

Name _____

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Class _____

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Chapter 01 - Introduction to Accounting and Business

1. A corporation is a business that is legally separate and distinct from its owners.

- a. True
- b. False

ANSWER: True

2. The role of accounting is to provide many different users with financial information to make economic decisions.

- a. True
- b. False

ANSWER: True

3. Accounting information users need reports about the economic activities and condition of businesses.

- a. True
- b. False

ANSWER: True

4. Managerial accounting information is used by external and internal users equally.

- a. True
- b. False

ANSWER: False

5. Senior executives cannot be criminally prosecuted for the wrong doings they commit on behalf of the companies where they work.

- a. True
- b. False

ANSWER: False

6. Financial accounting provides information to all users, while the main focus for managerial accounting is to provide information to the management.

- a. True
- b. False

ANSWER: True

7. Proper ethical conduct implies that you only consider what's in your best interest.

- a. True
- b. False

ANSWER: False

8. Some of the major fraudulent acts by senior executives started as what they considered to be small ethical lapses which grew out of control.

- a. True
- b. False

ANSWER: True

9. A business is an organization in which basic resources or inputs, like materials and labor, are assembled and processed to provide outputs in the form of goods or services to customers.

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- a. True
- b. False

ANSWER: True

10. Two factors that typically lead to ethical violations are relevance and timeliness of accounting information.

- a. True
- b. False

ANSWER: False

11. An example of a general-purpose financial statement would be a report about projected price increases related to transportation costs.

- a. True
- b. False

ANSWER: False

12. The Sarbanes-Oxley Act established standards for corporate responsibility and disclosure.

- a. True
- b. False

ANSWER: True

13. The main objective for all businesses is to maximize unrealized profits.

- a. True
- b. False

ANSWER: False

14. The primary role of accounting is to determine the amount of taxes a business will be required to pay to taxing entities.

- a. True
- b. False

ANSWER: False

15. The basic difference between manufacturing and retail companies is the completion level of the products they purchase for resale to customers.

- a. True
- b. False

ANSWER: True

16. Proprietorships are owned by one owner and provide only services to their customers.

- a. True
- b. False

ANSWER: False

17. About 90% of the businesses in the United States are organized as corporations.

- a. True

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b. False

ANSWER: False

18. An example of an external user of accounting information is the federal government.

a. True

b. False

ANSWER: True

19. The Financial Accounting Standards Board (FASB) is the authoritative body that has primary responsibility for developing accounting principles.

a. True

b. False

ANSWER: True

20. The cost principle is the basis for entering the purchase price into the accounting records.

a. True

b. False

ANSWER: True

21. The monetary unit assumption requires that economic data be recorded in dollars for companies in the United States.

a. True

b. False

ANSWER: True

22. If a building is appraised for \$85,000, offered for sale at \$90,000, and the buyer pays \$80,000 cash for it, the buyer would record the building at \$85,000.

a. True

b. False

ANSWER: False

23. The financial statements of a proprietorship should include the owner's personal assets and liabilities.

a. True

b. False

ANSWER: False

24. No significant differences exist between the accounting standards issued by the FASB and the IASB.

a. True

b. False

ANSWER: False

25. Generally accepted accounting principles regulate how and what financial information is reported by businesses.

a. True

b. False

ANSWER: True

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26. The accounting equation can be expressed as Assets – Liabilities = Stockholder's Equity.

- a. True
- b. False

ANSWER: True

27. The rights or claims to the assets of a business may be subdivided into rights of creditors and rights of stockholders.

- a. True
- b. False

ANSWER: True

28. The stockholders' rights to the assets rank ahead of the creditors' rights to the assets.

- a. True
- b. False

ANSWER: False

29. If the liabilities owed by a business total \$300,000 and stockholders' equity is equal to \$300,000, then the assets also total \$300,000.

- a. True
- b. False

ANSWER: False

30. If total assets decreased by \$30,000 during a specific period and stockholders' equity decreased by \$35,000 during the same period, the period's change in total liabilities was a \$65,000 increase.

- a. True
- b. False

ANSWER: False

31. If total assets increased by \$190,000 during a specific period and liabilities decreased by \$10,000 during the same period, the period's change in total stockholders' equity was a \$200,000 increase.

- a. True
- b. False

ANSWER: True

32. If net income for a company was \$50,000, \$20,000 in cash dividends were paid and the shareholders invested \$10,000 in cash, the stockholders' equity increased by \$40,000.

- a. True
- b. False

ANSWER: True

33. An account receivable is typically classified as a revenue.

- a. True
- b. False

ANSWER: False

34. An account receivable is a claim against a customer resulting from a sale on account.

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- a. True
- b. False

ANSWER: True

35. Paying an account payable increases liabilities and decreases assets.

- a. True
- b. False

ANSWER: False

36. Receiving payments on an account receivable increases both equity and assets.

- a. True
- b. False

ANSWER: False

37. Dividends paid to stockholders decrease assets and increase equity.

- a. True
- b. False

ANSWER: False

38. Purchasing supplies on account increases liabilities and decreases equity.

- a. True
- b. False

ANSWER: False

39. Receiving a bill or otherwise being notified that an amount is owed is **not** recorded until the amount is paid.

- a. True
- b. False

ANSWER: False

40. Revenue is earned only when money is received.

- a. True
- b. False

ANSWER: False

41. Assets that are used up during the process of earning revenue are called expenses.

- a. True
- b. False

ANSWER: True

42. The excess of revenue over the expenses incurred in earning the revenue is called capital.

- a. True
- b. False

ANSWER: False

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43. The primary financial statements of a corporation are the income statement, the statement of stockholders' equity, and the balance sheet.

- a. True
- b. False

ANSWER: False

44. An income statement is a summary of the revenues and expenses of a business as of a specific date.

- a. True
- b. False

ANSWER: False

45. A statement of stockholders' equity reports the changes in stockholder's equity for a period of time.

- a. True
- b. False

ANSWER: True

46. The statement of cash flows consists of three sections: cash flows from operating activities, cash flows from income activities, and cash flows from equity activities.

- a. True
- b. False

ANSWER: False

47. The balance sheet represents the accounting equation.

- a. True
- b. False

ANSWER: True

48. Net income and net profit do **not** mean the same thing.

- a. True
- b. False

ANSWER: False

49. Profit is the difference between

- a. assets and liabilities
- b. the incoming cash and outgoing cash
- c. the assets purchased with cash contributed by the owner and the cash spent to operate the business
- d. the amounts received from customers for goods or services and the amounts paid for the inputs used to provide the goods or services

ANSWER: d

50. Two common areas of accounting that respectively provide information to internal and external users are

- a. forensic accounting and financial accounting
- b. managerial accounting and financial accounting
- c. managerial accounting and environmental accounting

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- d. financial accounting and tax accounting systems

ANSWER:

b

51. Which of the following **best** describes accounting?

- a. records economic data but does not communicate the data to users according to any specific rules
- b. is an information system that provides reports to users regarding economic activities and condition of a business
- c. is of no use by individuals outside of the business
- d. is used only for filling out tax returns and for financial statements for various type of governmental reporting requirements

ANSWER:

b

52. Which type of accountant typically practices as an individual or as a member of a public accounting firm?

- a. Certified Public Accountant
- b. Certified Payroll Professional
- c. Certified Internal Auditor
- d. Certified Management Accountant

ANSWER:

a

53. Financial reports are used by

- a. management
- b. creditors
- c. investors
- d. all are correct

ANSWER:

d

54. All of the following are general-purpose financial statements **except**

- a. balance sheet
- b. income statement
- c. statement of stockholders' equity
- d. cash budget

ANSWER:

d

55. Which of the following is a manufacturing business?

- a. General Motors
- b. Facebook
- c. American Airlines
- d. Target

ANSWER:

a

56. Which of the following is a service business?

- a. Microsoft
- b. Dell Computers

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- c. Facebook
- d. Walmart

ANSWER:

c

57. Which of the following groups of companies are all examples of a retail business?

- a. Delta Air Lines, Marriott, Gap
- b. Gap, Amazon.com, Delta Air Lines
- c. GameStop, Sony, Dell
- d. GameStop, Best Buy, Gap

ANSWER:

d

58. Which of the following groups are considered to be **internal users** of accounting information?

- a. employees and customers
- b. customers and vendors
- c. employees and managers
- d. government entities and banks

ANSWER:

c

59. The following are examples of external users of accounting information **except**

- a. government entities
- b. customers
- c. creditors
- d. managers

ANSWER:

d

60. Which of the following is the **best** description of accounting's role in business?

- a. Accounting provides stockholders with information regarding the market value of the company's stocks.
- b. Accounting provides information to managers to operate the business and to other users to make decisions regarding the economic condition of the company.
- c. Accounting helps in decreasing the credit risk of the company.
- d. Accounting is not responsible for providing any form of information to users. That is the role of the Information Systems Department.

