity
   d. Economic entity

Ans: A, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

197. The periodicity assumption states
   a. the business will remain in operation for the foreseeable future.
   b. the life of a business can be divided into artificial time periods and that useful reports covering those periods can be prepared.
   c. every economic entity can be separately identified and accounted for.
   d. only those things that can be expressed in money are included in the accounting records.

Ans: B, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

198. The TNT Company has five plants nationwide that cost $300 million. The current market value of the plants is $500 million. The plants will be reported as assets at
   a. $200 million.
   b. $800 million.
   c. $300 million.
   d. $500 million.

Ans: C, SO: 7, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

199. The Mac Company has four plants nationwide that cost $400 million. The current market value of the plants is $300 million. The plants will be reported as assets at
   a. $400 million.
   b. $800 million.
   c. $300 million.
   d. $500 million.

Ans: A, SO: 7, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

200. The cost principle requires that when assets are acquired, they be recorded at
   a. market value.
   b. the amount paid for them.
   c. selling price.
   d. list price.

Ans: B, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

201. Valuing assets at their fair value rather than at their cost is inconsistent with the:
   a. economic entity assumption.
   b. cost principle.
   c. periodicity assumption.
   d. full disclosure principle.

Ans: B, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

202. Jackson Cement Corporation reported $35 million for sales when it only had $20 million of actual sales. Which of the following characteristics of useful information has Jackson most likely violated?
    a. comparability
    b. relevance
    c. faithful representation
    d. consistency

Ans: C, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

203. Connor Corporation hired a new accountant. Over than next four years, the accountant used four different accounting methods to depreciation for Connor's equipment. Which of the following characteristics of useful information has Connor most likely violated?
    a. comparability
    b. relevance
    c. faithful representation
    d. consistency

Ans: D, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

204. Garrison Company prepares quarterly reports, which it distributes to all stockholders and other entities that rely on its accounting information. Which of the following is the best term for the key assumption in financial reporting that Garrison is following?
    a. monetary unit assumption
    b. going concern assumption
    c. economic entity assumption
    d. periodicity assumption.

Ans: D, SO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Multiple Choice Questions

56.	d	78.	a	100.	a	122.	b	144.	a	166.	c	188.	c
57.	c	79.	d	101.	b	123.	c	145.	a	167.	c	189.	a
58.	d	80.	a	102.	c	124.	c	146.	a	168.	b	190.	b
59.	d	81.	c	103.	a	125.	b	147.	a	169.	b	191.	d
60.	a	82.	c	104.	b	126.	b	148.	c	170.	c	192.	b
61.	b	83.	b	105.	b	127.	b	149.	d	171.	d	193.	d
62.	a	84.	d	106.	d	128.	a	150.	d	172.	d	194.	d
63.	d	85.	c	107.	a	129.	d	151.	c	173.	b	195.	d
64.	a	86.	c	108.	c	130.	a	152.	a	174.	a	196.	a
65.	d	87.	c	109.	b	131.	c	153.	a	175.	b	197.	b
66.	b	88.	d	110.	a	132.	d	154.	a	176.	c	198.	c
67.	d	89.	c	111.	a	133.	c	155.	b	177.	a	199.	a
68.	b	90.	b	112.	a	134.	d	156.	c	178.	a	200.	b
69.	c	91.	b	113.	b	135.	a	157.	d	179.	c	201.	b
70.	c	92.	c	114.	b	136.	b	158.	c	180.	d	202.	c
71	d	93.	a	115.	b	137.	c	159.	c	181.	b	203.	d
72.	d	94.	d	116.	a	138.	d	160.	b	182.	a	204.	d
73.	d	95.	b	117.	b	139.	c	161.	d	183.	d		
74.	b	96.	a	118.	c	140.	c	162.	c	184.	b		
75.	b	97.	d	119.	a	141.	b	163.	d	185.	b		
76.	b	98.	d	120.	c	142.	c	164.	a	186.	c		
77.	c	99.	d	121.	b	143.	a	165.	b	187.	b		

BRIEF EXERCISES

BE. 205

A list of financial statement items for Maloney Company includes the following:

Accounts receivable	$14,500	Prepaid insurance	$5,400
Cash	$22,400	Supplies	$1,800
Short-term investments	$ 6,200		

Prepare the current assets section of the balance sheet listing the items in the proper sequence.

Ans: N/A, SO: 1, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 205 (5 min.)

MALONEY COMPANY
Balance Sheet (PARTIAL)

Assets

Current Assets		
Cash.	$ 22,400	
Short-term investments	6,200	
Accounts receivables	14,500	
Supplies	1,800	
Prepaid insurance	5,400	
Total Current Assets		$50,300

BE. 206

The following information (in millions of dollars) is available for Kline Sportswear for 2012:

Sales revenue	$6,300	Net income	$504.6
Stock price per share	$18.45	Preferred stock dividend	$0
Average shares outstanding	336.4 million		

Compute the earnings per share for Kline Sportswear.

Ans: N/A, SO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 206 **(5 min.)**

$$\text{Earnings per share} = \frac{\$504.6 - 0}{336.4} = \$1.50$$

BE. 207

For each of the following events affecting the stockholders' equity of Carney, indicate whether the event would: increase retained earnings (IRE), decrease retained earnings (DRE), increase common stock (ICS), or decrease common stock (DCS).

_____1. Declared a cash dividend.
_____2. Issued new shares of common stock.
_____3. Reported net loss of $40,000
_____4. Reported net income of $20,000.

Ans: N/A, SO: 3, Bloom: C, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 207 (5 min.)

1. DRE 2. ICS 3. DRE 4. IRE

BE. 208

These selected condensed data are taken from a recent balance sheet of Sanson Company (in millions of dollars).

Cash	$ 2.2
Accounts receivable	10.4
Inventories	18.0
Other current assets	11.1
Total current assets	$ 45.7
Total current liabilities	$ 24.8

Additional information: Current liabilities at the beginning of the year were $35.6 million.