ANSWER:

b

61. Managerial accountants would be responsible for providing information regarding

- a. tax reports to government agencies
- b. profit reports to stockholders and management
- c. expansion of a product line report to management
- d. consumer reports to customers

ANSWER:

c

62. Which of the following is **not** a certification for accountants?

- a. CIA

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- b. CMA
- c. CISA
- d. IRS

ANSWER: d

63. Which of the following is **not** a role of accounting in business?

- a. to provide reports to users about the economic activities and conditions of a business
- b. to personally guarantee loans of the business
- c. to provide information to external users to determine the economic performance and condition of the business
- d. to assess the various informational needs of users and design its accounting system to meet those needs

ANSWER: b

64. Which of the following are guidelines for behaving ethically?

- I. Identify the consequences of a decision and its effect on others.
 - II. Consider your obligations and responsibilities to those affected by the decision.
 - III. Identify your decision based on personal standards of honesty and fairness.
- a. I and II.
 - b. II and III.
 - c. I and III.
 - d. I, II, and III.

ANSWER: d

65. Which of the following would **not** normally operate as a service business?

- a. pet groomer
- b. grocer
- c. lawn care company
- d. styling salon

ANSWER: b

66. Most businesses in the United States are

- a. proprietorships
- b. partnerships
- c. corporations
- d. cooperatives

ANSWER: a

67. Which of the items below is **not** a business entity?

- a. entrepreneurship
- b. proprietorship
- c. partnership
- d. corporation

ANSWER: a

68. An entity that is organized according to state or federal statutes and in which ownership is divided into shares of stock

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is a

- a. proprietorship
- b. corporation
- c. partnership
- d. governmental unit

ANSWER: b

69. Which of the following is **true** in regards to a limited liability company?

- a. Makes up 10% of business organizations in the United States.
- b. Combines the attributes of a partnership and a corporation.
- c. Provides tax and liability advantages to the owners.
- d. All are correct.

ANSWER: d

70. On May 20, White Repair Service extended an offer of \$108,000 for land that had been priced for sale at \$140,000. On May 30, White Repair Service accepted the seller's counteroffer of \$115,000. On June 20, the land was assessed at a value of \$95,000 for property tax purposes. On July 4, White Repair Service was offered \$150,000 for the land by a national retail chain. At what value should the land be recorded in White Repair Service's records?

- a. \$108,000
- b. \$95,000
- c. \$140,000
- d. \$115,000

ANSWER: d

71. Select the type of business that is most likely to obtain large amounts of resources by issuing stock.

- a. partnership
- b. corporation
- c. proprietorship
- d. government entity

ANSWER: b

72. Which of the following is **not** a characteristic of a corporation?

- a. Corporations are organized as a separate legal taxable entity.
- b. Ownership is divided into shares of stock.
- c. Corporations experience an ease in obtaining large amounts of resources by issuing stock.
- d. A corporation's resources are limited to its individual owners' resources.

ANSWER: d

73. Within the United States, the dominant body in the primary development of accounting principles is the

- a. American Institute of Certified Public Accountants (AICPA)
- b. American Accounting Association (AAA)
- c. Financial Accounting Standards Board (FASB)
- d. Institute of Management Accountants (IMA)

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ANSWER:

c

74. The business entity assumption means that

- a. the owner is part of the business entity
- b. an entity is organized according to state or federal statutes
- c. an entity is organized according to the rules set by the FASB
- d. the entity is an individual economic unit for which data are recorded, analyzed, and reported

ANSWER:

d

75. For accounting purposes, the business entity should be considered separate from its owners if the entity is

- a. a corporation
- b. a proprietorship
- c. a partnership
- d. any of these

ANSWER:

d

76. The measurement principle requires that

- a. business transactions be consistent with the objectives of the entity
- b. the Financial Accounting Standards Board be fair and unbiased in its deliberations over new accounting standards
- c. accounting principles meet the objectives of the Security and Exchange Commission
- d. amounts recorded in the financial statements be based on independently verifiable evidence

ANSWER:

d

77. Karen Meyer owns and operates Crystal Cleaning Company. Recently, Meyer withdrew \$10,000 from Crystal Cleaning, and she contributed \$6,000, in her name, to the American Red Cross. The contribution of the \$6,000 should be recorded on the accounting records of which of the following entities?

- a. Crystal Cleaning and the American Red Cross
- b. Karen Meyer's personal records and the American Red Cross
- c. Karen Meyer's personal records and Crystal Cleaning
- d. Karen Meyer's personal records, Crystal Cleaning, and the American Red Cross

ANSWER:

b

78. Which one of the following is the authoritative body in the United States having the primary responsibility for developing accounting principles?

- a. FASB
- b. IRS
- c. SEC
- d. AICPA

ANSWER:

a

79. Which of the following items relates to separating the reporting of business and personal economic transactions?

- a. cost principle
- b. monetary unit assumption

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- c. business entity assumption
- d. measurement principle

ANSWER:

c

80. Donner Company is selling a piece of land adjacent to its business premises. An appraisal reported the market value of the land to be \$220,000. The Focus Company initially offered to buy the land for \$177,000. The companies settled on a purchase price of \$212,000. On the same day, another piece of land on the same block sold for \$232,000. Under the cost principle, at what amount should the land be recorded in the accounting records of Focus Company?

- a. \$177,000
- b. \$212,000
- c. \$220,000
- d. \$232,000

ANSWER:

b

81. Many countries outside the United States use financial accounting standards issued by the

- a. AICPA
- b. SEC
- c. IASB
- d. FASB

ANSWER:

c

82. The monetary unit assumption

- a. is only used in the financial statements of manufacturing companies
- b. is not important when applying the cost principle
- c. requires that different units be used for assets and liabilities
- d. requires that economic data be reported in yen in Japan or dollars in the United States

ANSWER:

d

83. Which of the following is **not** true of accounting principles?

- a. Financial accountants follow generally accepted accounting principles (GAAP).
- b. Following GAAP allows accounting information users to compare one company to another.
- c. A new accounting principle can be adopted with stockholders' approval.
- d. The Financial Accounting Standards Board (FASB) has primary responsibility for developing accounting principles.

ANSWER:

c

84. The initials GAAP stand for

- a. General Accounting Procedures
- b. Generally Accepted Plans
- c. Generally Accepted Accounting Principles
- d. Generally Accepted Accounting Practices

ANSWER:

c

85. Assets are

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- a. always lower than liabilities
- b. equal to liabilities less stockholders' equity
- c. the same as expenses because they are acquired with cash
- d. financed by the stockholders and/or creditors

ANSWER:

d

86. Debts owed by a business are referred to as

- a. accounts receivables
- b. expenses
- c. stockholders' equity
- d. liabilities

ANSWER:

d

87. The accounting equation may be expressed as

- a. Assets = Expenses – Liabilities
- b. Assets + Liabilities = Stockholders' Equity
- c. Assets = Revenues – Liabilities
- d. Assets – Liabilities = Stockholders' Equity

ANSWER:

d

88. The assets and liabilities of a company are \$128,000 and \$84,000, respectively. Stockholders' equity should equal

- a. \$212,000
- b. \$44,000
- c. \$128,000
- d. \$84,000

ANSWER:

b

89. If total liabilities decreased by \$46,000 during a period of time and stockholders' equity increased by \$60,000 during the same period, the amount and direction (increase or decrease) of the period's change in total assets is a

- a. \$106,000 increase
- b. \$14,000 increase
- c. \$14,000 decrease
- d. \$106,000 decrease

ANSWER:

b

90. Which of the following is **not** a business transaction?

- a. make a sales offer
- b. sell goods for cash
- c. receive cash for services to be rendered later
- d. pay for supplies

ANSWER:

a

91. A business paid \$7,000 to a creditor in payment of an amount owed. The effect of the transaction on the accounting

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equation was to

- a. increase an asset, decrease another asset
- b. decrease an asset, decrease a liability
- c. increase an asset, increase a liability
- d. increase an asset, increase stockholders' equity

ANSWER:

b

92. Earning revenue

- a. increases assets, increases stockholders' equity
- b. increases assets, decreases stockholders' equity
- c. increases one asset, decreases another asset
- d. decreases assets, increases liabilities

ANSWER:

a

93. The monetary value earned for selling goods or services to customers is called a(n)

- a. asset
- b. net income
- c. capital
- d. revenue

ANSWER:

d

94. Goods purchased on account for future use in the business, such as supplies, are called

- a. prepaid liabilities
- b. revenues
- c. prepaid expenses
- d. liabilities

ANSWER:

c

95. The asset created by a business when it makes a sale on account is termed

- a. accounts payable
- b. prepaid expense
- c. interest revenue
- d. accounts receivable

ANSWER:

d

96. The debt created by a business when it makes a purchase on account is referred to as an

- a. account payable
- b. account receivable
- c. asset
- d. expense payable

ANSWER:

a

97. If total assets decreased by \$88,000 during a period of time and stockholders' equity increased by \$71,000 during the

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same period, then the amount and direction (increase or decrease) of the period's change in total liabilities is

- a. a \$17,000 increase
- b. an \$88,000 decrease
- c. a \$159,000 increase
- d. a \$159,000 decrease

ANSWER:

d

98. Cash dividends

- a. increase expenses
- b. decrease expenses
- c. increase cash
- d. decrease stockholders' equity

ANSWER:

d

99. How does paying a liability in cash affect the accounting equation?

- a. assets increase; liabilities decrease
- b. assets increase; liabilities increase
- c. assets decrease; liabilities decrease
- d. liabilities decrease; stockholders' equity increases

ANSWER:

c

100. How does receiving a bill to be paid next month for services received affect the accounting equation?

- a. assets decrease; stockholders' equity decreases
- b. assets increase; liabilities increase
- c. liabilities increase; stockholders' equity increases
- d. liabilities increase; stockholders' equity decreases

ANSWER:

d

101. How does the payment of rent for equipment affect the accounting equation?

- a. assets increase; assets decrease
- b. assets decrease; stockholders' equity decreases
- c. assets decrease; liabilities increase
- d. assets increase; stockholders' equity increases

ANSWER:

b

102. Land, originally purchased for \$30,000, is sold for \$62,000 in cash. What is the effect of the sale on the accounting equation?

- a. assets increase by \$62,000; stockholders' equity increases by \$62,000
- b. assets increase by \$32,000; stockholders' equity increases by \$32,000
- c. assets increase by \$62,000; liabilities decrease by \$30,000; stockholders' equity increases by \$32,000
- d. assets increase by \$30,000; no change in liabilities; stockholders' equity increases by \$62,000

ANSWER:

b

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103. Which of the following accounts is a liability?

- a. Accounts Payable
- b. Accounts Receivable
- c. Wages Expense
- d. Service Revenue

ANSWER:

a

104. As of the end of its accounting period, December 31, Year 1, Great Plains Company has assets of \$940,000 and liabilities of \$300,000. During Year 2, stockholders invested an additional \$73,000 and received \$33,000 in dividends from the business. What is the amount of net income during Year 2, assuming that as of December 31, Year 2, assets were \$995,000 and liabilities were \$270,000?

- a. \$45,000
- b. \$50,000
- c. \$106,000
- d. \$370,000

ANSWER:

a

105. Which of the following asset accounts is increased when a receivable is collected?

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

ANSWER:

d

106. Transactions affecting stockholders' equity include

- a. stockholder investments and payment of liabilities
- b. stockholder investments, dividends, earning of revenues, and incurrence of expenses
- c. stockholder investments, earning of revenues, incurrence of expenses, and collection of accounts receivable
- d. stockholder dividends, earning of revenues, incurrence of expenses, and purchase of supplies on account

ANSWER:

b

107. Computer Corporation is starting its computer programming business and has sold stock of \$15,000. Identify how the accounting equation will be affected.

- a. increase in assets (Cash) and increase in liabilities (Accounts Payable)
- b. increase in assets (Cash) and increase in stockholders' equity (Common Stock)
- c. increase in assets (Accounts Receivable) and decrease in liabilities (Accounts Payable)
- d. increase in assets (Cash) and increase in assets (Accounts Receivable)

ANSWER:

b

108. Ramos Repair Company is paying a cash dividend. How does this transaction affect Ramos Repair Company's accounting equation?

- a. increase in assets (Accounts Receivable) and decrease in assets (Cash)
- b. decrease in assets (Cash) and decrease in stockholders' equity (Dividends)
- c. decrease in assets (Cash) and decrease in liabilities (Accounts Payable)

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- d. increase in assets (Cash) and decrease in stockholders' equity (Dividends)

ANSWER:

b

109. Which of the following is **not** a business transaction?

- a. Erin, the CEO, buys \$15,000 in stock, placing the money in a bank account in the name of Bob's Lawn Service.
- b. Erin provided services to customers, earning fees of \$600.
- c. Erin purchased hedge trimmers for Bob's Lawn Service, agreeing to pay the supplier next month.
- d. Erin pays her monthly personal credit card bill.

ANSWER:

d

110. Which of the following is a business transaction?

- a. purchase supplies on account
- b. plan advertising for upcoming sale
- c. give employees a raise beginning next month
- d. submit estimate for construction project

ANSWER:

a

111. The financial statement that presents a summary of the revenues and expenses of a business for a specific period of time, such as a month or year, is called a(n)

- a. prior period statement
- b. statement of stockholders' equity
- c. income statement
- d. balance sheet

ANSWER:

c

112. Which of the following financial statements reports information as of a specific date?

- a. income statement
- b. statement of stockholders' equity
- c. statement of cash flows
- d. balance sheet

ANSWER:

d

113. Four financial statements are usually prepared for a business. The statement of cash flows is usually prepared last. The statement of stockholders' equity (SSE), the balance sheet (B), and the income statement (I) are prepared in a certain order to obtain information needed for the next statement. In what order are these three statements prepared?

- a. I, SSE, B
- b. B, I, SSE
- c. SSE, I, B
- d. B, SSE, I

ANSWER:

a

114. Liabilities are reported on the

- a. income statement

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- b. statement of stockholders' equity
- c. statement of cash flows
- d. balance sheet

ANSWER:

d

115. Cash investments made by the owner in the business are reported on the statement of cash flows in the

- a. financing activities section
- b. investing activities section
- c. operating activities section
- d. supplemental statement

ANSWER:

a

116. The ending balance of the retained earnings account appears in

- a. both the statement of stockholders' equity and the income statement
- b. only the statement of stockholders' equity
- c. both the statement of stockholders' equity and the balance sheet
- d. both the statement of stockholders' equity and the statement of cash flows

ANSWER:

c

117. A financial statement user would determine if a company was profitable or not during a specific period of time by reviewing the

- a. income statement
- b. balance sheet
- c. statement of cash flows
- d. statement of stockholders' equity

ANSWER:

a

118. If a shareholder wanted to know how money flowed into and out of the company, which financial statement would the shareholder use?

- a. income statement
- b. statement of cash flows
- c. balance sheet
- d. statement of stockholder's equity

ANSWER:

b

119. The assets section of the balance sheet normally presents assets in

- a. alphabetical order
- b. the order of largest to smallest dollar amounts
- c. the order in which they will be converted into cash or used in operations
- d. the order of smallest to largest dollar amounts

ANSWER:

c

120. All of the following statements regarding the ratio of liabilities to stockholders' equity are true **except**

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- a. a ratio of 1 indicates that liabilities equal stockholders' equity
- b. sole proprietorships can use this ratio but substitute total owner's equity for total stockholders' equity
- c. the higher this ratio, the better able a business is to withstand poor business conditions and pay creditors
- d. the lower this ratio, the better able a business is to withstand poor business conditions and pay creditors

ANSWER:

c

121. Given the following data:

	<u>Dec. 31, Year 2</u>	<u>Dec. 31, Year 1</u>
Total liabilities	\$128,250	\$120,000
Total stockholders' equity	95,000	80,000

Compute the ratio of liabilities to stockholders' equity for each year. Round to two decimal places.

- a. 1.50 and 1.07, respectively
- b. 1.35 and 1.50, respectively
- c. 1.07 and 1.19, respectively
- d. 1.19 and 1.35, respectively

ANSWER:

b

Match the following business types with each business listed below. Each may be used more than once.

- a. Service business
- b. Manufacturing business
- c. Retail business

122. A tax preparation firm

ANSWER:

a

123. A law firm

ANSWER:

a

124. A health club and spa

ANSWER:

a

125. An automobile dealer

ANSWER:

c

126. A book publisher

ANSWER:

b

127. A hospital

ANSWER:

a

128. A supermarket

ANSWER:

c

129. A modular homebuilder

ANSWER:

b

130. A men's clothing store

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ANSWER: c

131. A dressmaking company

ANSWER: b

Match the following characteristics with the form of business entity that best describes it. Each may be used more than once.

- a. Proprietorship
- b. Partnership
- c. Corporation
- d. Limited liability company (LLC)

132. Comprises 70% of business entities in the United States

ANSWER: a

133. Generates 90% of business revenues

ANSWER: c

134. Owned by two or more individuals

ANSWER: b

135. Organized as a separate legal taxable entity

ANSWER: c

136. Easy and cheap to organize

ANSWER: a

137. Often used as an alternative to a partnership

ANSWER: d

138. Used by large businesses

ANSWER: c

139. Has the ability to obtain large amounts of resources

ANSWER: c

140. Offers tax and legal liability advantages for owners

ANSWER: d

Match each transaction with its effect on the accounting equation. Each letter may be used more than once.

- a. Increase assets, increase liabilities
- b. Increase liabilities, decrease stockholders' equity
- c. Increase assets, increase stockholders' equity
- d. No effect
- e. Decrease assets, decrease liabilities
- f. Decrease assets, decrease stockholders' equity

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 : _____ : _____ e: _____

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141. Received cash for services provided

ANSWER: c

142. Received utility bill to be paid next month

ANSWER: b

143. Contribution of land by stockholder

ANSWER: c

144. Paid part of an amount owed to a creditor

ANSWER: e

145. Paid cash for the purchase of supplies

ANSWER: d

146. Received payment from a customer on account

ANSWER: d

147. Payment of dividends

ANSWER: f

148. Provided a service to a customer on account

ANSWER: c

149. Purchased supplies on credit

ANSWER: a

150. Paid wages

ANSWER: f

151. Payment for common stock by stockholder

ANSWER: c

152. Borrowed money from a bank

ANSWER: a

153. Purchased equipment for cash

ANSWER: d

154. Received cash for providing services to customers

ANSWER: c

155. Used up supplies that were already on hand

ANSWER: f

Match each of the following characteristics with the financial statement it describes. Each financial statement may be

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used more than once.