What are (a) the working capital, and (b) the current ratio?

Ans: N/A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 208 (5 min.)

a. $20.9 ($45.7 – $24.8)
b. 1.84: 1 ($45.7/$24.8)

BE. 209

Insert the qualitative characteristics listed below that are associated with relevance and faithful representation.

Confirm Prior Expectations	Timely
Verifiable	
Neutral	Predict Future Events

RELEVANCE	FAITHFUL REPRESENTATION
1. ____________________	1. ____________________
2. ____________________	2. ____________________
3. ____________________	3. ____________________

Ans: N/A, SO: 7, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 209 (5 min.)

RELEVANCE	FAITHFUL REPRESENTATION
1. Confirm Prior Expectations	1. Verifiable
2. Predict Future Events	2. Faithful Representation
3. Timely	3. Neutral

BE. 210

The following terms relate to the characteristics of useful information. Match the key letter of the correct term with the descriptive statement below.

a.	Provide feedback	e.	Faithful representation
b.	Neutral	f.	Timely
c.	Predict	g.	Verifiability
d.	Relevant		

____ 1. Accounting information cannot be selected, prepared, or presented to favor one set of interested users over another.

_____ 2. Providing information before the decision is made.

_____ 3. Providing information that can be confirmed or duplicated by independent parties.

_____ 4. Providing information that would make a difference in a business decision.

_____ 5. Provide information that is complete and neutral.

_____ 6. Helping evaluate prior decisions.

Ans: N/A, SO: 7, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 210 (5 min.)

1. b	3. g	5. e
2. f	4. d	6. a

BE. 211

For each of the independent situations described below, list the qualitative characteristic or constraint that has been violated, if any. List only one term for each case.

1. Carrier Company is in its third year of operation and has yet to issue financial statements.
2. Larsen Corporation has selected the FIFO inventory costing method during the current year. Last year it used the LIFO method and next year it plans to change to the average cost method.
3. Reiser Company expenses some office equipment that is inexpensive even though it has a useful life that exceeds 1 year.

Ans: N/A, SO: 7, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 211 (5 min.)

1. Relevance (timely)
2. Consistency (qualitative characteristic)
3. No violation (materiality)

BE. 212

Each of the following statements is justified by a concept or convention of accounting. Write the letter in the blank next to each statement corresponding to the concept involved.

a. Consistency
b. Materiality
c. Full disclosure
d. Periodicity

______ 1. The life of a business is divided into artificial time periods.

______ 2. This characteristic best enhances comparability of financial statements between years.

______ 3. A merger agreed on just after the balance sheet date nevertheless is reported in the notes to the financial statement.

______ 4. A large company rounds its financial statement figures to the nearest thousand.

Ans: N/A, SO: 7, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 212 (5 min.)

1. d   2. a   3. c   4. b

BE. 213

Each of the following statements is justified by a characteristic or constraint of accounting. Write the letter in the blank next to each statement corresponding to the characteristic or constraint involved.

a.	Comparability	d.	Consistency
b.	Materiality	e.	Relevance
c.	Verifiable	f.	Faithful representation

_____ 1. A company uses the same accounting principles from year to year.

_____ 2. Information that is free from error.

_____ 3. A company decides to expense capital items that cost less than $500 each.

_____ 4. All factors that could affect a decision will be considered.

_____ 5. Outside documents will be used to verify transactions whenever possible.

Ans: N/A, SO: 7, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 213 (5 min.)

1. d   2. c   3. b   4. e.   5. f

Be. 214

Presented below are the basic assumptions and principles underlying financial statements.

a. Cost principle
b. Economic entity assumption
c. Full disclosure principle
d. Going concern assumption
e. Monetary unit assumption
f. Periodicity assumption

Identify the basic assumption or principle that is described below.

_____ 1. The economic life of a business can be divided into artificial time periods.

_____ 2. The business will continue in operation long enough to carry out its existing objectives.

_____ 3. Assets should be recorded at their cost.

_____ 4. Economic events can be identified with a particular unit of accountability.

_____ 5. Circumstances and events that make a difference to financial statement users should be disclosed.

_____ 6. Only transaction data that can be expressed in terms of money should be included in the accounting records.

Ans: N/A, SO: 7, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 214 (5 min.)

1. f
2. d
3. a
4. b
5. c
6. e

EXERCISES

Ex. 215

The following information is available for Mullen Company for the year ended December 31, 2012:

Accounts payable	2,700
Building not currently used	8,000
Accumulated depreciation, equipment	4,000
Retained earnings	16,000
Common stock	4,800
Intangible assets	2,500
Notes payable (due in 5 years)	6,000
Accounts receivable	1,500
Cash	2,600
Short-term investments	1,000
Land	10,000
Equipment	7,500
Long-term investments	400

Instructions

Use the above information to prepare a classified balance sheet for the year ended December 31, 2010.

Ans: N/A, SO: 1, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 215 (20 min.)

MULLEN COMPANY
Balance Sheet
December 31, 2012

Assets

Current Assets			
Cash		$ 2,600	
Short-term investments		1,000	
Accounts receivables		1,500	
Total Current Assets			$5,100
Investments			
Building not currently used		8,000	
Long-term investments		400	
Total Investments			8,400
Property, Plant, and Equipment			
Land		10,000	
Equipment	$7,500		
Less Accumulated depreciation, Equipment	4,000	3,500	
Total Property, Plant and Equipment			13,500
Intangible Assets			2,500
Total Assets			$29,500

Solution 215 (Cont.)