- a. Income statement
- b. Balance sheet
- c. Statement of stockholder's equity
- d. Statement of cash flows

156. Reports as of a specific date

ANSWER:

b

157. The first statement prepared

ANSWER:

a

158. Has three sections: operating, investing and financing

ANSWER:

d

159. Reports only revenues and expenses

ANSWER:

a

160. The second statement prepared

ANSWER:

c

161. A formal presentation of the accounting equation

ANSWER:

b

162. The connecting link between the income statement and balance sheet

ANSWER:

c

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

ANSWER: Internal users of accounting information include managers and employees. The area of accounting that provides internal users with information is called managerial accounting or management accounting. Managerial accounting reports often include sensitive information, for example about customers, prices, or plans to expand the business.

External users of accounting information include customers, creditors, banks, and government entities. These users are not directly involved in managing or operating the business. The area of accounting that provides external users with information is called financial accounting. General-purpose financial statements are one type of financial accounting report that is distributed to external users.

164. Companies like Enron, HealthSouth, and Xerox Corporation have been caught in the midst of ethical lapses that led to fines, firings, and criminal and/or civil prosecution. List and briefly describe two factors that are responsible for what went wrong in these companies.

ANSWER: The two factors are: (1) individual character and (2) company culture of greed and ethical indifference. Honesty, integrity, and fairness in the face of pressure to hide the truth are important characteristics of an ethical business person. The behavior and attitude of senior management set a firm's culture. That culture in turn flows down to lower-level managers.

165. List the five steps in the process by which accounting provides information to users.

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- ANSWER:**
1. Identify users.
 2. Assess users' information needs.
 3. Design the accounting information system to meet users' needs.
 4. Record economic data about business activities and events.
 5. Prepare accounting reports for users.

166. Identify each of the following as either internal or external users of accounting information.

A.	Payroll manager
B.	Bank
C.	President's secretary
D.	Internal Revenue Service
E.	Raw material vendors
F.	Social Security Administration
G.	Health insurance provider
H.	Managerial accountant

ANSWER:

A.	Internal
B.	External
C.	Internal
D.	External
E.	External
F.	External
G.	External
H.	Internal

167. For each of the following companies, identify whether they are a service, retail, or manufacturing business.

A.	Kohl's
B.	Time Warner Cable
C.	General Motors
D.	Regal Cinemas
E.	Applebee's
F.	Sony
G.	Best Buy
H.	Banana Republic
I.	H&R Block

ANSWER:

A.	Retail
B.	Service
C.	Manufacturing
D.	Service
E.	Service
F.	Service/Manufacturing
G.	Retail
H.	Retail
I.	Service

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168. What is the major difference between the objective of financial accounting and the objective of managerial accounting?

ANSWER: The objective of financial accounting is to provide information for the decision-making needs of external users. The objective of managerial accounting is to provide information for internal users.

169. Give the major disadvantage of disregarding the cost principle and constantly revaluing assets based on appraisals and opinions.

ANSWER: Accounting reports would become unstable and unreliable.

170. On May 7, Carpet Barn Company offered to pay \$83,000 for land that had a selling price of \$105,000. On May 15, Carpet Barn accepted a counteroffer of \$95,000. On June 5, the land was assessed at a value of \$115,000 for property tax purposes. On December 10, Carpet Barn Company was offered \$135,000 for the land by another company. At what value should the land be recorded in Carpet Barn Company's records?

ANSWER: \$95,000

171. Donner Company is selling a piece of land adjacent to its business. An appraisal reported the market value of the land to be \$120,000. The Focus Company initially offered to buy the land for \$107,000. The companies settled on a purchase price of \$115,000. On the same day, another piece of land on the same block sold for \$122,000. Under the cost principle, what is the amount that will be used to record this transaction in the accounting records?

ANSWER: \$115,000

172. Explain the meaning of the business entity assumption.

ANSWER: The business entity assumption limits the economic data in an accounting system to data related directly to the activities of the business. In other words, the business is viewed as an entity separate from its owners, creditors, or other businesses.

173. Darnell Company purchased \$88,000 of computer equipment from Joseph Company. Darnell Company paid for the equipment using cash that had been obtained from the initial investment by Donnie Darnell.

Which entity or entities (Darnell Company, Joseph Company, and Donnie Darnell) should record the transaction involving the computer equipment on their accounting records?

ANSWER: Darnell Company and Joseph Company

174. Discuss the characteristics of a limited liability company (LLC).

ANSWER: A limited liability company (LLC) combines the attributes of a partnership and a corporation. It is often used as an alternative to a partnership because it has tax and legal liability advantages for owners.

175. Explain the meaning of:

(a) the measurement principle

(b) the monetary unit assumption

ANSWER: (a) The measurement principle requires that the amounts recorded in the accounting records be based on objective evidence. In exchanges between a buyer and a seller, both try to get the best price. Only the final agreed-upon amount is objective enough to be recorded in the accounting records.

(b) The monetary unit assumption requires that economic data in the United States be recorded in U.S. dollars. Money is a common unit of measurement for entering financial data and preparing reports.

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176. Bob Johnson is the sole owner of Johnson's Carpet Cleaning Service. Bob purchased a personal automobile for \$10,000 cash plus he took out a loan for \$20,000 in his name. Describe how this transaction is related to the business entity assumption.

ANSWER: Under the business entity assumption, economic data is limited to the direct activities of the business. The business is viewed as separate from its owner. Therefore, when Bob buys a personal automobile, it is not listed on the books of Johnson's Carpet Cleaning, unless Bob invests it in the business. In this case, the loan is a personal debt and not a liability of the company, and the cash is from Bob's personal account and not the company's account.

177. Dave Ryan is the CEO of Ryan's Arcade. At the end of its accounting period, December 31, Ryan's Arcade has assets of \$450,000 and liabilities of \$125,000. Using the accounting equation, determine the following amounts:

- (a) stockholders' equity as of December 31 of the current year
- (b) stockholders' equity as of December 31 at the end of the next year, assuming that assets increased by \$65,000 and liabilities increased by \$35,000 during the year

ANSWER: (a) \$325,000 (\$450,000 – \$125,000)
 (b) \$355,000 [(\$450,000 + \$65,000) – (\$125,000 + \$35,000)]

178. Krammer Company has liabilities equal to one fourth of the total assets. Krammer's stockholders' equity is \$45,000. Using the accounting equation, what is the amount of liabilities for Krammer?

ANSWER: Assets = Liabilities + Stockholders' Equity
 $4x = x + \$45,000$
 $3x = \$45,000$
 $x = \underline{\$15,000}$ in liabilities

179. Determine the missing amount for each of the following:

<u>Assets</u>	<u>Liabilities</u>	<u>Stockholders' Equity</u>
(a)	\$38,000	\$45,000
\$30,000	(b)	\$22,000
\$53,000	\$32,000	(c)

ANSWER: (a) \$83,000 (\$38,000 + \$45,000)
 (b) \$8,000 (\$30,000 – \$22,000)
 (c) \$21,000 (\$53,000 – \$32,000)

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

<u>Assets</u>	<u>Liabilities</u>	<u>Stockholders' Equity</u>
(a) \$78,500	\$37,600	X
(b) X	\$53,280	\$145,000
(c) \$49,500	X	\$34,000

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ANSWER: (a) \$40,900 (\$78,500 – \$37,600)

(b) \$198,280 (\$53,280 + \$145,000)

(c) \$15,500 (\$49,500 – \$34,000)

181. Use the accounting equation to answer each of the independent questions below.

(a) At the beginning of the year, Norton Company's assets were \$75,000 and its stockholders' equity was \$38,000. During the year, assets increased by \$18,000 and liabilities increased by \$4,000. What was the stockholders' equity at the end of the year?

(b) At the beginning of the year, Turpin Industries had liabilities of \$44,000 and stockholders' equity of \$66,000. If assets increased by \$10,000 and liabilities decreased by \$5,000, what was the stockholders' equity at the end of the year?

ANSWER: (a) $\$75,000 - \$38,000 = \$37,000$ beginning of year liabilities
 $(\$75,000 + \$18,000) - (\$37,000 + \$4,000) = \underline{\$52,000}$ end-of-year stockholders' equity

(b) $\$44,000 + \$66,000 = \$110,000$ beginning of year assets
 $(\$110,000 + \$10,000) - (\$44,000 - \$5,000) = \underline{\$81,000}$ end-of-year stockholders' equity

182. On July 1 of the current year, the assets and liabilities of John Wong, DVM, are as follows: Cash, \$27,000; Accounts Receivable, \$12,300; Supplies, \$3,100; Land, \$35,000; Accounts Payable, \$13,900. What is the amount of stockholders' equity as of July 1 of the current year?

ANSWER: \$63,500
 $(\$27,000 \text{ Cash} + \$12,300 \text{ Accounts Receivable} + \$3,100 \text{ Supplies} + \$35,000 \text{ Land} - \$13,900 \text{ Accounts Payable}) = \$63,500$

183. At the end of its accounting period, December 31, of Year 1, Hsu's Financial Services has assets of \$575,000 and stockholders' equity of \$335,000. Using the accounting equation and considering each case independently, determine the following amounts.

(a) Hsu's liabilities as of December 31, of Year 1.

(b) Hsu's liabilities as of December 31, of Year 2, assuming that assets increased by \$56,000 and shareholders' equity decreased by \$32,000.

(c) Net income or net loss during Year 2, assuming that as of December 31, Year 2, assets were \$592,000, liabilities were \$450,000, and there were no additional investments or dividends.

ANSWER: (a) $\$575,000 - \$335,000 = \underline{\$240,000}$
 (b) $(\$575,000 + \$56,000) - (\$335,000 - \$32,000) = \underline{\$328,000}$
 (c) $\$592,000 - \$450,000 = \$142,000$ shareholders' equity Year 2
 $\$335,000 - \$142,000 = \underline{\$193,000}$ net loss

184. Indicate whether each of the following accounts represents an asset, liability, or stockholders' equity:

- (a) Accounts Payable
- (b) Wages Expense
- (c) Common Stock
- (d) Accounts Receivable
- (e) Dividends
- (f) Land

ANSWER: (a) liability

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- (b) stockholders' equity
- (c) stockholders' equity
- (d) asset
- (e) stockholders' equity
- (f) asset

185. At December 31 of the current year, Martin Consultants has assets of \$430,000 and liabilities of \$205,000. Using the accounting equation and considering each case independently, determine the following:

- (a) stockholders' equity, as of December 31.
- (b) stockholders' equity, as of December 31 of the next year, assuming that assets increased by \$12,000 and liabilities increased by \$15,000.
- (c) stockholders' equity, as of December 31 of the next year, assuming that assets decreased by \$8,000 and liabilities increased by \$14,000.

ANSWER: (a) $\$430,000 - \$205,000 = \underline{\$225,000}$

$$(b) (\$430,000 + \$12,000) - (\$205,000 + \$15,000) = \underline{\$222,000}$$

$$(c) (\$430,000 - \$8,000) - (\$205,000 + \$14,000) = \underline{\$203,000}$$

The accountant for Scott Industries prepared the following list of account balances from the company's records for the year ended December 31. Use this information to answer the question that follows.

Fees earned	\$165,000	Cash	\$30,000
Accounts receivable	16,000	Selling expenses	44,000
Equipment	64,000	Common stock	47,000
Accounts payable	12,000	Interest revenue	3,000
Salaries & wages expense	40,000	Income taxes expense	18,000
Income taxes payable	5,000	Rent expense	20,000

186. Determine the total assets at the end of the current year for Scott Industries.

ANSWER:

$$\underline{\$110,000}$$

$$(\$30,000 \text{ Cash} + \$16,000 \text{ Accounts receivable} + \$64,000 \text{ Equipment}) = \$110,000$$

187. Determine the total liabilities at the end of the current year for Scott Industries.

ANSWER:

$$\underline{\$17,000}$$

$$(\$12,000 \text{ Accounts payable} + \$5,000 \text{ Income taxes payable}) = \$17,000$$

188. Based on this information, is Scott Industries profitable? Explain your answer.

ANSWER: $(\$165,000 \text{ Fees earned} + \$3,000 \text{ Interest revenue}) - (\$40,000 \text{ Salaries \& wages expense} + \$44,000 \text{ Selling expenses} + \$18,000 \text{ Income taxes expense} + \$20,000 \text{ Rent expense}) = \$46,000 \text{ Net income}$

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Scott Industries had net income for the period of \$46,000. Since revenues exceeded expenses for the period, the company would be considered profitable.

189. Daniels Company made the following selected transactions during May:

1. Received cash from sale of stock, \$55,000
2. Paid creditors on account, \$7,000
3. Billed customers for services on account, \$2,565
4. Received cash from customers on account, \$8,450
5. Paid dividends to stockholders, \$2,500
6. Received the utility bill, \$160, to be paid next month

Indicate the effect of each transaction on the accounting equation by:

- (a) Account type - (A)assets, (L)liabilities, (SE)stockholders' equity, (R)revenue, and (E)expense
- b) Name of account
- c) The amount by of the transaction
- d) The direction of change (increase or decrease) in the account affected

Note: Each transaction has two entries.

Entry					Entry			
	Account Type (a)	Name of Account (b)	Amount (c)	Increase or Decrease (d)	Account Type (a)	Name of Account (b)	Amount (c)	Increase or Decrease (d)
1								
2								
3								
4								
5								
6								

ANSWER:

Entry					Entry			
	Account Type (a)	Name of Account (b)	Amount (c)	Increase or Decrease (d)	Account Type (a)	Name of Account (b)	Amount (c)	Increase or Decrease (d)
1	A	Cash	\$55,000	Increase	SE	Common Stock	\$55,000	Increase
2	A	Cash	\$7,000	Decrease	L	Accounts payable	\$7,000	Decrease
3	A	Accounts receivable	\$2,565	Increase	R	Fees earned	\$2,565	Increase
4	A	Cash	\$8,450	Increase	A	Accounts receivable	\$8,450	Decrease
5	A	Cash	\$2,500	Decrease	SE	Dividends	\$2,500	Increase
6	L	Accounts payable	\$160	Increase	E	Utilities expense	\$160	Increase

190. Collins Landscape Company purchased various landscaping supplies on account to be used for landscape designs for its customers. How will this business transaction affect the accounting equation?

ANSWER: Increase assets (Supplies) and increase liabilities (Accounts Payable)

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191. Ramirez Company received its first electric bill in the amount of \$60 which will be paid next month. How will this transaction affect the accounting equation?

ANSWER: Increase liabilities (Accounts Payable) and decrease shareholders' equity (Utilities Expense)

192. Indicate how the following transactions affect the accounting equation.

- (a) The purchase of supplies on account
- (b) The purchase of supplies for cash
- (c) Payment of cash dividends to stockholders
- (d) Revenues received in cash
- (e) Sale made on account

ANSWER:

- (a) Assets increase; liabilities increase
- (b) No effect
- (c) Assets decrease; stockholders' equity decreases
- (d) Assets increase; stockholders' equity increases
- (e) Assets increase; stockholders' equity increases

193. (a) A vacant lot acquired for \$83,000 cash is sold for \$127,000 in cash. What is the effect of the sale on the total amount of the seller's (1) assets, (2) liabilities, and (3) stockholders' equity?

(b) Assume that the seller owes \$52,000 on a loan for the land. After receiving the \$127,000 cash in (a), the seller pays the \$52,000 owed. What is the effect of the payment on the total amount of the seller's (1) assets, (2) liabilities, and (3) stockholders' equity?

ANSWER:

- (a) (1) Total assets increased \$44,000
- (2) No change in liabilities
- (3) Stockholders' equity increased \$44,000
- (b) (1) Total assets decreased \$52,000
- (2) Total liabilities decreased \$52,000
- (3) No change in stockholders' equity

194. The Austin Land Company sold land for \$85,000 in cash. The land was originally purchased for \$65,000. At the time of the sale, \$40,000 was still owed to Regions Bank. After the sale, The Austin Land Company paid off the loan. Explain the effect of the sale and the payoff of the loan on the accounting equation.

ANSWER: Total assets decrease \$20,000 (Cash increases by \$45,000; Land decreases by \$65,000)
Total liabilities decrease \$40,000 (Loan payoff to Regions Bank)
Stockholders' equity increases \$20,000 (Sales price – Cost of the land)

195. There are four transactions that affect stockholders' equity.

- (a) What are the two types of transactions that increase stockholders' equity?
- (b) What are the two types of transactions that decrease stockholders' equity?

ANSWER:

- (a) Purchase of additional common stock by stockholders and increase in revenues
- (b) Payment of dividends to stockholders and increase in expenses

The assets and liabilities of Thompson Computer Services at March 31, the end of the current year, and its revenue and expenses for the year are listed below. The common stock was \$120,000 and the retained earnings was \$60,000 at April 1, the beginning of the current year. During the year, shareholders purchased an additional \$25,000 in stock. Use this

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information to answer the questions that follow.

Accounts payable	\$ 2,000	Miscellaneous expense	\$ 1,030
Accounts receivable	10,340	Office expense	1,240
Cash	21,420	Supplies	1,670
Fees earned	73,450	Wages expense	23,550
Land	47,000	Dividends	16,570
Building	157,630		

196. Identify each of the following as an (1) increase to stockholders' equity, or a (2) decrease to stockholders' equity.

- (a) Fees earned
- (b) Wages expense
- (c) Dividends
- (d) Lawn care revenue
- (e) Investment
- (f) Supplies expense

ANSWER:

- (a) 1
- (b) 2
- (c) 2
- (d) 1
- (e) 1
- (f) 2

197. Given the following:

Beginning stockholders' equity	\$58,000
Ending stockholders' equity	\$30,000
Stockholder dividends	\$25,000

Calculate net income or net loss.