Liabilities and Stockholders' Equity

Current Liabilities		
Accounts payable		$ 2,700
Long-term liabilities		
Notes payable..		6,000
Total Liabilities..		$8,700
Stockholders' equity		
Common stock...	4,800	
Retained earnings..	16,000	
Total stockholders' equity..		20,800
Total liabilities and stockholders' equity...............................		$29,500

Ex. 216

The following lettered items represent a classification scheme for a balance sheet, and the numbered items represent data found on balance sheets. In the blank next to each account, write the letter indicating to which category it belongs.

A. Current assets
B. Investments
C. Property, plant, and equipment
D. Intangible assets
E. Current liabilities
F. Long-term liabilities
G. Stockholders' equity
H. Not on the balance sheet

Ans: N/A, SO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 216 (5 min.)

_____ 1. Accumulated Depreciation		_____ 6. Inventory
_____ 2. Common Stock		_____ 7. Patents
_____ 3. Interest Expense		_____ 8. Prepaid Insurance
_____ 4. Salary Payable		_____ 9. Mortgage Payable
_____ 5. Retained Earnings		_____ 10. Land Held for Investment

1. C 2. G 3. H 4. E 5. G 6. A 7. D 8. A 9. F 10. B

Ex. 217
These items are taken from the financial statements of Donovan Co. at December 31, 2012.

Building	$95,800
Accounts receivable	7,600
Prepaid insurance	4,680
Cash	18,840
Equipment	79,400
Land	61,200
Insurance expense	780
Depreciation expense	7,300
Interest expense	2,600
Common stock	57,000
Retained earnings (January 1, 2012)	40,000
Accumulated depreciation—building	45,600
Accounts payable	7,500
Mortgage payable	88,600
Accumulated depreciation—equipment	18,720
Interest payable	3,600
Bowling revenues	17,180

Instructions
Prepare a classified balance sheet. Assume that $13,600 of the mortgage payable will be paid in 2013.

Ans: N/A, SO: 1, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 217 (20 min.)

DONOVAN COMPANY
Balance Sheet
December 31, 2012

Assets

Current assets			
Cash		$18,840	
Accounts receivable		7,600	
Prepaid Insurance		4,680	
Total current assets			$ 31,120
Property, plant, and equipment			
Land		$61,200	
Building	$95,800		
Less: Accumulated depreciation—building	45,600	50,200	
Equipment	79,400		
Less: Accumulated depreciation—equipment	18,720	60,680	172,080
Total assets			$203,200

Solution 217 (Cont.)

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable	$ 7,500	
Current portion of note payable	13,600	
Interest payable	3,600	
Total current liabilities		$ 24,700
Long-term liabilities		
Mortgage payable		75,000
Total liabilities		99,700
Stockholders' equity		
Common stock	57,000	
Retained earnings ($40,000 + $6,500*)	46,500	
Total stockholders' equity		103,500
Total liabilities and Stockholders' equity		$203,200

*Net income = $17,180 – $780 – $7,300 – $2,600 = $6,500

Ex. 218
The following items are taken from the financial statements of Tracy Company for 2012:

Accounts Payable	$ 15,000
Accounts Receivable	11,000
Accumulated Depreciation—Equipment	38,000
Advertising Expense	21,000
Cash	24,000
Common Stock	90,000
Depreciation Expense	12,000
Dividends	15,000
Equipment	210,000
Insurance Expense	3,000
Note Payable (due 2015)	70,000
Prepaid Insurance	6,000
Rent Expense	17,000
Retained Earnings (beginning)	12,000
Salaries Expense	34,000
Salaries Payable	3,000
Service Revenue	135,000
Supplies	4,000
Supplies Expense	6,000

Ex. 218 (Cont.)

Instructions

(a) Calculate the net income.

(b) Calculate the balance of Retained Earnings that would appear on a balance sheet at December 31, 2012

(c) Prepare a classified balance sheet for Tracy Company at December 31, 2012 assuming the note payable is a long-term liability.

(d) Compute the current ratio, debt to total assets ratio, and earnings per share value. The average number of shares outstanding for 2012 was 10,000.

Ans: N/A, SO: 1, 2, 3, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 218 (20 min.)

(a) Net income = $42,000: ($135,000 – $21,000 – $12,000 – $3,000 – $17,000 – $34,000 – $6,000)

(b)

Retained Earnings, January 1	$12,000
Add: Net Income	42,000
	54,000
Less: Dividends	15,000
Retained Earnings, December 31	$39,000

(c)

TRACY COMPANY
Balance Sheet
December 31, 2012

Assets

Current assets		
Cash	$ 24,000	
Accounts receivable	11,000	
Supplies	4,000	
Prepaid insurance	6,000	
Total current assets		45,000
Property, plant, and equipment		
Equipment	$210,000	
Less: Accumulated depreciation—equipment	38,000	172,000
Total assets		$217,000

Solution 218 (Cont.)

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable	$ 15,000	
Salaries payable	3,000	
Total current liabilities		18,000
Long-term liabilities		
Note payable		70,000
Total liabilities		88,000
Stockholders' equity		
Common stock	$90,000	
Retained earnings	39,000	129,000
Total liabilities and stockholders' equity		$217,000

(d) Current ratio: $45,000 ÷ $18,000 = 2.5:1
Debt to total assets ratio: $88,000 ÷ $217,000 = 40.6%
Earnings per share: $42,000 ÷ 10,000= $4.20

Ex. 219

The following items are taken from the financial statements of Grove Company for 2012:

Accounts Payable	$18,500
Accounts Receivable	4,000
Accumulated Depreciation	4,800
Bonds Payable	18,000
Cash	24,000
Common Stock	25,000
Cost of Goods Sold	17,000
Depreciation Expense	4,800
Dividends	5,300
Equipment	44,000
Interest Expense	2,500
Patents	7,500
Retained Earnings, January 1	16,000
Salaries Expense	5,200
Sales Revenue	36,500
Supplies	4,500

Instructions

(a) Prepare an income statement and a classified balance sheet for Grove Company.

(b) Compute the following ratios and values:
1. Current ratio
2. Debt to total assets ratio
3. Working capital
4. Earnings per share (Grove's average number of shares outstanding during the year was 5,000.)

Ans: N/A, SO: 1, 2, 4, Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 219 (25 min.)

(a)

GROVE COMPANY
Income Statement
For the Year Ended December 31, 2012

Sales revenues		$36,500
Cost of goods sold		17,000
Gross profit		19,500
Operating expenses		
Depreciation expense	$4,800	
Salaries expense	5,200	10,000
Income from operations		9,500
Other expenses and losses		
Interest expense		2,500
Net income		$ 7,000

GROVE COMPANY
Balance Sheet
December 31, 2012

Assets

Current assets		
Cash	$24,000	
Accounts receivable	4,000	
Supplies	4,500	
Total current assets		32,500
Property, plant, and equipment		
Equipment	$44,000	
Less: Accumulated depreciation—Equipment	4,800	39,200
Intangible assets		
Patents		7,500
Total assets		$79,200

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable		$18,500
Long-term liabilities		
Bonds payable		18,000
Total liabilities		36,500
Stockholders' equity		
Common stock	$25,000	
Retained earnings	17,700*	42,700
Total liabilities and stockholders' equity		$79,200

*Retained earnings = $17,700 ($16,000 + $7,000 – $5,300).

(b) 1. Current ratio: $32,500 ÷ $18,500 = 1.76:1
2. Debt to total assets ratio: $36,500 ÷ $79,200 = 46.1%
3. Working capital $32,500 – $18,500 = $14,000
4. Earnings per share ($7,000 ÷ 5,000) = $1.40

Ex. 220

These financial statement items are for Snyder Corporation at year-end, July 31, 2012.

Salaries and wages payable	$ 2,580
Salaries and wages expense	48,700
Utilities expense	22,600
Equipment	21,000
Accounts payable	4,100
Service revenue	64,100
Rent revenue	8,500
Notes payable (due 2014)	1,800
Common stock	16,000
Cash	24,200
Accounts receivable	12,780
Accumulated depreciation	6,000
Dividends	5,000
Depreciation expense	4,000
Retained earnings (beginning of the year)	35,200

Instructions

(a) Prepare an income statement and a retained earnings statement for the year. Snyder corporation did not issue any new stock during the year.
(b) Prepare a classified balance sheet at July 31.

Ans: N/A, SO: 1, 3, Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 220 (25 min.)

(a)

SNYDER CORPORATION
Income Statement
For the Year Ended July 31, 2012

Revenues		
Service revenue	$64,100	
Rent revenue	8,500	
Total revenues		$72,600
Expenses		
Salaries and wages expense	48,700	
Utilities expense	22,600	
Depreciation expense	4,000	
Total expense		75,300
Net loss		$(2,700)

SNYDER CORPORATION
Retained Earnings Statement
For the Year Ended July 31, 2012

Retained earnings, August 1, 2011		$35,200
Less: Net loss	$2,700	
Dividends	5,000	7,700
Retained earnings, July 31, 2012		$27,500

Solution 220 (25 min.)

(b)

SNYDER CORPORATION
Balance Sheet
July 31, 2012

Assets		
Current assets		
Cash	$24,200	
Accounts receivable	12,780	
Total current assets		$36,980
Property, plant, and equipment		
Equipment	21,000	
Less: Accumulated depreciation	6,000	15,000
Total assets		$51,980
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 4,100	
Salaries and wages payable	2,580	
Total current liabilities		$6,680
Notes payable (due 2014)		1,800
Total liabilities		8,480
Stockholders' equity		
Common stock	16,000	
Retained earnings	27,500	
Total stockholders' equity		43,500
Total liabilities and stockholders' equity		$51,980

Ex. 221

These items are taken from the financial statements of Drew Corporation for 2012.

Retained earnings (beginning of year)	$33,000
Utilities expense	2,000
Equipment	56,000
Accounts payable	15,300
Cash	11,900
Salaries and wages payable	3,000
Common stock	13,000
Dividends	14,000
Service revenue	74,000
Prepaid insurance	3,500
Repair expense	1,800
Depreciation expense	3,300
Accounts receivable	14,200
Insurance expense	2,200
Salaries and wages expense	47,000
Accumulated depreciation	17,600

Ex. 221 (Cont.)

Instructions

Prepare an income statement, a retained earnings statement, and a classified balance sheet as of December 31, 2012.

Ans: N/A, SO: 1, 3, Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 221 (25 min.)

DREW CORPORATION
Income Statement
For the Year Ended December 31, 2012

Revenues		
Service revenue		$74,000
Expense		
Salaries and wages expense	$47,000	
Depreciation expense	3,300	
Insurance expense	2,200	
Utilities expense	2,000	
Repairs expense	1,800	
Total expenses		56,300
Net income		$17,700

DREW CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2012

Retained earnings, January 1, 2011	$33,000
Add: Net income	17,700
	50,700
Less: Dividends	14,000
Retained earnings, December 31, 2012	$36,700

DREW CORPORATION
Balance Sheet
December 31, 2012

Assets

Current assets		
Cash	$11,900	
Accounts receivable	14,200	
Prepaid insurance	3,500	
Total current assets		$29,600
Property, plant, and equipment		
Equipment	56,000	
Less: Accumulated depreciation	17,600	38,400
Total assets		$68,000

Solution 221 (Cont.)

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable..	$15,300	
Salaries and wages payable...........................	3,000	
Total current liabilities...............................		$18,300
Stockholders' equity		
Common stock..	13,000	
Retained earnings...	36,700	
Total stockholders' equity..........................		49,700
Total liabilities and stockholders' equity.....		$68,000

Ex. 222

The Dobson Company gathered the following condensed data for the year ended December 31, 2012:

Cost of goods sold	$ 720,000
Net sales	1,269,000
Administrative expenses	239,000
Interest expense	68,000
Dividends paid	38,000
Selling expenses	45,000

Instructions

Prepare an income statement for the year ended December 31, 2012.