ANSWER:

Ending stockholders' equity	\$30,000
Beginning stockholders' equity	58,000
Decrease in stockholders' equity	\$28,000
Less dividends	25,000
Net loss	\$ 3,000

198. Prepare an income statement for the current year ended March 31.

ANSWE

R:

Thompson Computer Services		
Income Statement		
For the Year Ended March 31		
Fees earned		\$73,450
Expenses:		
Wages expense	\$23,550	
Office expense	1,240	
Miscellaneous expense	1,030	
Total expenses		<u>25,820</u>

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Net income \$47,630

199. Prepare a statement of stockholders' equity for the current year ended March 31.

ANSWER:

Thompson Computer Services Statement of Stockholders' Equity For the Year Ended March 31			
	Common Stock	Retained Earnings	Total
Balances, April 1	\$120,000	\$60,000	\$180,000
Issued common stock	25,000		25,000
Net income		47,630	47,630
Dividends		<u>(16,570)</u>	<u>(16,570)</u>
Balances, March 31	<u>\$145,000</u>	<u>\$91,060</u>	<u>\$236,060</u>

200. Prepare a balance sheet for the current year ended March 31.

ANSWER:

Thompson's Computer Services Balance Sheet March 31	
Assets	
Cash	\$ 21,420
Accounts receivable	10,340
Supplies	1,670
Land	47,000
Building	<u>157,630</u>
Total assets	<u>\$238,060</u>
Liabilities	
Accounts payable	\$ 2,000
Stockholders' Equity	
Common stock	145,000
Retained earnings	<u>91,060</u>
Total liabilities and stockholders' equity	<u>\$238,060</u>

201. A summary of cash flows for Linda's Design Services for the year ended December 31 is shown below.

Cash receipts:

Cash received from customers	\$83,990
Cash received from sale of stock	25,000

Cash payments:

Cash paid for expenses	\$27,000
Cash paid for land	47,000
Cash paid for supplies	410
Dividends	5,000

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The cash balance as of January 1 \$40,600

Prepare a statement of cash flows for Linda's Design Services for the year ended December 31.

ANSWER:

Linda's Design Services		
Statement of Cash Flows		
For the Year Ended December 31		
Cash flows from operating activities:		
Cash received from customers	\$83,990	
Cash payments for expenses and supplies	(27,410)	
Net cash flows from operating expenses		\$ 56,580
Cash flows from investing activities:		
Cash payment for land	(47,000)	
Cash from financing activities:		
Cash investment received from sale of stock	\$25,000	
Cash dividends	(5,000)	
Net cash flows from financing activities		<u>20,000</u>
Net increase in cash		\$29,580
Cash balance, January 1		<u>40,600</u>
Cash balance, December 31		<u>\$70,180</u>

202. What information does the income statement give to business users?

ANSWER: The income statement reports the revenues and expenses for a period of time. The result is either a net income or a net loss.

203. What are the three sections of the statement of cash flows?

ANSWER: Operating Activities, Investing Activities, and Financing Activities

204. Match the following items to the financial statement where they can be found. (Hint: Some of the items can be found on more than one financial statement.)

- A. Balance sheet
- B. Income statement
- C. Statement of cash flows
- D. Statement of stockholder's equity

#	Item
1.	Dividends
2.	Revenues
3.	Supplies
4.	Land
5.	Accounts payable

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6.	Accounts receivable
7.	Operating activities
8.	Wages expense
9.	Net income
10.	Cash

ANSWER:

#	Answer	Item
1.	C & D	Dividends
2.	B	Revenues
3.	A	Supplies
4.	A	Land
5.	A	Accounts payable
6.	A	Accounts receivable
7.	C	Operating activities
8.	B	Wages expense
9.	B & D	Net income
10.	A & C	Cash

205. Name and describe the four primary financial statements for a corporation.

ANSWER: 1. Income statement: A summary of the revenue and expenses *for a specific period of time*, such as a month or a year.

2. Statement of stockholder's equity: A summary of the changes in stockholder's equity that have occurred *during a specific period of time* such as a month or a year.

3. Balance sheet: A list of the assets, liabilities, and owner's equity *as of a specific date*, usually at the close of the last day of a month or a year.

4. Statement of cash flows: A summary of the cash receipts and cash payments for a *specific period of time*, such as a month or a year.

206. A summary of cash flows for Evelyn's Event Planning for the year ended December 31 is shown below.

Cash receipts:

Cash received from customers	\$57,360
Cash received from bank loan	15,000

Cash payments:

Cash paid for operating expenses	\$12,120
Cash paid for equipment	18,070
Cash paid for party supplies	9,480
Dividends	12,000

The cash balance as of January 1 \$15,580

Prepare a statement of cash flows for Evelyn's Event Planning for the year ended December 31.

ANSWER:

Evelyn's Event Planning
Statement of Cash Flows
For the Year Ended December 31

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Cash flows from operating activities:	
Cash received from customers	\$57,360
Cash payments for expenses and supplies	(21,600)
Net cash flows from operating activities	\$35,760
Cash flows from investing activities:	
Cash paid for equipment	(18,070)
Cash from financing activities:	
Cash received from bank loan	\$15,000
Dividends	(12,000)
Net cash flows from financing activities	3,000
Net increase in cash	\$20,690
Cash balance, January 1	15,580
Cash balance, December 31	<u>\$36,270</u>

207. The assets and liabilities of Rocky's Day Spa at December 31 and expenses for the year are listed below. The stockholders' equity was \$68,000 (\$48,000 in Common Stock and \$20,000 in Retained Earnings) at January 1. The shareholders invested in an additional \$10,000 of common stock during the year. Net income for the year is \$45,625.

Accounts payable	\$ 4,375	Spa operating expense	\$23,760
Accounts receivable	8,490	Office expense	2,470
Cash	13,980	Spa supplies	9,230
Fees earned	???	Wages expense	26,580
Spa furniture & equipment	56,000	Dividends	38,170
Computers	2,130		

Prepare an income statement for Rocky's Day Spa for the current year ended December 31.

ANSWE

R:

Rocky's Day Spa Income Statement For the Year Ended December 31	
Fees earned	\$98,435
Expenses:	
Wages expense	\$26,580
Spa operating expense	23,760
Office expense	<u>2,470</u>
Total expenses	<u>52,810</u>
Net income	<u>\$45,625</u>

208. The assets and liabilities of Rocky's Day Spa at December 31 and expenses for the year are listed below. The stockholders' equity was \$68,000 (\$48,000 in Common Stock and \$20,000 in Retained Earnings) at January 1. The shareholders invested in an additional \$10,000 of common stock during the year. Net income for the year is \$45,625.

Accounts payable	\$ 4,375	Spa operating expense	\$23,760
Accounts receivable	8,490	Office expense	2,470
Cash	???	Spa supplies	9,230
Fees earned	98,435	Wages expense	26,580

Name _____ Class _____ Date _____

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Spa furniture & equipment	56,000	Dividends	38,170
Computers	2,130		

Prepare a balance sheet for Rocky's Day Spa for the year ended December 31.

ANSWER:

Rocky's Day Spa
Balance Sheet
December 31

Assets	
Cash	\$13,980
Accounts receivable	8,490
Spa supplies	9,230
Computers	2,130
Spa furniture & equipment	56,000
Total assets	<u>\$89,830</u>
Liabilities	
Accounts payable	\$ 4,375
Stockholder's Equity	
Common stock	\$58,000
Retained earnings	<u>27,455</u>
Total stockholders' equity	<u>85,455</u>
Total liabilities and stockholders' equity	<u>\$89,830</u>

209. The assets and liabilities of Rocky's Day Spa at December 31 and expenses for the year are listed below. The stockholders' equity was \$68,000 (\$48,000 in Common Stock and \$20,000 in Retained Earnings) at January 1. The shareholders invested in an additional \$10,000 of common stock during the year. Net income for the year is \$45,625.

Accounts payable	\$ 4,375	Spa operating expense	\$23,760
Accounts receivable	8,490	Office expense	2,470
Cash	13,980	Spa supplies	9,230
Fees earned	98,435	Wages expense	26,580
Spa furniture & equipment	56,000	Dividends	38,170
Computers	2,130		

Prepare a statement of stockholder's equity for Rocky's Day Spa for the current year ended December 31.

ANSWER:

Rocky's Day Spa
Statement of Stockholders' Equity
For the Year Ended December 31

	Common Stock	Retained Earnings	Total
Balances, January 1	\$48,000	\$20,000	\$68,000
Issue common stock	10,000		10,000
Net income		45,625	45,625
Dividends		<u>(38,170)</u>	<u>(38,170)</u>
Balances, December 31	<u>\$58,000</u>	<u>\$27,455</u>	<u>\$85,455</u>

210. Explain the interrelationship between the balance sheet and the statement of cash flows.

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ANSWER: The cash reported on the balance sheet is also reported as the end-of-period cash on the statement of cash flows.

211. From the following list of items taken from Lamar's accounting records, identify those that would appear on the income statement.

- (a) Rent expense
- (b) Land
- (c) Common stock
- (d) Fees earned
- (e) Dividends
- (f) Wages expense
- (g) Investment

ANSWER: (a), (d), (f)

212. Identify which of the following accounts would appear on a balance sheet.

- (a) Cash
- (b) Fees earned
- (c) Common stock
- (d) Wages payable
- (e) Rent expense
- (f) Supplies
- (g) Land

ANSWER: (a), (c), (d), (f), (g)

213. Indicate whether each of the following activities would be reported on the statement of cash flows as an operating activity, an investing activity, a financing activity, or does not appear on the cash flow statement.

- (a) Cash paid for building
- (b) Cash paid to suppliers
- (c) Cash paid for dividends
- (d) Cash received from customers
- (e) Cash received from the sale of common stock
- (f) Cash received from the sale of a building
- (g) Borrowed cash from a bank

ANSWER:

- (a) Investing
- (b) Operating
- (c) Financing
- (d) Operating
- (e) Financing
- (f) Investing
- (g) Financing

214. For each of the following, determine the amount of net income or net loss for the year.

- (a) Revenues for the year totaled \$71,300 and expenses totaled \$35,500. The shareholders purchased \$15,000 of common stock during the year.
- (b) Revenues for the year totaled \$220,500 and expenses totaled \$175,000. The shareholders were paid \$40,000 dividends during the year.
- (c) Revenues for the year totaled \$149,000 and expenses totaled \$172,000. The shareholders purchased \$12,000 of

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common stock and were paid \$16,000 in dividends during the year.

- (d) Revenues for the year totaled \$198,150 and expenses totaled \$174,200. The shareholders were paid \$35,000 dividends during the year.

ANSWER: (a) \$35,800 net income (\$71,300 – \$35,500)
 (b) \$45,500 net income (\$220,500 – \$175,000)
 (c) \$23,000 net loss (\$149,000 – \$172,000)
 (d) \$23,950 net income (\$198,150 – \$174,200)

215. The total assets and total liabilities of Paul's Pools and Palaces at the beginning and at the end of the current fiscal year are as follows:

	<u>Jan. 1</u>	<u>Dec. 31</u>
Total assets	\$280,000	\$475,000
Total liabilities	205,000	130,000

- (a) Determine the amount of net income earned during the year. No additional common stock was issued and no dividends were paid.
- (b) Determine the amount of net income during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. However, the shareholders were paid \$53,000 in cash dividends during the year (no additional purchase of common stock).
- (c) Determine the amount of net income earned during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. However, the shareholders paid for \$35,000 of common stock in June of the current fiscal year (no dividends).
- (d) Determine the amount of net income earned during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. However, the shareholders paid for \$12,000 of common stock in August of the current fiscal year and were paid twelve monthly cash dividends of \$1,500 each during the year.

ANSWER: (Stockholders' equity at end of year (\$475,000 – \$130,000) Stockholders' equity at beginning of year (\$280,000 – \$205,000) Net income \$270,000)

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Increase	\$270,000
(in	
(stockho	
b lders'	
) equity	
as in (a)	
Add	<u>53,000</u>
dividen	
ds	
Net	<u>\$323,000</u>
income	
Increase	\$270,000
(in	
(stockho	
c lders'	
) equity	
as in (a)	
Deduct	<u>35,000</u>
sale of	
commo	
n stock	
Net	<u>\$235,000</u>
income	
Increase	\$270,000
(in	
(stockho	
d lders'	
) equity	
as in (a)	
Add	<u>18,000</u>
dividen	
ds	
(\$1,500	
× 12)	
	\$288,000
Deduct	<u>12,000</u>
sale of	
commo	
n stock	
Net	<u>\$276,000</u>
income	

216. Selected transaction data of a business for September are summarized below. Determine the following amounts for September: (a) total revenue, (b) total expenses, (c) net income.

Service sales charged to customers on account during September \$33,000

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Cash received from cash customers for services performed in September	28,000
Cash received from customers on account during September:	
Services performed and charged to customers prior to September	13,000
Services performed and charged to customers during September	18,000
Expenses incurred prior to September and paid during September	6,500
Expenses incurred and paid in September	36,250
Expenses incurred in September but not paid in September	5,000
Expenses for supplies used and insurance (not included above) applicable to September	2,000

ANSWER: (a) \$61,000 (\$33,000 + \$28,000)
 (b) \$43,250 (\$36,250 + \$5,000 + \$2,000)
 (c) \$17,750 (\$61,000 – \$43,250)

217. On March 1, the amount of common stock and retained earnings in Richard's Catering Company was \$100,000 and \$50,000, respectively. During March, stockholders were paid \$31,000 in dividends from the business. The amounts of the various assets, liabilities, revenues, and expenses are as follows:

Accounts payable	\$10,250
Accounts receivable	45,950
Cash	23,840
Fees earned	64,950
Insurance expense	1,275
Land	88,400
Miscellaneous expense	1,210
Rent expense	9,000
Salary expense	20,300
Supplies	900
Supplies expense	525
Utilities expense	2,800

Present, in good form, (a) an income statement for March, (b) a statement of stockholder's equity for March, and (c) a balance sheet as of March 31.

ANSWER (a)

	Richard's Catering Company	
	Income Statement	
	For the Month Ended March 31	
Fees earned		\$64,950
Operating expenses:		
Salary expense	\$20,300	
Rent expense	9,000	
Utilities expense	2,800	
Insurance expense	1,275	
Supplies expense	525	
Miscellaneous expense	<u>1,210</u>	
Total expenses		<u>35,110</u>
Net income		<u>\$29,840</u>

(b)

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Richard's Catering Company
Statement of Stockholders' Equity
For the Month Ended March 31

	Common Stock	Retained Earnings	Total
Balances, March 1	\$100,000	\$50,000	\$150,000
Net income		29,840	29,840
Dividends		(31,000)	(31,000)
Balances, March 31	<u>\$100,000</u>	<u>\$48,840</u>	<u>\$148,840</u>

(c)

Richard's Catering Company
Balance Sheet
March 31

<u>Assets</u>	
Cash	\$ 23,840
Accounts receivable	45,950
Supplies	900
Land	<u>88,400</u>
Total assets	<u>\$159,090</u>
 <u>Liabilities</u>	
Accounts payable	\$ 10,250
 <u>Stockholders' Equity</u>	
Common stock	100,000
Retained earnings	<u>48,840</u>
Total stockholders' equity	<u>148,840</u>
Total liabilities and stockholders' equity	<u>\$159,090</u>

218. Using the following accounts and their amounts, prepare in good format an income statement for Bright Futures Company for the month ended August 31.

Telephone expense	\$ 1,150
Cash	3,000
Accounts payable	1,540
Dividends	800
Fees earned	15,700
Rent expense	1,400
Supplies	140
Accounts receivable	1,500
Computer equipment	17,600
Common stock	10,000

Name _____ Class _____ Date _____
: _____ : _____ e: _____

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Retained earnings (August 1)	4,320
Wages expense	4,800
Utilities expense	750
Office expense	420

ANSWER:

Bright Futures Company Income Statement For Month Ended August 31		
Fees earned		\$15,700
Expenses:		
Wages expense	\$4,800	
Rent expense	1,400	
Telephone expense	1,150	
Utilities expense	750	
Office expense	<u>420</u>	
Total expenses		<u>8,520</u>
Net income		<u>\$ 7,180</u>

219. Using the following accounts and their amounts, prepare in good format a statement of stockholders' equity for Bright Futures Company for the month ended August 31. No common stock was issued during the year.

Telephone expense	\$ 1,150
Cash	3,000
Accounts payable	1,540
Dividends	800
Fees earned	15,700
Rent expense	1,400
Supplies	140
Accounts receivable	1,500
Computer equipment	17,600
Common stock	10,000
Retained earnings (August 1)	4,320
Wages expense	4,800
Utilities expense	750
Office expense	420

ANSWER:

Bright Futures Company Statement of Stockholders' Equity For the Month Ended August 31			
	Common Stock	Retained Earnings	Total
Balances, August 1	\$10,000	\$4,320	\$14,320
Net income		7,180	7,180
Dividends		<u>(800)</u>	<u>(800)</u>
Balances, August 31	<u>\$10,000</u>	<u>\$10,700</u>	<u>\$20,700</u>

220. Using the following accounts and their amounts, prepare in good format a balance sheet for Bright Futures Company

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for the month ended August 31.

Telephone expense	\$ 1,150
Cash	3,000
Accounts payable	1,540
Dividends	800
Fees earned	15,700
Rent expense	1,400
Supplies	140
Accounts receivable	1,500
Computer equipment	17,600
Common stock	10,000
Retained earnings (August 1)	4,320
Wages expense	4,800
Utilities expense	750
Office expense	420

ANSWER:

Bright Futures Company
Balance Sheet
August 31

<u>Assets</u>	
Cash	\$ 3,000
Accounts receivable	1,500
Supplies	140
Computer equipment	<u>17,600</u>
Total assets	<u>\$22,240</u>
<u>Liabilities</u>	
Accounts payable	\$ 1,540
<u>Stockholders' Equity</u>	
Common stock	10,000
Retained earnings	<u>10,700</u>
Total stockholders' equity	<u>20,700</u>
Total liabilities and stockholders' equity	<u>\$22,240</u>

221. The account balances of Awesome Travel Services at December 31 are listed below. There were no additional investments or dividends by Awesome Travel Services during the year.

Accounts payable	\$12,000	Retained earnings (Jan. 1)	\$6,000
Accounts receivable	14,000	Supplies	1,000
Cash	18,000	Income taxes expense	1,300
Common stock	4,000	Utilities expense	8,000
Computer equipment	21,000	Wages expense	25,000
Fees earned	78,000	Supplies expense	1,700
Rent expense	10,000		

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Prepare an income statement, a statement of stockholders' equity, and a balance sheet as of December 31.

ANSWER

Awesome Travel Services Income Statement For the Year Ended December 31		
Fees earned		\$78,000
Operating expenses:		
Wages expense	\$25,000	
Rent expense	10,000	
Utilities expense	8,000	
Supplies expense	1,700	
Income taxes expense	<u>1,300</u>	
Total expenses		<u>46,000</u>
Net income		<u>\$32,000</u>

Awesome Travel Services Statement of Stockholders' Equity For the Year Ended December 31			
	Common Stock	Retained Earnings	Total
Balances, January 1	\$4,000	\$6,000	\$10,000
Net income		<u>32,000</u>	<u>32,000</u>
Balances, December 31	<u>\$4,000</u>	<u>\$38,000</u>	<u>\$42,000</u>

Awesome Travel Services Balance Sheet December 31	
<u>Assets</u>	
Cash	\$18,000
Accounts receivable	14,000
Supplies	1,000
Computer equipment	<u>21,000</u>
Total assets	<u>\$54,000</u>
<u>Liabilities</u>	
Accounts payable	\$12,000
<u>Stockholders' Equity</u>	
Common stock	\$ 4,000
Retained earnings	<u>38,000</u>
Total stockholders' equity	<u>\$42,000</u>
Total liabilities and stockholders' equity	<u>\$54,000</u>

222. Schultz Tax Services, a tax preparation business, had the following transactions during the month of June:

1. Received cash for providing accounting services, \$3,000

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2. Billed customers on account for providing services, \$7,000
3. Paid advertising expense, \$800
4. Received cash from customers on account, \$3,800
5. Paid shareholder dividends, \$1,500
6. Received telephone bill, \$220
7. Paid telephone bill, \$220

Based on the information given above, calculate the balance of cash at June 30. Use the following format.

Cash, June 1 \$25,000

Plus cash receipts for June _____

Minus cash payments for June _____

Cash, June 30 _____

ANSWER:

Cash, June 1	\$25,000
Plus cash receipts for June	6,800
Minus cash payments for June	<u>2,520</u>
Cash, June 30	<u>\$29,280</u>

223. Given the following data:

	<u>Dec. 31, Year 2</u>	<u>Dec. 31, Year 1</u>
Total liabilities	\$128,250	\$120,000
Total stockholders' equity	95,000	80,000

- (a) Compute the ratio of liabilities to stockholders' equity for each year. Round your answer to two decimal places.
- (b) Has the creditors' risk increased or decreased from December 31, Year 1, to December 31, Year 2?

ANSWER: (a)

	<u>Dec. 31, Year 2</u>	<u>Dec. 31, Year 1</u>
Total liabilities	\$128,250	\$120,000
Total stockholders' equity	95,000	80,000
Ratio of liabilities to stockholders' equity	<u>1.35</u>	<u>1.50</u>
	(\$128,250/\$95,000)	(\$120,000/\$80,000)

(b) Decreased

224. Company G has a ratio of liabilities to stockholders' equity of 0.12 and 0.28 for Year 1 and Year 2, respectively. In contrast, Company M has a ratio of liabilities to stockholders' equity of 1.13 and 1.29 for the same period.

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REQUIRED:

Based on this information, which company's creditors are more at risk and why? Should the creditors of either company fear the risk of nonpayment?

ANSWER: Company M's creditors are more at risk than are Company G's creditors. The lower the ratio of liabilities to owner's equity, the better able the company is to withstand poor business conditions and pay its obligations to creditors. Without additional information, it appears that the creditors of either company are well protected against the risk of nonpayment, because the ratios are relatively low for both. However, the fact that both ratios are increasing over the period should be monitored for downturns in business conditions.

225. The following data were taken from Miller Company's balance sheet:

	<u>Dec. 31, Year 2</u>	<u>Dec. 31, Year 1</u>
Total liabilities	\$150,000	\$105,000
Total stockholders' equity	75,000	60,000

(a) Compute the ratio of liabilities to stockholders' equity. Round your answer to one decimal place.

(b) Has the creditors' risk increased or decreased from December 31, Year 1, to December 31, Year 2?

ANSWER: (a) 12/31/Year 2: $\$150,000/\$75,000 = \underline{2.0}$
12/31/Year 1: $\$105,000/\$60,000 = \underline{1.8}$

(b) Increased

226. Any twelve-month accounting period adopted by a company is known as its fiscal year.

- a. True
- b. False

ANSWER: True

227. A fiscal year that ends when business activities have reached their lowest point is called the natural business year.

- a. True
- b. False

ANSWER: True

228. All companies must use a calendar year as their fiscal year.

- a. True
- b. False

ANSWER: False

229. The majority of businesses end their fiscal year on December 31.

- a. True
- b. False

ANSWER: True

230. Financial reports that allow users to identify the similarities and differences among reported items are said to demonstrate

- a. timeliness
- b. understandability

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- c. comparability
- d. verifiability

ANSWER:

c

231. Financial reports that are available for user's to use in decision making show

- a. timeliness
- b. understandability
- c. comparability
- d. verifiability

ANSWER:

a

232. Relevant and faithful representation of accounting data is enhanced when financial reports are clear and concise. Such reports demonstrate

- a. timeliness
- b. understandability
- c. comparability
- d. verifiability

ANSWER:

b

233. Financial reports are said to be verifiable when

- a. they are available in time to influence users' decisions.
- b. they are formatted clearly and concisely.
- c. they demonstrate the similarities and differences among reported items.
- d. users can agree on the meaning of reported items.

ANSWER:

d

234. A fiscal year for a business

- a. ordinarily begins on the first day of a month and ends on the last day of the following twelfth month
- b. is determined by the federal government
- c. always begins on January 1 and ends on December 31 of the same year
- d. should end at the height of the business's annual operating cycle

ANSWER:

a

235. The natural business year is a

- a. fiscal year that ends when business activities are at their lowest point
- b. calendar year that ends when business activities are at their lowest point
- c. fiscal year that ends when business activities are at their highest point
- d. calendar year that ends when business activities are at their highest point

ANSWER:

a

236. Resources owned by a business are known as

- a. debts
- b. liabilities

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- c. assets
- d. equity

ANSWER:

c

237. The rights of owners in a corporation are referred to as

- a. proprietor's equity
- b. stockholder's equity
- c. dividends
- d. equity in assets

ANSWER:

b

238. The assets and stockholder's equity of a company are \$159,000 and \$95,000, respectively. Liabilities should equal

- a. \$64,000
- b. \$46,000
- c. \$254,000
- d. \$95,000

ANSWER:

a

239. The liabilities and stockholder's equity of a company are \$132,000 and \$244,000, respectively. Assets should equal

- a. \$188,000
- b. \$132,000
- c. \$376,000
- d. \$112,000

ANSWER:

c

240. Stockholders' equity at the beginning of the year for ATLAS Inc. was \$390,000, while its liabilities totaled \$230,000. During the year its assets increased by \$75,000; its liabilities decreased by \$50,000. Which of these is stockholders' equity at the end of the year for ATLAS Inc.?

- a. \$107,000
- b. \$98,000
- c. \$415,000
- d. \$515,000

ANSWER:

d

241. At the beginning of the year, Winton Company's assets were \$180,000 and its stockholders' equity was \$82,000. During the year, assets increased by \$25,000 and liabilities increased by \$9,000. What was the stockholders' equity at the end of the year?

- a. \$107,000
- b. \$98,000
- c. \$114,000
- d. \$116,000

ANSWER:

b

242. The assets and liabilities of Bennett Designs at December 31, the end of the current year, and its revenue and

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expenses for the year are listed below. What were the total assets on December 31?

Accounts payable	\$ 42,000	Miscellaneous expense	\$ 1,030
Accounts receivable	10,340	Office expense	1,240
Cash	21,420	Supplies	1,670
Fees earned	73,450	Wages expense	23,550
Land	47,000	Dividends	16,570
Building	157,630		

- a. \$238,060
- b. \$236,390
- c. \$309,840
- d. \$33,430

ANSWER:

a

243. Redfox Pest Control Service had revenues of \$425,000 and expenses of \$338,000 for the current year, ended June 30. At the beginning of the year, the common stock was \$110,000 and the retained earnings was \$70,000. During the year, shareholders purchased an additional \$25,000 in stock. Dividends of \$16,750 were paid. What is the balance of stockholders' equity at the end of the year?

- a. \$292,000
- b. \$267,250
- c. \$205,250
- d. \$275,250

ANSWER:

d

244. Revenues for the year totaled \$162,000 and expenses totaled \$174,000. The stockholders purchased \$15,000 of common stock and were paid \$6,000 in dividends during the year. What was the net income or net loss for the year?

- a. \$12,000 net income
- b. \$12,000 net loss
- c. \$18,000 net loss
- d. \$6,000 net loss

ANSWER:

b