Ans: N/A, SO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 222 (10 min.)

DOBSON COMPANY
Income Statement
For the Year Ended December 31, 2012

Revenues		
Net sales		$1,269,000
Expenses		
Cost of goods sold	$720,000	
Selling expenses	45,000	
Administrative expenses	239,000	
Interest expense	68,000	
Total expenses		1,072,000
Net income		$ 197,000

Ex. 223

The following data are taken from the financial statements of Rosen, Inc. as of the end of the year 2012. The data are in alphabetical order.

Accounts payable	$ 28,000	Net income	$ 48,000
Accounts receivable	66,000	Other current liabilities	17,000
Cash	44,000	Total assets	250,000
Gross profit	160,000	Total liabilities	150,000
Income before income taxes	54,000	Wages payable	5,000

Additional information: The average common shares outstanding during the year was 40,000.

Instructions

Compute the following:

(a) Current ratio.
(b) Working capital.
(c) Earnings per share.
(d) Debts to total assets ratio.

Ans: N/A, SO: 2, 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 223 (5 min.)

(a) Current ratio = Current assets ÷ Current liabilities = $110,000 ÷ $50,000 = 2.2 : 1

(b) Working capital = Current assets – Current liabilities = $110,000 – $50,000 = $60,000

(c) Earnings per share = Net income–Preferred Stock dividends ÷ Average common shares outstanding = $48,000 ÷ 40,000 = $1.20

(d) Debt to total assets ratio = Total debt ÷ Total assets = $150,000 ÷ $250,000 = 60%

Ex. 224

Use the following data to calculate the liquidity and profitability ratios listed below.

Average common shares outstanding	$10,000	Current liabilities	$100,000
Capital expenditures	20,000	Net income	21,000
Cash provided by operations	28,000	Net sales	150,000
Dividends paid	5,000	Total liabilities	105,000
Current assets	180,000	Total assets	210,000

Instructions

Compute the following:

(a) Current ratio.
(b) Working capital.
(c) Earnings per share.
(d) Debt to total assets ratio.
(e) Free cash flow.

Ans: N/A, SO: 2, 4, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 224 (15 min.)

(a) Current ratio = Current assets ÷ Current liabilities = $180,000 ÷ $100,000 = 1.8 : 1

(b) Working capital = Current assets – Current liabilities = $180,000 – $100,000 = $80,000

(c) Earnings per share ratio = (Net income – Preferred stock dividends) ÷ Average common share outstanding = $21,000 ÷ 10,000 = $2.10

(d) Debt to total assets ratio = Total debt ÷ Total assets = $105,000 ÷ $210,000 = 50%

(e) Free cash flow = Cash provided by operations – Capital expenditures – Dividends paid = $28,000 – $20,000 – $5,000 = $3,000.

Ex. 225

The following data are taken from the financial statements of Edington Company. The data are in alphabetical order.

Accounts payable	$ 28,000	Net sales	500,000
Accounts receivable	76,000	Other current liabilities	20,000
Average common shares O/S	20,000	Salaries payable	7,000
Cash	56,000	Stockholders' equity	165,000
Gross profit	190,000	Total assets	300,000
Net income	$ 50,000		

Instructions

Compute the following:

(a) Current ratio.

(b) Working capital.

(c) Earnings per share.

(d) Debt to total assets ratio.

Ans: N/A, SO: 2, 4, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 225 (10 min.)

(a) Current ratio = Current assets ÷ Current liabilities
= $132,000 ÷ $55,000 = 2.4 : 1

(b) Working capital = Current assets – Current liabilities
= $132,000 – $55,000 = $77,000

(c) Earnings per share = Net income ÷ Average common shares outstanding
= $50,000 ÷ 20,000 = $2.50

(d) Debt to total assets ratio = Total debt ÷ Total assets
= $135,000 ÷ $300,000 = 45%
(Total debt = Total assets – Stockholders' equity = $300,000 – $165,000)

Ex. 226

Comparative financial statement data for Arthur Corporation and Lancelot Corporation, two competitors, appear below. All balance sheet data are as of December 31, 2012.

	Arthur Corporation 2012	Lancelot Corporation 2012
Net sales	$1,850,000	$620,000
Cost of goods sold	1,175,000	365,000
Operating expenses	303,000	98,000
Interest expense	9,000	3,800
Income tax expense	85,000	36,800
Current assets	427,200	130,336
Plant assets (net)	532,000	139,728
Current liabilities	66,325	35,348
Long-term liabilities	158,500	29,620
Additional Information:		
Cash from operating activities	$153,000	$41,000
Capital expenditures	$90,000	$20,000
Dividends paid	$36,000	$15,000
Average number of shares outstanding	100,000	50,000

Instructions

(a) Comment on the relative profitability of the companies by computing the net income and earnings per share for each company for 2012.

(b) Comment on the relative solvency of the companies by computing the debt to total assets ratio and the free cash flow for each company for 2012.

Ans: N/A, SO: 2, 4, 5, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 226 (15 min.)

(a) Arthur Company appears to be more profitable.
Its net income for 2012 is $278,000 ($1,850,000 – $1,175,000 – $303,000 – $9,000 – $85,000). Its earnings per share is $2.78 ($278,000 ÷ 100,000 shares outstanding). Lancelot's net income for 2012 is $116,400 ($620,000 – $365,000 – $98,000 – $3,800 – $36,800). Its earnings per share is $2.34 ($116,400 ÷ 50,000 shares outstanding).

(b) Arthur appears to be slightly more solvent. Arthur's 2012 debt to total assets ratio of 23.4% ($224,825 ÷ $959,200)[a] is lower than Lancelot's ratio of 24.1% ($64,968 ÷ $270,064)[b]. The lower the percentage of debt to total assets, the lower the risk that a company may be unable to pay its debts as they income due.

Another measure of solvency, free cash flow, also indicates that Arthur is more solvent. Arthur had $27,000 ($153,000 – $90,000 – $36,000) of free cash flow while Lancelot had only $6,000 ($41,000 – $20,000 – $15,000).

Solution 226 (Cont.)

[a]$224,825 ($66,325 + $158,500) is Arthur's 2012 total liabilities
$959,200 ($427,200 + $532,000) is Arthur's 2012 total assets.

[b]$64,968 ($35,348 + $29,620) is Lancelot's 2012 total liabilities
$270,064 ($130,336 + $139,728) is Lancelot's 2012 total assets.

Ex. 227

For each of the ratios listed below, indicate by the appropriate code letter, whether it is a liquidity ratio, a profitability ratio, or a solvency ratio.

Code:
L = Liquidity ratio
P = Profitability ratio
S = Solvency ratio

_____ 1. Price-earnings ratio

_____ 2. Free cash flow

_____ 3. Debt to total assets ratio

_____ 4. Earnings per share

_____ 5. Current ratio

Ans: N/A, SO: 2, 4, 5, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 227 (5 min.)

P 1. Price-earnings ratio
S 2. Free cash flow
S 3. Debt to total assets ratio
P 4. Earnings per share
L 5. Current ratio

Ex. 228

The following information is available from the annual reports of Marin Company and Nance Company.

	(amounts in millions)	
	Marin	Nance
Sales	$26,510	$34,512
Gross profit	6,610	8,887
Net income	565	1,271
Current assets	11,712	28,447
Beginning total assets	17,102	33,130
Ending total assets	22,088	36,167
Current liabilities	7,966	13,950
Total liabilities	16,136	31,222
Average common shares outstanding	250	480
Preferred stock dividends paid	-0-	-0-

Instructions

(a) For each company, compute the following ratios:
1. Current ratio
2. Debt to total assets ratio
3. Earnings per share

(b) Based on your calculations, discuss the relative liquidity, solvency, and profitability of the two companies.

Ans: N/A, SO: 2, 4, Bloom: AP, Difficulty: Medium, Min: 12, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 228 (12 min.)

(a)

	Marin	Nance
1. Current ratio	1.47:1 ($11,712 ÷ $7,966)	2.04:1 ($28,447 ÷ $13,950)
2. Debt to total assets ratio	73% ($16,136 ÷ 22,088)	86% ($31,222 ÷ $36,167)
3. Earnings per share	$2.26 ($565 ÷ 250)	$2.65 ($1,271 ÷ 480)

(b) Based on the current ratio, Nance is more liquid than Marin since its current ratio (2.04:1) is 39% higher than Marin's ratio (1.47:1). However, Marin would be considered more solvent than Nance since its debt to total assets ratio (73%) is 15% lower than Nance's debt ratio (86%). A lower debt to total assets ratio indicates a company is more solvent and better able to survive over a long period of time.

Nance is more profitable than Marin since its earnings per share and is higher than Marin's respective vaules. Nance's earnings per share ($2.65) is 17.3% higher than Marin's value.

Ex. 229
You are provide with the following information for Trent Company, effective as of its April 30, 2012, year-end.

Accounts payable	$ 834
Accounts receivable	810
Buildings, net of accumulated depreciation	3,537
Cash	770
Common stock	900
Cost of goods sold	1,500
Current portion of long-term debt	450
Depreciation expense	335
Dividends paid during the year	475
Equipment, net of accumulated depreciation	1,220
Income tax expense	265
Income taxes payable	265
Interest expense	400
Inventory	967
Land	1,600
Long-term debt	3,500
Prepaid expenses	12
Retained earnings, beginning	1,600
Revenues	7,600
Selling expenses	310
Short-term investments	1,200
Salaries and Wages expense	700
Salaries and Wages payable	222

Instructions
Prepare an income statement and a retained earnings statement for Trent Company for the year ended April 30, 2012.

Ans: N/A, SO: 3, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 229 (15 min.)

TRENT COMPANY
Income Statement
For the Year Ended April 30, 2012

Revenue...		$7,600
Expense		
Cost of good sold...	$1,500	
Salaries and wages expense................................	700	
Interest expense..	400	
Depreciation expense...	335	
Selling expenses..	310	
Income tax expense...	265	
Total expenses......................................		3,510
Net income..		$4,090

Solution 229 (Cont.)

TRENT COMPANY
Retained Earnings Statement
For the Year Ended April 30, 2012

Retained earnings, May 1, 2011	$1,600
Add: Net income	4,090
	5,690
Less: Dividends	475
Retained earnings, April 30, 2012	$5,215

Ex. 230

The chief financial officer (CFO) of SuperClean Corporation requested that the accounting department prepare a preliminary balance sheet on December 30, 2012, so that the CFO could get an idea of how the company stood. He knows that certain debt agreements with its creditors require the company to maintain a current ration of at least 2:1. The preliminary balance sheet is as follows.

SUPERCLEAN CORPORATION
Balance Sheet
December 30, 2012

Current assets			Current liabilities		
Cash	$30,000		Accounts payable	$ 25,000	
Accounts receivable	25,000		Salaries payable	15,000	$ 40,000
Prepaid insurance	15,000	$ 70,000	Long-term liabilities		
			Notes payable		90,000
			Total liabilities		130,000
Property, plant, and equipment (net)		200,000	Stockholders' equity		
Total assets		$270,000	Common stock	100,000	
			Retained earnings	40,000	140,000
			Total liabilities and stockholders equity		$270,000

Instructions

(a) Calculate the current ratio and working capital based on the preliminary balance sheet.

(b) Based in the results in (a), the CFO requested that $20,000 of cash be used to pay off the balance of the accounts payable account on December 31, 2012. Calculate the new current ratio and working capital after the company takes these actions.

Ans: N/A, SO: 4, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 230 (10 min.)

(a) Current ratio = $\dfrac{\$70,000^*}{\$40,000^{**}}$ = 1.75:1

Working capital = $70,000 – $40,000 = $30,000

(b) Current ratio = $\dfrac{\$50,000^*}{\$20,000^{**}}$ = 2.5:1

Working capital = $50,000 – $20,000 = $30,000

*$70,000 – $20,000 **$40,000 – $20,000

COMPLETION STATEMENTS

231. The rules and practices that are recognized as general guides for financial reporting are called ______________ _____________ _______________.

Ans: N/A, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: FSA

232. In accounting, ____________ results when different companies use the same accounting principles.

Ans: N/A, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

233. The constraint of _______________ refers to items in financial statements that are likely to influence the decision of a reasonably prudent investor or creditor.

Ans: N/A, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

234. The _______________ constraint relates to the fact that providing information is costly.

Ans: N/A, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

235. The earnings per share value is calculated by dividing net income – preferred stock dividends by _______________ ______________ ______________.

Ans: N/A, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

236. Assets that are expected to be converted to cash or used in the business within a relatively short period of time are called ______________.

Ans: N/A, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

237. The ________________ is current assets divided by current liabilities.

Ans: N/A, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

238. A measurement to provide additional insight regarding a company's cash-generating ability is _____________.

Ans: N/A, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

Answers to Completion Statements

231. generally accepted accounting principles
232. comparability
233. materiality
234. cost
235. average common shares outstanding
236. current assets
237. current ratio
238. free cash flow

MATCHING

239. Match the items below by entering the appropriate code letter in the space provided.

A. Relevance	G. Working capital
B. Liquidity ratios	H. Current ratio
C. Comparability	I. Earnings per share
D. Consistency	J. Solvency ratios
E. Intangible assets	K. Economic entity assumption
F. Free cash flow	L. Materiality

_____ 1. Measures of the ability of the company to survive over a long period of time.

_____ 2. Current assets divided by current liabilities.

_____ 3. Information that has a bearing on a decision.

_____ 4. Economic events can be identified with a particular unit of accountability.

_____ 5. An item important enough to influence a prudent investor.

_____ 6. Same accounting principles and methods used from year to year within a company.

_____ 7. Cash from operating activities less capital expenditures and cash dividends.

_____ 8. Noncurrent assets that do not have physical substance.

_____ 9. (Net income – preferred stock dividends) divided by average common shares outstanding.

_____ 10. Different companies using the same accounting principles.

_____ 11. Measures of the short-term ability of the enterprise to pay its maturing obligations.

_____ 12. The excess of current assets over current liabilities.

Ans: N/A, SO: 1-7, Bloom: K, Difficulty: Easy, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

Answers to Matching

1.	J	2.	H	3.	A	4.	K
5.	L	6.	D	7.	F	8.	E
9.	I	10.	C	11.	B	12.	G

SHORT-ANSWER ESSAY QUESTIONS

S-A E 240

Identify the two parts of stockholders' equity in a corporation and indicate the purpose of each.

Ans: N/A, SO: 1, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 240

The two parts of stockholders' equity and the purpose of each are: (1) **Common stock** is used to record investments of assets in the business by the owners (stockholders). (2) **Retained earnings** is used to record net income retained in the business.

S-A E 241

What do these classes of ratios measure?
(a) Liquidity ratios.
(b) Profitability ratios.
(c) Solvency ratios.

Ans: N/A, SO: 2,4, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Business Economics

Solution 241

(a) Liquidity ratios measure the short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash.

(b) Profitability ratios measure the income or operating success of a company for a given period of time

(c) Solvency ratios measure the company's ability to survive over a long period of time.

S-A E 242

Give the definition of current assets, current liabilities and the current ratio.

Ans: N/A, SO: 1, 4, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Business Economics

Solution 242

Current assets are cash or other resources that are reasonably expected to be realized in cash or sold or consumed in the business within one year or the operating cycle, whichever is longer. Current liabilities are obligations reasonably expected to be paid from the existing current assets or through the creation of other current liabilities within the next year or operating cycle, whichever is longer. The current ratio is a measure used to evaluate a company's liquidity and short-term debt paying ability, computed by dividing current assets by current liabilities.

S-A E 243

Are short-term creditors, long-term creditors, and stockholders primarily interested in the same characteristics of a company? Explain.

Ans: N/A, SO: 2, 4, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Business Economics

Solution 243

The three parties are not primarily interested in the same characteristics of a company. Short-term creditors are primarily interested in the liquidity of the enterprise. In contrast, long-term creditors and stockholders are primarily interested in the profitability and solvency of the company.

S-A E 244

Relevance and faithful representation are two characteristics of useful accounting information.
(a) Briefly define each term.
(b) Why are these characteristics important to users of financial statements?

Ans: N/A, SO: 7, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 244

Relevance represents the quality of information that makes a difference in a decision. In other words, the user has information that is meaningful for the decision at hand. Relevance includes information that helps predict future events and provides feedback about prior predictions.

Faithful representation means that information accurately depicts what really happened. Information must be complete, neutral and free from error to provide a faithful representation.

Relevance and faithful representation are important to the users of financial statements because these users do not have first hand knowledge of the operations of the business. In order for these users to make decisions, they must have assurances that the information provided by the company is relevant – makes a difference and faithfully representative – means what the company says. Without these assurances, the users cannot have confidence in the information provided to them.

S-A E 245

You and the CEO of your company are waiting on an elevator. You are going to the 25^{th} floor and the CEO is going to the 35^{th} floor. The CEO says "What is the difference between consistency and comparability?" You have two minutes to respond. What will you say?

Ans: N/A, SO: 7, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 245

You have asked an excellent question and I am glad to respond. Consistency means that a company uses the same accounting principles and methods each year. Decision makers can work with accounting information, knowing that the company is consistently applying with the principles and methods it has chosen. This is why it is so important that we carefully make these choices. There are procedures for making changes and communicating those changes to financial statement users.

Comparability allows users to compare accounting information of different companies. The financial statement footnotes identify many of the principles and procedures that companies use. Comparisons can be made for companies within certain industries or other groupings.

S-A E 246

Comparability and consistency are qualitative characteristics that make accounting information useful for decision-making purposes. Briefly explain the difference between these two characteristics and explain how they are related to each other.

Ans: N/A, SO: 7, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 246

Comparability results when different companies use the same accounting principles and methods, while consistency results when one company uses the same principles and methods from year to year. The two characteristics are related because information must possess relevance, faithful representation, comparability, and consistency to achieve the highest level of decision usefulness. In addition, accounting information for two entities cannot be comparable unless both companies practice consistency in their choice of principles and methods.

S-A E 247

List the four characteristics of useful information.

Ans: N/A, SO: 7, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 247

To be useful, information should possess these qualitative characteristics: relevance, faithful representation, comparability and consistency.

S-A E 248

What are four of the six characteristics that explain relevance and faithful representation?

Ans: N/A, SO: 7, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 248

When information is relevant it helps predict future events, it confirms prior expectations and it must be timely. For information to be faithfully representative it must be: verifiable or provable, and neutral where information cannot be selected, prepared, or presented to favor one set of interested users over another.

S-A E 249 (Ethics)

Many bonus plans are based upon the attainment of some specified short-term goal. For example, sales personnel at Metal Crafters are given a bonus of 5% of the amount by which their sales exceed $100,000. Sometimes the attainment of these goals is achieved by methods detrimental to the long-term needs of the company. Sales representative Sara Crown, for example, finds herself tempted to court certain customers that place large orders, even though she knows they may not be able to pay. She complains that the bonus system itself is unethical.

Required:
Is a bonus system like the one at Metal Crafters unethical? Explain.

Ans: N/A, SO: 4, Bloom: E, Difficulty: Medium, Min: 5, AACSB: Ethics, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Decision Modeling, AICPA PC: Communication, IMA: Performance Measurement

Solution 249

The bonus system described is not necessarily unethical, but it may be short-sighted. When employees are able to identify and address larger concerns (such as Sara's identification of the problem regarding the ability of a customer to pay) then such issues should probably become part of the system of bonuses. It is very difficult to set a bonus plan that allows for all contingencies, however. Since sales representatives are hired to generate sales, they most often are rewarded based on generating sales. Some of the future events, such as customers defaulting on payments, may not be the fault of the sales representative. For Sara Crown to create sales by soliciting customers with a poor payment record would be unethical on her part. She is required to use integrity, even when the possibility exists of her not using it, and even when she might gain by not using it.

S-A E 250 (Communication)

Sunshine Sugar grows sugar cane in Florida, California, and Hawaii. Its investment in land to grow sugar exceeds $2 million. Currently, land whose original cost was more than $300,000 in Florida is threatened by plans to flood the Everglades to reclaim the wetlands. Sunshine plans to fight vigorously to keep its land in production, particularly because most of the rest of its land is in California, which is threatened by water shortages. The land in Florida is also significantly more productive than that in California, and the wages paid to workers to process the sugar cane are substantially less. Current plans include litigation to prevent government seizure of the land, an extensive public education campaign, and intense lobbying efforts.

Required:
Sunshine has determined that a footnote disclosure should be made in the financial statements to alert the investors of the threat to the land. Carefully consider how much of the above information is appropriate for inclusion in the footnote. Write the footnote.

Ans: N/A, SO: 7, Bloom: E, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 250

NOTE: A portion of the most valuable land owned by the company is the subject of plans by the Environmental Protection Agency to flood the Florida Everglades to "reclaim" the so-called wetlands. The company is working with the United States Department of Agriculture and other agencies to prevent this result. The company will be spending money to educate the public about this issue. Currently, land costing around $300,000 is at risk.

Usually the details of exactly why the land is so valuable to the company are not appropriate for inclusion. Footnotes need not be emotional or dramatic, either. There should be a systematic listing of at least the minimum amount the public has a right to know—how much land is at risk, and the nature of the risk.

IFRS Questions

1. Under International Financial Reporting Standards (IFRS)
   a. The cash-basis method of accounting is accepted.
   b. Events are recorded in the period in which the event occurs.
   c. Interim period financial statements are either a calendar year or a fiscal year.
   d. A fiscal year is an accounting time period encompassing less than 12 months.

Ans: B, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

2. Revenue recognition requires
   a. That revenue be recognized in the period in which it is earned.
   b. That a company report a receivable on its statement of financial position.
   c. That revenues follow the expenses.
   d. All of the choices are correct regarding revenue recognition.

Ans: A, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

3. Matching refers to
   a. Recognizing revenue in the period when it is earned.
   b. Matching the revenue reported on the income statement with the receivable reported on the statement of financial position.
   c. Letting expenses follow revenues.
   d. Dividing the life of the business into artificial time periods.

Ans: C, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

4. When companies record transactions in the period in which the events occur,_________ is being applied
   a. Accrual-basis accounting.
   b. The periodicity assumption.
   c. The matching of the income statement with the statement of financial position.
   d. The expense recognition principle.

Ans: A, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

5. Similarities between International Financial Reporting Standards (IFRS) and U.S. GAAP include all of the following except
   a. Cash-basis accounting is not in accordance with either IFRS or U.S. GAAP.
   b. Both IFRS and U.S. GAAP allow revaluation of items such as land and buildings to fair value.
   c. Both IFRS and U.S. GAAP divide the economic life of companies into artificial time periods.
   d. The form and content of financial statements are very similar under IFRS and U.S GAAP.

Ans: B, SO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting