Chapter 01
Introducing Accounting in Business

True / False Questions

[Question]

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Accounting

[Question]

2. Bookkeeping is the sole purpose of accounting.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Accounting

[Question]

3. Accounting is one way important financial information about businesses is reported to decision makers.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Accounting

[Question]

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Managerial Accounting
Topic: Internal Information Users

[Question]

5. The internal information users of a business include the managers of: research and development, distribution, and human resources.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C2
Topic: Internal Information Users

[Question]

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C2
Topic: Financial Accounting
Topic: General Purpose Financial Statements

[Question]

7. External auditors audit the financial statements to verify that they are prepared according to generally accepted accounting principles.
Answer: True

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: External Auditor

[Question]

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C2
Topic: Internal Information Users

[Question]

9. Auditors are banned from direct investments with their clients.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C3
Topic: Ethics

[Question]

10. Ownership of a corporation is divided into units called *shares* or *stock*.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Stock

[Question]

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Financial Accounting Standards Board

[Question]

12. Generally accepted accounting principles are the concepts and rules for preparing financial statements.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Generally Accepted Accounting Principles

[Question]

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Business Entity Assumption

[Question]

14. Unlimited liability is an advantage of all sole proprietorships.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Unlimited Liability

[Question]

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Generally Accepted Accounting Principles

[Question]

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: International Accounting Standards Board

[Question]

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Cost Principle

[Question]

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: International Accounting Standards Board

[Question]

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: International Accounting Standards Board
Topic: International Financial Reporting Standards

[Question]

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Securities and Exchange Commission

[Question]

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C5
Topic: Business Activities

[Question]

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C5
Topic: Planning

[Question]

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C5
Topic: Investing Activities

[Question]

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C5
Topic: Owner Financing

[Question]

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Revenue

[Question]

26. A net loss arises when revenues exceed expenses.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Net Loss

[Question]

27. Expenses decrease retained earnings and are the costs incurred to earn revenues.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Expenses

[Question]

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Assets

[Question]

29. Dividends are expenses of a business.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Dividends

[Question]

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Accounting Equation

[Question]

31. The accounting equation implies that: Assets + Liabilities = Equity.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Accounting Equation

[Question]

32. Every business transaction should leave the accounting equation in balance.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Accounting Equation

[Question]

33. Retained earnings are increased when cash is received from customers in payment of previously recorded accounts receivable.
Answer: FALSE

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Retained Earnings

[Question]

34. Reebok's net income of $119 million and average assets of $1,400 million results in a return on assets of 8.5%.
Answer: TRUE

Feedback:
Return on assets = Net income / Average assets
=119/1,400
=.085

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A2
Topic: Return on Assets

[Question]

35. Risk is the amount of uncertainty about the return we expect to earn in the future.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
AICPA FN: Risk Analysis
Difficulty: 1 Easy
Learning Objective: 01-A3
Topic: Risk

[Question]

36. The balance sheet shows whether or not the firm achieved its primary objective of earning a profit.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Balance Sheet

[Question]

37. A balance sheet covers a period of time, such as a month or year.
Answer: FALSE

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Balance Sheet

[Question]

38. The income statement is a financial statement that shows revenues earned and expenses incurred during a specified period of time.
Answer: TRUE

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Income Statement

[Question]

39. The statement of cash flows shows the net effect of revenues and expenses for a reporting period.
Answer: FALSE

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Statement of Cash Flows

[Question]

40. The income statement shows the financial position of a business on a specific date.
Answer: FALSE

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Income Statement

[Question]

41. The balance sheet is based on the accounting equation.
Answer: TRUE

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Balance Sheet

[Question]

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Investing Activities

[Question]

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Operating Activities

[Question]

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Investing Activities

[Question]

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Statement of Cash Flows

[Question]

46. FastForward paid $6,000 in dividends. This amount should be included as an expense on the income statement.
Answer: FALSE

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Income Statement
Topic: Expense

Multiple Choice Questions

[Question]

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

A. To establish a business.
B. To identify, record, and communicate business transactions.
C. To earn a large profit.
D. To reduce taxes owed for the business.
E. To establish credit for a company.

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Accounting

[Question]

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

Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Technology

[Question]

49. Identifying business activities requires selecting transactions and events relevant to an organization. Which of the following events would be recorded in the accounting records of Acme Car Wash?
A. Acme washes 500 cars.
B. J.B. Smith, a customer, buys lunch at the restaurant next door to Acme while waiting for her car to be washed.
C. Clean Company, a supplier, sells 50 pounds of soap to ABC Company.
D. Sudsey Company, a supplier, goes out of business.
E. Acme hires Andrea as a receptionist.

Answer: A

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Transactions

[Question]

50. Internal users of accounting information include:
A. Shareholders
B. Customers
C. Creditors
D. Government regulators
E. Production managers

Answer: E

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Internal Information Users

[Question]

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

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C2
Topic: Financial Accounting

[Question]

52. Internal users of accounting information always include:
A. Shareholders
B. Managers
C. Lenders
D. Suppliers
E. Customers

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C2
Topic: Internal Information Users

[Question]

53. The area of accounting aimed at serving the decision-making needs of internal users is:
A. Financial accounting
B. Managerial accounting
C. External auditing
D. SEC reporting
E. Governmental accounting

Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Managerial Accounting
Topic: Internal Information Users

[Question]

54. Why are ethics crucial to accounting?
A. Ethical behavior creates the most profit for the business.
B. Ethics are a tool which help the accountants balance the accounting equation.
C. For accounting information to be useful, it must be trusted and therefore the result of ethical decisions.
D. Ethics are important to consider when applying GAAP but do not apply to international accounting issues.
E. Ethics are a way to compute revenues and expenses, but they do not apply to assets, liabilities, and owners' equity.

Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C3
Topic: Ethics

[Question]

55. What is the opportunity component of the fraud triangle?
A. A person thinks that there is a way to commit fraud without much chance of getting caught.
B. A person has a really good reason to commit fraud.
C. A person does not think of the fraudulent activity as bad.
D. A person persuades two or more other people to assist with the fraud.
E. A person is concerned about the impact of their actions on society.

Answer: A

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C3
Topic: Ethics
Topic: Fraud Triangle
Topic: Opportunity

[Question]

56. Which accounting assumption assumes that all accounting information can be reported monthly or yearly?

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

Answer: E

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4

Topic: Time Period Assumption

[Question]

57. Which of the following accounting principles dictates when expenses are recognized?
A. Revenue recognition principle
B. Monetary unit principle
C. Business entity principle
D. Matching principle
E. Full disclosure principle

Answer: D

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Matching Principle

[Question]

58. Which of the following is the correct sequence for the heading for ABC Company's 2013 balance sheet?
A. ABC Company, For the year ended 12/31/13, Balance Sheet
B. For the year ended 12/31/13, Balance Sheet, ABC Company
C. Balance Sheet, 12/31/13, ABC Company
D. 12/31/13, ABC Company, Balance Sheet
E. ABC Company, Balance Sheet, 12/31/13

Answer: E

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Balance Sheet

[Question]

59. Which of the following elements are found on the income statement?
A. Cash
B. Accounts receivable
C. Common stock
D. Retained earnings
E. Salaries expense

Answer: E

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Income Statement

[Question]

60. An asset is:

A. Only acquired with cash.
B. Something the company owns.
C. Only contributed by stockholders.
D. A company's obligation to pay.
E. Is also called contributed capital.

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Asset

[Question]

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

Answer: A

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C3
Topic: Ethics

[Question]

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

Answer: A

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Diversity
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C3
Topic: Ethics
Topic: Social Responsibility

[Question]

63. Which of the following elements are found on the balance sheet?
A. Service revenue
B. Net income
C. Operating activities
D. Utilities expense
E. Retained earnings

Answer: E

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Diversity
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Balance Sheet

[Question]

64. The accounting guideline prescribing that financial statement information be supported by independent, unbiased evidence other than someone's belief or opinion is the:
A. Business entity principle
B. Monetary unit principle
C. Going-concern principle
D. Objectivity principle
E. Full disclosure principle

Answer: D

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Objectivity Principle

[Question]

65. Businesses can take all of the following forms except:
A. Sole proprietorship
B. Common stock
C. Partnership
D. Corporation
E. Limited liability corporation

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Business Forms

[Question]

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

Answer: A

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Corporation

[Question]

67. Generally Accepted Accounting Principles:

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

Answer: D

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Generally Accepted Accounting Principles

[Question]

68. The organization that attempts to create more harmony among the accounting practices of different countries by identifying preferred practices and encouraging their worldwide acceptance is the:
A. AICPA
B. FASB
C. CAP
D. SEC
E. IASB

Answer: E

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Diversity
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: International Accounting Standards Board

[Question]

69. The private board that currently has the authority to establish U.S. generally accepted accounting principles is the:
A. APB
B. FASB
C. AAA
D. AICPA
E. SEC

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Financial Accounting Standards Board

[Question]

70. Which of the following statements best describes the relationship of U.S. GAAP and IFRS?
A. They are identical.
B. They are entirely different conceptual frameworks.
C. They are similar but not identical.
D. Neither has anything to do with accounting.
E. They both relate only to publicly traded companies.

Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Generally Accepted Accounting Principles
Topic: International Financial Reporting Standards

[Question]

71. The principle prescribing that financial statements reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue, is the:
A. Going-concern principle
B. Business entity principle
C. Objectivity principle
D. Cost principle
E. Monetary unit principle

Answer: A

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Going Concern Principle

[Question]

72. A parcel of land is: offered for sale at $150,000, assessed for tax purposes at $95,000, recognized by its purchasers as being worth $140,000, and purchased for $137,000. The land should be recorded in the purchaser's books at:
A. $95,000
B. $137,000
C. $138,500
D. $140,000
E. $150,000

Answer: B

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C4
Topic: Cost Principle

[Question]

73. To include the personal assets and transactions of a business's owner in the records and reports of the business would be in conflict with the:
A. Objectivity principle
B. Realization principle
C. Business entity principle
D. Going-concern principle
E. Revenue recognition principle

Answer: C

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C4
Topic: Business Entity Principle

[Question]

74. The accounting principle that requires accounting information to be based on actual cost and requires assets and services to be recorded initially at the amount of cash or cash equivalent given in exchange is the:
A. Accounting equation
B. Cost principle
C. Going-concern principle
D. Realization principle
E. Business entity principle

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Cost Principle

[Question]

75. Recording the items on the financial statements in dollars is done because of the:
A. Objectivity principle
B. Monetary unit principle
C. Revenue recognition principle
D. Going-concern principle
E. Cost principle

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Monetary Unit Principle

[Question]

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

Answer: A

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Objectivity Principle

[Question]

77. The principle that (A) requires revenue to be recognized at the time it is earned, (B) allows the inflow of assets associated with revenue to be in a form other than cash, and (C) measures the amount of revenue as the cash plus the cash equivalent value of any noncash assets received from customers in exchange for goods or services is called the:
A. Going-concern principle
B. Cost principle
C. Revenue recognition principle
D. Objectivity principle
E. Business entity principle

Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Revenue Recognition Principle

[Question]

78. The question of when revenue should be recognized on the income statement (according to GAAP) is addressed by the:
A. Revenue recognition principle
B. Going-concern principle
C. Objectivity principle
D. Business entity principle
E. Cost principle

Answer: A

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Revenue Recognition Principle

[Question]

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

Answer: A

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Diversity
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: International Accounting Standards Board

[Question]

80. The Maximum Experience Company acquired a building for $500,000. Maximum Experience had an appraisal done and found that the building was worth $575,000. The seller had paid $300,000 for the building six years ago. Which accounting principle would prescribe that Maximum Experience record the building on its records at $500,000?
A. Monetary unit principle
B. Going-concern principle
C. Cost principle
D. Business entity principle
E. Revenue recognition principle

Answer: C

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C4
Topic: Cost Principle

[Question]

81. On December 15, 2013, Myers Legal Services signed a $50,000 contract with a client to provide legal services to the client in 2014. Which accounting principle would require Myers Legal Services to record the legal fees revenue in 2014 and not 2013?
A. Monetary unit principle
B. Going-concern principle
C. Cost principle
D. Business entity principle
E**.** Revenue recognition principle

Answer: E

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C4
Topic: Revenue Recognition Principle

[Question]

82. Marian Mosely is the owner of Mosely Accounting Services. Which accounting assumption requires Marian to keep her personal financial information separate from the financial information of Mosely Accounting Services?
A. Monetary unit assumption
B. Going-concern assumption
C. Cost assumption
D. Business entity assumption
E. Full disclosure assumption

Answer: D

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C4
Topic: Business Entity Assumption

[Question]

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

Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Sarbanes Oxley Act

[Question]

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

Answer: A

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Limited Partnership

[Question]

85. The owners of a partnership:
A. Have created an entity that can also be called a sole proprietorship.
B. Have unlimited liability.
C. Have to have a written agreement in order to be legal.
D. Have created a legal organization separate from its owners.
E. Are called shareholders.

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Partnership
Topic: Unlimited Liability

[Question]

86. According to generally accepted accounting principles, a company's balance sheet should show the company's assets at:
A. The cash equivalent value of what was given up.
B. The current market value of the assets at the balance sheet date.
C. The cash paid to acquire them, even if something other than cash was given in the exchange.
D. The best estimate from a certified internal auditor.
E. The objective value to external users.

Answer: A

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C4
Topic: Cost Principle

[Question]

87. Which of the following accounting principles would prescribe that all goods and services purchased are recorded at cost?
A. Going-concern principle
B. Continuing-concern principle
C. Cost principle
D. Business entity principle
E. Consideration principle

Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Cost Principle

[Question]

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

Answer: D

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C4
Topic: Revenue Recognition Principle

[Question]

89. An example of a financing activity is:
A. Buying office supplies.
B. Obtaining a long-term loan.
C. Buying office equipment.
D. Selling inventory.
E. Buying land.

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C5
Topic: Financing Activities

[Question]

90. An example of an operating activity is:
A. Paying wages.
B. Purchasing office equipment.
C. Borrowing money from a bank.
D. Selling stock.
E. Paying off a loan.

Answer: A

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C5
Topic: Operating Activities

[Question]

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

Answer: C

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C5
Topic: Planning Activities

[Question]

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

Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C5
Topic: Operating Activities

[Question]

93. The major activities of a business include:
A. Operating, investing, making a profit
B. Investing, making a profit, operating
C. Making a profit, operating, borrowing
D. Operating, investing, financing
E. Investing, making a profit, financing

Answer: D

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C5
Topic: Operating Activities
Topic: Investing Activities
Topic: Financing Activities

[Question]

94. An example of an investing activity is:
A. Paying wages of employees.
B. Paying dividends.
C. Purchasing land.
D. Selling inventory.
E. Contribution from owner.

Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C5
Topic: Investing Activities

[Question]

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

Answer: D

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Net Income

[Question]

96. If equity is $300,000 and liabilities are $192,000, then assets equal:
A. $108,000
B. $192,000
C. $300,000
D. $492,000
E. $792,000

Answer: D

Feedback: Assets = Liabilities + Equity
= $192,000 + $300,000
= $492,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Accounting Equation
Topic: Assets

[Question]

97. Resources owned or controlled by a company that are expected to yield benefits are:
A. Assets
B. Revenues
C. Liabilities
D. Stockholder's equity
E. Expenses

Answer: A

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Assets

[Question]

98. Increases in retained earnings from a company's earnings activities are:
A. Assets
B. Revenues
C. Liabilities
D. Stockholder's equity
E. Expenses

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Revenue

[Question]

99. Net income is:
A. Assets minus liabilities.
B. The excess of revenues over expenses.
C. An asset.
D. The same as revenue.
E. The excess of expenses over retained earnings.

Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Net Income

[Question]

100. The difference between a company's assets and its liabilities is:
A. Net income
B. Expense
C. Equity
D. Revenue
E. Net loss

Answer: C

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Equity

[Question]

101. Creditors' claims on the assets of a company are called:
A. Net losses
B. Expenses
C. Revenues
D. Equity
E. Liabilities

Answer: E

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Liabilities

[Question]

102. Decreases in retained earnings that represent costs of assets or services that are used to earn revenues are called:
A. Liabilities
B. Equity
C. Withdrawals
D. Expenses
E. Contributed capital

Answer: D

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Expenses

[Question]

103. The description of the relation between a company's assets, liabilities, and equity, which is expressed as Assets = Liabilities + Equity, is known as the:
A. Income statement equation.
B. Accounting equation.
C. Business equation.
D. Return on equity ratio.
E. Net income.

Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Accounting Equation

[Question]

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

Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Expenses

[Question]

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

Answer: A

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Net Income

[Question]

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

Answer: D

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Revenue

[Question]

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

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

Answer: D

Feedback: Assets = Liabilities + Equity
$173,425 = $51,500 + X
X = $173,425 - $51,500
X = $121,925

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Accounting Equation
Topic: Equity

[Question]

108. Another name for equity is:
A. Net income
B. Expenses
C. Net assets
D. Revenue
E. Net loss

Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Equity

[Question]

109. Which of the following statements is not true about assets?
A. They are economic resources owned or controlled by the business.
B. They are expected to provide future benefits to the business.
C. They appear on the balance sheet.
D. They appear on the statement of retained earnings.
E. Claims on them are shared between creditors and owners.

Answer: D

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Assets

[Question]

110. The distribution of assets to stockholders is called a(n):
A. Liability
B. Dividend
C. Expense
D. Contribution
E. Investment

Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Dividend

[Question]

111. The assets of a company total $700,000; the liabilities, $200,000. What are the total claims of the owners?
A. $900,000
B. $700,000
C. $500,000
D. $200,000
E. It is impossible to determine unless the amount of owners' investment is known.

Answer: C

Feedback: Assets = Liabilities + Equity
$700,000 = $200,000 + X
X = $700,000 - $200,000
X = $500,000

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Equity
Topic: Accounting Equation

[Question]

112. Our company has three times as many assets as it does liabilities. If total liabilities are $55,000, what is the amount of owners' equity?
A. $55,000
B. $110,000
C. $165,000
D. $220,000
E. Owners' equity cannot be determined from the given information.

Answer: B

Feedback:
Assets = 3 (55,000) = 165,000
Assets 165,000 - Liabilities 55,000 = Owners' equity 110,000

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Equity
Topic: Accounting Equation

[Question]

113. A company has twice as much owner's equity as it does liabilities. If total liabilities are $50,000, what amount of assets are owned by the company?
A. $50,000
B. $100,000
C. $150,000
D. $200,000
E. Assets cannot be determined from the given information.

Answer: C

Feedback:
Owners' equity = 2 (50,000) = 100,000
Assets = Liabilities 50,000 + Owners' equity 100,000

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Equity
Topic: Accounting Equation

[Question]

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

Answer: B

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Assets
Topic: Revenue
Topic: Liabilities
Topic: Net Income

[Question]

115. Assets created by selling goods and services on credit are:
A. Accounts payable
B. Accounts receivable
C. Liabilities
D. Expenses
E. Equity

Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Accounts Receivable

[Question]

116. An exchange of value between two entities is called:
A. The accounting equation.
B. Recordkeeping or bookkeeping.
C. A business transaction.
D. An asset.
E. Net Income.

Answer: C

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P1
Topic: Transaction

[Question]

117. Photometer Company paid off $30,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?
A. Assets, $30,000 increase; liabilities, no effect; equity, $30,000 increase.
B. Assets, $30,000 decrease; liabilities, $30,000 decrease; equity, no effect.
C. Assets, $30,000 decrease; liabilities, $30,000 increase; equity, no effect.
D. Assets, no effect; liabilities, $30,000 decrease; equity, $30,000 increase.
E. Assets, $30,000 decrease; liabilities, no effect; equity $30,000 decrease.

Answer: B

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Transaction Analysis

[Question]

118. How would the accounting equation of Boston Company be affected by the billing of a client for $10,000 of consulting work completed?
A. +$10,000 accounts receivable, -$10,000 accounts payable.
B. +$10,000 accounts receivable, +$10,000 accounts payable.
C. +$10,000 accounts receivable, +$10,000 cash.
D. +$10,000 accounts receivable, +$10,000 consulting revenue.
E. +$10,000 accounts receivable, -$10,000 consulting revenue.

Answer: D

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Transaction Analysis

[Question]

119. Apatha Company has assets of $600,000, liabilities of $250,000, and equity of $350,000. It buys office equipment on credit for $75,000. The effects of this transaction include:
A. Assets increase by $75,000 and expenses increase by $75,000.
B. Assets increase by $75,000 and expenses decrease by $75,000.
C. Liabilities increase by $75,000 and expenses decrease by $75,000.
D. Assets decrease by $75,000 and expenses decrease by $75,000.
E. Assets increase by $75,000 and liabilities increase by $75,000.

Answer: E

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Transaction Analysis

[Question]

120. Viscount Company collected $42,000 cash on its accounts receivable. How does this transaction affect the company's accounting equation?
A. Assets decrease and equity increases
B. Both assets and liabilities decrease
C. Assets, liabilities, and equity are unchanged
D. Both assets and equity are unchanged and liabilities increase
E. Assets increase and equity decreases

Answer: C

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Transaction Analysis

[Question]

121. If the liabilities of a business increased $75,000 during a period of time and the equity in the business decreased $30,000 during the same period, the assets of the business must have:
A. Decreased $105,000
B. Decreased $45,000
C. Increased $30,000
D. Increased $45,000
E. Increased $105,000

Answer: D

Feedback:
Change in assets = Change in liabilities + Change in equity
Change in assets = $75,000 + (-$30,000) = +$45,000

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Transaction Analysis

[Question]

122. If the assets of a business increased $89,000 during a period of time and its liabilities increased $67,000 during the same period, equity in the business must have:
A. Increased $22,000
B. Decreased $22,000
C. Increased $89,000
D. Decreased $156,000
E. Increased $156,000

Answer: A

Feedback:
Change in assets = Change in liabilities + Change in equity
Change in assets = + $89,000 - $67,000 = +$22,000

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Transaction Analysis

[Question]

123. If the assets of a business increased $15,000 during a period of time and its equity decreased $4,000 during the same period, liabilities in the business must have:
A. Increased $11,000
B. Decreased $11,000
C. Increased $19,000
D. Decreased $19,000
E. Increased $61,000

Answer: C

Feedback:
Change in assets = Change in liabilities + Change in equity
+$15,000 = x - $4,000
x = +$19,000

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Transaction Analysis

[Question]

124. Beta Corporation purchased $100,000 worth of land by paying 10,000 cash and signing a $90,000 mortgage. Immediately prior to this transaction the corporation had assets, liabilities, and owners' equity in the amounts of $150,000, $30,000, and $120,000 respectively. What is the total amount of Beta Corporation's assets after this transaction has been recorded?
A. $240,000
B. $250,000
C. $160,000
D. $40,000
E. $260,000

Answer: A

Feedback: 150,000 (assets prior to transaction) + 100,000 (land) - (10,000) cash = 240,000

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Transaction Analysis

[Question]

125. A corporation purchased a $40,000 delivery truck by paying 4,000 cash and signing a $36,000 note payable. Immediately prior to this transaction the corporation had assets, liabilities, and owners' equity in the amounts of $75,000, $52,000, and $23,000 respectively. What is the total amount of the corporation's assets after this transaction has been recorded?
A. $115,000
B. $111,000
C. $79,000
D. $71,000
E. $75,000

Answer: B

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

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Transaction Analysis

[Question]

126. Return on assets is:
A. Also called rate of return.
B. Computed by dividing net income by average total assets.
C. Computed by multiplying net income by average total assets.
D. Used in helping evaluate expenses.
E. Found on the balance sheet.

Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A2
Topic: Return on Assets

[Question]

127. Reebok had income of $150 million and average assets of $1,800 million. Its return on assets is:
A. 8.33%
B. 83.3%
C. 12.0%
D. 120%
E. 16.7%

Answer: A

Feedback: $150 million/$1,800 million = 8.33%

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A2
Topic: Return on Assets

[Question]

128. FastForward has net income of $18,955 and assets at the beginning of the year of $200,000. Its assets at the end of the year total $246,000. Compute its return on assets.
A. 7.7%
B. 8.5%
C. 9.5%
D. 11.8%
E. 13.0%

Answer: B

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A2
Topic: Return on Assets

[Question]

129. Compute return on assets given net income of $13,764, beginning assets of $120,000, and ending assets of $176,000.
A. 4.65%
B. 7.82%
C. 9.3%
D. 11.47%
E. 21.51%

Answer: C

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

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A2
Topic: Return on Assets

[Question]

130. U.S. government bonds are:
A. High-risk and high-return investments.
B. Low-risk and low-return investments.
C. High-risk and low-return investments.
D. Low-risk and high-return investments.
E. High risk and no-return investments.

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A3
Topic: Risk

[Question]

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

Answer: C

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A3
Topic: Risk

[Question]

132. Consider the risk of the following investments. Choose the answer that lists the investments in order from highest expected return to lowest expected return.
A. Drilling exploration to discover oil, stock in a secure "blue chip" corporation, government bonds.
B. Stock in a secure "blue chip" corporation, government bonds, drilling exploration to discover oil.
C. Government bonds, drilling exploration to discover oil, stock in a secure "blue chip" corporation.
D. Drilling exploration to discover oil, government bonds, stock in a secure "blue chip" corporation.
E. Government bonds, stock in a secure "blue chip" corporation, drilling exploration to discover oil.

Answer: A

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A3
Topic: Risk

[Question]

133. The statement of cash flows reports on cash flows for: A. Operating activities
B. Revenue activities
C. Expense activities
D. Planning activities
E. Equity activities

Answer: A

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Operating Activities
Topic: Statement of Cash Flows

[Question]

134. The statement of cash flows reports information on:
A. Revenue activities
B. Expense activities
C. Financing activities
D. Equity activities
E. Asset activities

Answer: C

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Financing Activities
Topic: Statement of Cash Flows

[Question]

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

Answer: B

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Statement of Retained Earnings

[Question]

136. The financial statement that reports whether the business earned a profit and also lists the types and amounts of the revenues and expenses is called a(n):
A. Balance sheet.
B. Statement of retained earnings.
C. Statement of cash flows.
D. Income statement.
E. Statement of financial position.

Answer: D

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Income Statement

[Question]

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

Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Balance Sheet

[Question]

138. A financial statement providing information that helps users understand a company's financial status and lists the types and amounts of assets, liabilities, and equity as of a specific date is called a(n):
A. Balance sheet.
B. Income statement.
C. Statement of cash flows.
D. Statement of retained earnings.
E. Financial status statement.

Answer: A

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Balance Sheet

[Question]

139. The financial statement that describes where a company's cash came from and how it was spent during the period is the:
A. Statement of financial position.
B. Statement of cash flows.
C. Balance sheet.
D. Income statement.
E. Statement of retained earnings.

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Statement of Cash Flows

[Question]

140. The financial statement that shows beginning and ending retained earnings balances and the effects of net income (loss) and a dividend for the period is the:
A. Statement of financial position.
B. Statement of cash flows.
C. Balance sheet.
D. Income statement.
E. Statement of retained earnings.

Answer: E

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Statement of Retained Earnings

[Question]

141. Cash investments by owners in exchange for stock are listed on which of the following statements?
A. Balance sheet.
B. Income statement.
C. Statement of retained earnings.
D. Statement of cash flows.
E. Statement of cash received

Answer: D

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Statement of Cash Flows

[Question]

142. Accounts payable appear on which of the following statements?
A. Balance sheet.
B. Income statement.
C. Statement of retained earnings.
D. Statement of cash flows.
E. Transaction statement.

Answer: A

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Balance Sheet
Topic: Accounts Payable

[Question]

143. The income statement reports all of the following except:
A. Revenues earned by a business.
B. Expenses incurred by a business.
C. Assets owned by a business.
D. Net income or loss earned by a business.
E. The time period over which the earnings occurred.

Answer: C

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Income Statement

[Question]

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

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

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

Answer: C

Feedback:
Assets = $57,000 + $206,000 + $175,000 = $438,000
Equity = $438,000 - $141,000 = $297,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Accounting Equation
Topic: Balance Sheet
Topic: Equity

[Question]

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

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

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

Answer: A

Feedback:
Expenses: $180,000 + $10,000 + $20,000 = $210,000
Net income = $400,000 - $210,000 = $190,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Income Statement
Topic: Net Income

[Question]

146. A company acquires equipment for $75,000 cash. This represents a(n):
A. Operating activity
B. Investing activity
C. Financing activity
D. Revenue activity
E. Expense activity

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Statement of Cash Flows
Topic: Operating Activity

[Question]

147. A company borrows $125,000 from the Eastside Bank and receives the loan proceeds in cash. This represents a(n):
A. Revenue activity
B. Operating activity
C. Expense activity
D. Investing activity
E. Financing activity

Answer: E

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Statement of Cash Flows
Topic: Financing Activity

[Question]

148. FastForward had cash inflows from operations of $62,500; cash outflows from investing activities of $47,000; and cash inflows from financing of $25,000. The net change in cash was:
A. $40,500 increase
B. $40,500 decrease
C. $134,500 decrease
D. $134,000 increase
E. $9,500 increase

Answer: A

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Statement of Cash Flows

[Question]

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

Accounts payable…………………………	$ 800
Accounts receivable……………………	700
Cash………………………………………	2,300
Wages expense…………………………	9,000
Wages payable…………………………	1,200

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

Answer: A

Feedback:

Assets:	$700 + $2,300 = $3,000
Liabilities:	$800 + $1,200 = $2,000
Equity:	$3,000 - $2,000 = $1,000

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Balance Sheet
Topic: Accounting Equation
Topic: Equity

[Question]

150. FastForward has beginning equity of $257,000, net income of $51,000, dividends of $40,000, and investments by owners in exchange for stock of $6,000. Its ending equity is:
A. $223,000
B. $240,000
C. $268,000
D. $274,000
E. $208,000

Answer: D

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Equity
Topic: Statement of Retained Earnings
Topic: Balance Sheet

[Question]

151. Acme Company had equity of $55,000 at the end of the current year. During the year the company had a $2,000 net loss and investments by owners in exchange for stock of $7,000. Compute equity as of the beginning of the year.
A. $5,000
B. $46,000
C. $50,000
D. $52,000
E. $64,000

Answer: C

Feedback:

x - $2,000 + $7000 = $55,000
x = $50,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Equity
Topic: Statement of Retained Earnings
Topic: Balance Sheet

[Question]

152. Rent expense that is paid with cash appears on which of the following statements?
A. Balance sheet
B. Income statement
C. Statement of retained earnings
D. Schedule of accounts receivable
E. Statement of cash received

Answer: B

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Income Statement
Topic: Expense

[Question]

153. Fees earned (but not yet received in cash) by a business in exchange for services that it has provided appear on which of the following statements?
A. Income statement
B. Statement of cash received
C. Statement of retained earnings
D. Statement of cash flows
E. Schedule of accounts receivable

Answer: A

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Income Statement
Topic: Revenue

[Question]

154. A company's balance sheet shows: cash $22,000, accounts receivable $16,000, office equipment $50,000, and accounts payable $17,000. What is the amount of equity?
A. $17,000
B. $29,000
C. $71,000
D. $88,000
E. $105,000

Answer: C

Feedback:
Assets = $22,000 + $16,000 + $50,000 = $88,000
Liabilities = $17,000
Equity = $88,000 - $17,000 = $71,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Balance Sheet
Topic: Accounting Equation
Topic: Equity

[Question]

155. A company reported total equity of $145,000 on its December 31, 2013, balance sheet. The following information is available for the year ended December 31, 2014:

2014 revenues……………..	$210,000
2014 expenses……………….	165,000
Liabilities, at December 31, 2014….	92,000

What are the total assets of the company at December 31, 2014?
A. $45,000
B. $92,000
C. $190,000
D. $210,000
E. $282,000

Answer: E

Feedback:

2014 net income = $210,000 - $165,000 = $45,000
2014 year-end equity = $145,000 + $45,000 = $190,000
2014 year-end assets = $92,000 + $190,000 = $282,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Balance Sheet
Topic: Accounting Equation
Topic: Assets

[Question]

156. A company had total equity of $89,000 on January 1, 2014. The following information is available for the year ended December 31, 2014:

2014 revenues	$350,000
2014 expenses	403,000
Liabilities, at December 31, 2014	27,000

What are the total assets of the company at December 31, 2014?
A. $27,000
B. $36,000
C. $53,000
D. $63,000
E. $350,000

Answer: D

Feedback:

2014 net loss = $350,000 - $403,000 = ($53,000)
2014 year-end equity = $89,000 - $53,000 = $36,000
2014 year-end assets = $27,000 + $36,000 = $63,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Balance Sheet
Topic: Accounting Equation
Topic: Assets

[Question]

157. If beginning retained earnings was $184,300, the company distributed $46,000 in dividends and ending retained earnings was $345,000, what was the net income for the period?
A. $154,700
B. $206,700
C. $114,700
D. $575,300
E. $160,700

Answer: B

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Equity
Topic: Statement of Retained Earnings
Topic: Net Income

[Question]

158. If beginning retained earnings was $184,300, net income for the period was $200,000 and ending retained earnings was $322,000, what was the total amount of dividend distributed for the period?
A. $62,300
B. $306,300
C. $337,700
D. $706,300
E. $137,700

Answer: A

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Equity
Topic: Statement of Retained Earnings
Topic: Dividends

[Question]

159. If net income for the period was $134,250, dividends distributed were $76,530 and ending retained earnings was $862,520, what was the beginning retained earnings for the period?

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

Answer: C

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Equity
Topic: Statement of Retained Earnings

[Question]

160. Beginning assets were $437,600, beginning liabilities were $262,560, common stock issued during the year totaled $45,000, revenue for the year was $414,250, expenses for the year were $280,000, dividends declared was $22,700, and ending liabilities is $$350,000.

What was the beginning equity for the year?

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

Answer: E

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Balance Sheet

[Question]

161. Beginning assets were $437,600, beginning liabilities were $262,560, common stock issued during the year totaled $45,000, revenue for the year was $414,250, expenses for the year were $280,000, dividends declared was $22,700, and ending liabilities is $$350,000.

What is the ending equity for the year?

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

Answer: B

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Balance Sheet
Topic: Accounting Equation
Topic: Equity

[Question]

162. Beginning assets were $437,600, beginning liabilities were $262,560, common stock issued during the year totaled $45,000, revenue for the year was $414,250, expenses for the year were $280,000, dividends declared was $22,700, and ending liabilities is $$350,000.

What is net income for the year?

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

Answer: C

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Income Statement
Topic: Net Income

[Question]

163. Beginning assets were $437,600, beginning liabilities were $262,560, common stock issued during the year totaled $45,000, revenue for the year was $414,250, expenses for the year were $280,000, dividends declared was $22,700, and ending liabilities is $$350,000.

What are the ending assets for the year?

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

Answer: D

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

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P1
Topic: Balance Sheet
Topic: Accounting Equation
Topic: Assets
Topic: Equity

[Question]

164. Beginning assets were $700,000, beginning equity was $225,000, revenue for the year was $523,000, common stock issued during the year totaled $320,000, expenses for the year were $392,000, ending equity is $751,000, and ending assets are $963,000.

What were the total dividends declared?

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

Answer: A

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Equity
Topic: Dividends
Topic: Statement of Retained Earnings

[Question]

165. Beginning assets were $700,000, beginning equity was $225,000, revenue for the year was $523,000, common stock issued during the year totaled $320,000, expenses for the year were $392,000, ending equity is $751,000, and ending assets are $963,000.

What were the beginning liabilities for the year?

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

Answer: E

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Accounting Equation
Topic: Balance Sheet
Topic: Liabilities

[Question]

166. Beginning assets were $700,000, beginning equity was $225,000, revenue for the year was $523,000, common stock issued during the year totaled $320,000, expenses for the year were $392,000, ending equity is $751,000, and ending assets are $963,000.

What are the ending liabilities for the year?

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

Answer: C

Feedback: 963,000 – 751,000 = 212,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Accounting Equation
Topic: Balance Sheet
Topic: Liabilities

[Question]

167. Ending liabilities are 67,000, beginning equity was $87,000, common stock issued during year totaled $31,000, expenses for the year were $22,000, dividends declared totaled $13,000, ending equity for the year is $181,000, and beginning assets for the year were $222,000.

What are the ending assets for the year?

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

Answer: D

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Accounting Equation
Topic: Balance Sheet
Topic: Assets

[Question]

168. Ending liabilities are 67,000, beginning equity was $87,000, common stock issued during year totaled $31,000, expenses for the year were $22,000, dividends declared totaled $13,000, ending equity for the year is $181,000, and beginning assets for the year were $222,000.

What was beginning liabilities for the year?

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

Answer: E

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Accounting Equation
Topic: Balance Sheet
Topic: Liabilities

[Question]

169. Ending liabilities are 67,000, beginning equity was $87,000, common stock issued during year totaled $31,000, expenses for the year were $22,000, dividends declared totaled $13,000, ending equity for the year is $181,000, and beginning assets for the year were $222,000.

What was revenue for the year?

A. $154,000
B. $155,000
C. $ 53,000
D. $ 98,000
E. $135,000

Answer: D

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Revenue
Topic: Income Statement
Topic: Equity

[Question]

170. Ending liabilities are 67,000, beginning equity was $87,000, common stock issued during year totaled $31,000, expenses for the year were $22,000, dividends declared totaled $13,000, ending equity for the year is $181,000, and beginning assets for the year were $222,000.

What was net income for the year?

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

Answer: B

Feedback: 181,000 + 13,000 + 22,000 - 31,000 - 87,000 = 98,000 (rev.) – 22,000 = 76,000

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Net Income
Topic: Income Statement
Topic: Equity

[Question]

171. Below is accounting information for Cascade Company for 2013:

Revenue	$416,000
Cash	$120,000
Common stock	$200,000
Expenses	$300,000
Equipment	$240,000
Accounts receivable	$35,000
Notes payable	$50,000
Notes receivable	$62,000

What was net income for the year?

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

Answer: E

Feedback: 416,000 – 300,000 = 116,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Net Income
Topic: Income Statement

[Question]

172. Below is accounting information for Cascade Company for 2013, its first year of business

Revenue	$416,000
Cash	$120,000
Common stock	$200,000
Expenses	$300,000
Equipment	$240,000
Accounts receivable	$35,000
Notes payable	$50,000
Notes receivable	$62,000

What was total equity at year end?

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

Answer: C

Feedback: 416,000 – 300,000 = 116,000 + 200,000

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Equity
Topic: Net Income
Topic: Balance Sheet

[Question]

173. Below is accounting information for Cascade Company for 2013:

Revenue	$416,000
Cash	$120,000
Common stock	$200,000
Expenses	$300,000
Equipment	$240,000
Accounts receivable	$35,000
Notes payable	$50,000
Notes receivable	$62,000

What were the total assets at year-end?

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

Answer: D
Feedback: 120,000 + 35,000 + 62,000 + 240,000 = 457,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Assets
Topic: Balance Sheet

Matching Questions

[Question]
174. Match the following terms with the appropriate definition:

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AACSB: Diversity
AACSB: Ethics
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy

Learning Objective:01- C1
Learning Objective: 01-C2.
Learning Objective: 01-C3
Learning Objective: 01-C4
Learning Objective:01- C5
Topic: Accounting
Topic: Recordkeeping
Topic: External Users
Topic: Internal Users
Topic: Operating Activities
Topic: Investing Activities
Topic: Financing Activities
Topic: Ethics
Topic: Social Responsibility
Topic: Cost Principle

[Question]

175. Match each of the following terms with the most appropriate definition:

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01- A1
Learning Objective: 01- A2
Learning Objective: 01- A3
Learning Objective: 01-C2
Learning Objective:01- P1
Topic: Risk
Topic: Managerial Accounting
Topic: Return on Assets
Topic: Liabilities
Topic: Expenses
Topic: Planning Activities
Topic: Financial Accounting
Topic: Net Income
Topic: Events
Topic: Revenues

[Question

176. The following is a list of selected users of accounting information. Match the appropriate user to the following information needs:

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
AICPA FN: Risk analysis
Difficulty: 3 Hard
Learning Objective: 01-C2
Topic: Internal Information Users
Topic: External Information Users

[Question]

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

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C4
Topic: Revenue Recognition Principle
Topic: Cost Principle
Topic: Business Entity Principle
Topic: Monetary Unit Principle
Topic: Objectivity Principle

[Question]

178. Match the following definitions with the terms. Place the number that identifies the best definition in the blank space next to the term.

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A1
Learning Objective: 01-C4
Learning Objective: 01-P1
Topic: Monetary Unit Principle
Topic: Expenses
Topic: Statement of Retained Earnings
Topic: Business Entity Principle
Topic: Statement of Cash Flows
Topic: Liabilities
Topic: Revenue Recognition Principle
Topic: Transaction
Topic: Accounting Equation

[Question]

179. Match each of the following with the appropriate section of the statement of cash flows

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C5
Topic: Operating Activities
Topic: Investing Activities
Topic: Financing Activities

[Question]

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

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Balance Sheet
Topic: Statement of Retained Earnings
Topic: Income Statement
Topic: Statement of Cash Flows

[Question]

181. Select the appropriate financial statement(s) for each of the following accounts.

1. Accounts Receivable	Balance sheet **2**
2. Cash	Statement of cash flows **6**
3. Fees Earned	Balance sheet **4**
4. Notes Payable	Income statement **3**
5. Common Stock	Balance sheet **5**
6. Net Financing Cash Flow	Balance sheet **1**
7. Rent Expense	Income statement **7**
8. Supplies Expense	Income statement **8**

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P2
Topic: Balance Sheet
Topic: Statement of Retained Earnings
Topic: Income Statement
Topic: Statement of Cash Flows

[Question]

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

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Operating Activities
Topic: Investing Activities
Topic: Financing Activities

Essay Questions

[Question]

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

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Accounting

[Question]

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

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P2
Topic: Balance Sheet

[Question]

185. Identify the users and uses of accounting information.

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C2
Topic: Internal Information Users
Topic: External Information Users

[Question]

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

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C1
Topic: Accounting

[Question]

187. Explain why ethics are an integral part of accounting.

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AACSB: Ethics
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C3
Topic: Ethics

[Question]

188. Describe the three important guidelines for revenue recognition.

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Revenue Recognition Principle

[Question]

189. Identify the three basic forms of business organizations.

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Sole Proprietorship
Topic: Partnership
Topic: Corporation

[Question]

190. How does the objectivity principle support ethical behavior?

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
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AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Decision Making
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C3
Learning Objective: 01-C4
Topic: Objectivity Principle
Topic: Ethics

[Question]

191. Why should assets be recorded at historical cost?

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Cost Principle

[Question]

192. Identify the two main groups involved in establishing generally accepted accounting principles in the United States.

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

Blooms Taxonomy: Remember
AACSB: Communication
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Global
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Financial Accounting Standards Board
Topic: Securities and Exchange Commission

[Question]

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

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C4
Topic: Going Concern Principle

[Question]

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

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C5
Topic: Operating Activities
Topic: Investing Activities
Topic: Financing Activities

[Question]

195. How do revenues and expenses affect net income?

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A1
Topic: Revenues
Topic: Expenses
Topic: Net Income

[Question]

196. Explain the accounting equation and define its terms.

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-A1
Topic: Accounting Equation
Topic: Assets
Topic: Liabilities
Topic: Equity

[Question]

197. What distinguishes liabilities from equity?

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

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Accounting Equation
Topic: Liabilities
Topic: Equity

[Question]

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

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-A2
Topic: Return on Assets

[Question]

199. Discuss the relationship of risk to return.

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
AICPA FN: Risk Analysis
Difficulty: 2 Medium
Learning Objective: 01-A3
Topic: Risk
Topic: Return

[Question]

200. Jack Dorsey, Evan Williams, and Biz Stone are the owners of the social communications network, *Twitter*. If they also own a personal collection of vintage bobble heads valued at $25,000, how would the bobble heads be reflected on the company books? State the accounting concept or principle that supports your answer.

Answer: The personal assets of the owners are *not* shown on the books of *Twitter*. The business entity principle states that the activities of a business are accounted for separately from the activities of its owners.

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-C4
Topic: Business Entity Principle

[Question]

201. Identify and describe the four basic financial statements.

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

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-P2
Topic: Income Statement
Topic: Statement of Retained Earnings
Topic: Income Statement
Topic: Statement of Cash Flows

Short Answer Questions

[Question]

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

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

	Proprietorship	Partnership	Corporation
a			
b			
c			
d			
e			
f			
g			

Answer:

	Proprietorship	Partnership	Corporation
a	no	no	yes
b	yes	no	Yes
c	yes	yes	no
d	no	no	yes
e	yes	yes	yes
f	no	yes	no
g	no	no	yes

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C4
Topic: Sole Proprietorship
Topic: Partnership
Topic: Corporation

[Question]

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

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

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C4
Topic: Cost Principle

[Question]

204. You are reviewing the accounting records of Cathy's Antiques, Inc. owned by Cathy Miller. You have uncovered the following situations. Compose a memo to Ms. Miller that cites the appropriate accounting principle and the suggested action for each separate situation.

A. In August, a check for $500 was written to Wee Day Care Center. This amount represents child care for her son Brandon.
B. Cathy plans a Going Out of Business Sale for May, since she will be closing her business for a month-long vacation in June. She plans to reopen July 1 and will continue operating Cathy's Antiques indefinitely.
C. Cathy received a shipment of pine furniture from Quebec, Canada. The invoice was stated in Canadian dollars.
D. Joseph Clark paid $1,500 for a dining table. The amount was recorded as revenue. The table will be delivered to Mr. Clark in six weeks.

Answer:

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-C4
Topic: Business Entity Principle
Topic: Going Concern Principle
Topic: Monetary Unit Principle
Topic: Revenue Recognition Principle

[Question]

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

Answer: Equity = $265,000 - $130,000 = $135,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Accounting Equation
Topic: Equity

[Question]

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

Answer: Assets = $475,000 + $925,000 = $1,400,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Accounting Equation
Topic: Assets

[Question]

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

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Accounting Equation
Topic: Liabilities

[Question]

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

Answer:
Beginning equity = $80,000
Ending equity = $260,000

Feedback:

Assets		Liabilities	Equity
Beginning	$200,000 =	$120,000+	$ 80,000
Change	+160,000 =	20,000-	180,000
Ending	$360,000 =	$100,000+	$260,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Accounting Equation
Topic: Equity

[Question]

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

	September 1	September 30
Cash	$40,000	60,000
Accounts Receivable	40,000	38,000
Accounts Payable	6,000	?

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

Answer:
Beginning equity 9/1: $74,000
Ending equity 9/30: $94,000

Feedback: Total assets:

	September 1	September 30
Cash	$40,000	$60,000
Accounts receivable	40,000	38,000
Total assets	$80,000	$98,000

At September 1: Assets = Liabilities + Equity
80,000 = 6,000 + Equity
Equity = $74,000
At September 30:

Equity, September 1	$74,000
Plus September net income	20,000
Equity, September 30	$94,000

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A1
Topic: Accounting Equation
Topic: Equity

[Question]

210. On May 1, Chuck Taylor formed FastForward, a shoe consulting business as a corporation. To start the business he invested $750,000 in cash. Enter the appropriate amounts for this transaction into the accounting equation format shown below:

Assets =	Liabilities +	Equity

Answer:

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Accounting Equation
Topic: Transaction Analysis

[Question]

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

Assets =	Liabilities +	Equity

Answer:

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Accounting Equation
Topic: Transaction Analysis

[Question]

212. A company purchased $7,000 of supplies and testing equipment on credit. Enter the appropriate amounts for this transaction into the accounting equation format shown below:

Assets =	Liabilities +	Equity

Answer:

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Accounting Equation
Topic: Transaction Analysis

[Question]

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

Assets =	Liabilities +	Equity

Answer:

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Accounting Equation
Topic: Transaction Analysis

[Question]

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

Assets =	Liabilities +	Equity

Answer:

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Accounting Equation
Topic: Transaction Analysis

[Question]

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

Assets =	Liabilities +	Equity

Answer: Assets would have increased $63,000.

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P1
Topic: Accounting Equation

[Question]

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

Answer: Assets increased $62,000.

Feedback: Assets = Liabilities + Equity
+ $62,000 = +$92,000 - $30,000

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Accounting Equation

[Question]

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

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Accounting Equation

[Question]

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

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

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

Increase = I Decrease = D No effect = N

Date	Assets	Liabilities	Equity
Example:			
September 1	I	N	I

Answer:

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P
Topic: Transaction Analysis
Topic: Accounting Equation 1

[Question]

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

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

Answer:

a. +A +E
b. +A +L
c. +A +E
d. +A - A
e. +A - A
f. -A - E
g. -A - L

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Transaction Analysis

[Question]

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

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

Answer:

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

Feedback:
(a) (30,000 + 30,100) = (a + 8,500) + (10,000 + 30,000)
a = 11,600
(b) -10,000
(c) -3,500

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Transaction Analysis
Topic: Accounting Equation

[Question]

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

	Cash +	Accounts Receivable +	Supplies +	Equipment -	Accounts Payable +	Common Stock +	Retained Earnings
a.	-20,000					+20,000	
b.	-5,000			-5,000			
c.			+1,500		+1,500		
d.	+3,000						+3,000
e.	+1,000	+1,500					+2,500
f.	-750				-750		
g.	+500	-500					
h.			-400				-400
i.	-2,000						-2,000

Provide descriptions for each transaction.

Answer:

a. Investment of cash in business by owner in exchange for stock.
b. Purchased equipment for cash.
c. Purchased supplies on credit.
d. Performed services for cash.
e. Performed services for both cash and on credit.
f. Paid accounts payable.
g. Received cash for an account receivable.
h. Used supplies in business.
i. Paid dividend or paid expense of business.

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P1
Topic: Transaction Analysis

[Question]

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

Assets =	Liabilities +	Equity

Answer:

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Transaction Analysis
Topic: Accounting Equation

[Question]

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

MAGIC VIDEO GAMES Balance Sheet September 1			
Assets		Equity	
Cash	$60,000	Common Stock	$60,000
Total assets	$60,000	Total liabilities and equity	$60,000

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

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

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

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

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

Sept.	1	
	5	
	9	
	11	
	15	

Answer:

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

Blooms Taxonomy: Understand
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 2 Medium
Learning Objective: 01-P1
Learning Objective: 01-P2
Topic: Transaction Analysis
Topic: Accounting Equation
Topic: Balance Sheet

[Question]

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

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A2
Topic: Return on Assets

[Question]

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

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A2
Topic: Return on Assets

[Question]

226. Identify the risk and the return in each of the following examples:
A. Investing $500 in a CD at 4.5% interest.
B. Placing a $100 bet on an NBA game.
C. Investing $10,000 in Microsoft stock.
D. Borrowing $20,000 in student loans.

Answer:

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

Blooms Taxonomy: Analyze
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
AICPA FN: Risk analysis
Difficulty: 3 Hard
Learning Objective: 01-A3
Topic: Risk
Topic: Return

[Question]

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

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-A1
Learning Objective: 01-P1
Topic: Balance Sheet
Topic: Accounting Equation
Topic: Assets

[Question]

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

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Income Statement
Topic: Net Income

[Question]

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

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Statement of Owners Equity
Topic: Equity

[Question]

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

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

Blooms Taxonomy: Apply
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Statement of Cash Flows

[Question]

231. Presented below is selected financial information for Stanley's Bike Shop. Using the appropriate information, prepare the income statement for 2014.

Total assets at December 31, 2014	$91,000
2014 expenses	38,000
Total equity at December 31, 2013	48,000
Total liabilities at December 31, 2013	35,000
2014 Revenues	46,000

Answer:

STANLEY'S BIKE SHOP Income Statement For the year ended December 31, 2014	
Revenues	$46,000
Expenses	(38,000)
Net income	$ 8,000

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Income Statement

[Question]

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

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

Answer:

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

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Balance Sheet

[Question]

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

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

Answer:

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

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Balance Sheet

[Question]

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

Answer:

MASLOW CONSULTING, INC. Statement of Retained Earnings For year ended December 31, 2011	
Retained earnings, December 31, 2010	$172,500
Plus net income	56,400 228,900
Less dividends	(48,000)
Retained earnings, December 31, 2011	$180,900

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Statement of Retained Earnings

[Question]

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

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

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

Answer:

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

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Income Statement

[Question]

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

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

Accounts Payable	$12,000	Office Furnishings	$40,000
Accounts Receivable	23,000	Dividends	6,000
Cash	17,200	Rent Expense	3,600
Fees Earned	30,000	Salaries Expense	6,200
Notes Payable	4,250	Telephone Expense	250

Answer:

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

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Statement of Retained Earnings

[Question]

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

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

Accounts Payable	$12,000	Office Furnishings	$40,000
Accounts Receivable	23,000	Dividends	6,000
Cash	17,200	Rent Expense	3,600
Fees Earned	30,000	Salaries Expense	6,200
Notes Payable	4,250	Telephone Expense	250

Answer:

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

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Balance Sheet

[Question]

238. Presented below is selected financial information for Stanley's Bike Shop. Using the appropriate information, prepare its balance sheet at December 31, 2014.

Total assets at December 31, 2014	$91,000
2014 expenses	38,000
Total equity at December 31, 2013	48,000
Total liabilities at December 31, 2014	35,000
2014 revenues	46,000

Answer:

STANLEY'S BIKE SHOP Balance Sheet December 31, 2014			
Assets	$91,000	Liabilities	$35,000
	______	Equity	56,000
Total assets	$91,000	Total liabilities and equity	$91,000

Feedback:
2014 net income = $46,000 - $38,000 = $8,000
2014 equity = $48,000 + $8,000 = $56,000

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Balance Sheet

[Question]

239. The following information is available for Skate and Boards Rental Company.

Assets at December 31, 2014	$152,000
2014 cash inflows from operating activities	105,000
2014 cash outflows from financing activities	(44,000)
2014 cash outflows from investing activities	(84,000)
2014 expenses	(43,000)
Retained earnings at December 31, 2013	50,000
Liabilities at December 31, 2014	28,000
Common stock at December 31, 2014	12,000
2014 revenues	135,000
2014 dividends	(30,000)

Using the above information prepare an income statement, statement of retained earnings and statement of cash flows for the Skate and Boards Rental for 2014. Also, prepare its balance sheet as of December 31, 2014. Assume that the 12/31/13 cash balance is $70,000.

Answer:

SKATE AND BOARDS RENTAL Income Statement For the year ended December 31, 2014		
Revenues		$135,000
Expenses		43,000
Net income		$92,000
SKATE AND BOARDS RENTAL Statement of Retained Earnings For the year ended December 31, 2014		
Retained earnings, December 31, 2013		$ 50,000
Add net income		92,000
Less dividends		(30,000)
Retained earnings, December 31, 2014		$112,000
SKATE AND BOARDS RENTAL Balance Sheet December 31, 2014		
Assets		$152,000
Liabilities		$ 28,000
Common stock		12,000
Retained earnings		112,000
Total equity		124,000
Total liabilities and equity		$152,000
SKATE AND BOARDS RENTAL Cash Flow Statement For the year ended December 31, 2014		
Cash inflow from operating activities		$105,000
Cash outflow from investing activities		(84,000)
Cash outflow from financing activities		(44,000)
Net decrease in cash		$(23,000)

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Income Statement
Topic: Statement of Retained Earnings
Topic: Balance Sheet
Topic: Statement of Cash Flows

[Question]

240. Data for Madison Realty are as follows:

Total assets at December 31, 2013	$100,000
Total liabilities at December 31, 2013	35,000
Total revenues 2014	79,000
Total expenses for 2014	47,000
Common stock at December 31, 2013	20,000

Madison Realty paid dividends of $30,000 during 2014. From the above data, prepare Madison Realty's statement of retained earnings for the year ended December 31, 2014.

Answer:

MADISON REALTY Statement of Retained Earnings For year Ended December 31, 2014	
Retained earnings, December 31, 2013*	$ 45,000
Plus net income*	32,000 77,000
Less dividends	(30,000)
Retained earnings, December 31, 2014	$ 47,000

Feedback:

Total assets, December 31, 2013	$100,000
Total liabilities, December 31, 2013	35,000
Total equity, December 31, 2013	65,000
Common stock, December 31, 2013	(20,000)
Retained earnings, December 31, 2013	$ 45,000
Revenues	$ 79,000
Expenses	47,000
Net income	$32,000

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Statement of Retained Earnings

[Question]

241. FastForward has the following beginning cash balance and cash transactions for the month of January. Using this information, prepare a statement of cash flows.

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

Answer:

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

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Statement of Cash Flows

[Question]

242. The records of Skymaster Airplane Rentals show the following information as of December 31, 2014:

Accounts payable	$ 36,000	2014 wages expense	$75,000
Insurance expense	2,000	2014 advertising expense	22,000
Accounts receivable	24,000	Cash	11,000
Retained earnings, December 31, 2013	130,000	Common stock Office furniture	20,000 15,000
Airplanes	150,000	2014 maintenance expense	39,000
Notes payable	47,000	2014 revenues	217,000
Hangar	60,000		

Dividends of $52,000 were paid during 2014.

Using the above information, prepare an income statement for 2014.

Answer:

SKYMASTER AIRPLANE RENTALS Income Statement For Year Ended December 31, 2014		
Revenues		$217,000
Expenses		
Insurance expense	$ 2,000	
Wages expense	75,000	
Advertising expense	22,000	
Maintenance expense	39,000	
Total expenses		138,000
Net income		$ 79,000

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Income Statement

[Question]

243. The records of Skymaster Airplane Rentals show the following information as of December 31, 2014:

Accounts payable	$36,000	2014 wages expense	$75,000
Insurance expense	2,000	2014 advertising expense	22,000
Accounts receivable	24,00	Cash	11,000
Retained earnings, December 31, 2013	130,000	Common stock Office furniture	20,000 15,000
Airplanes	150,000	2014 maintenance expense	39,000
Notes payable	47,000	2014 revenues	217,000
Hangar	60,000		

Dividends of $52,000 were paid during 2014.

Using the above information, prepare a statement of retained earnings for 2014.

Answer:

SKYMASTER AIRPLANE RENTALS Statement of Retained Earnings For Year Ended December 31, 2014	
Retained earnings, December 31, 2013	$130,000
Add: Net income	79,000 209,000
Less: Dividends	(52,000)
Retained earnings, December 31, 2014	$157,000

Feedback:

Revenues		$217,000
Expenses		
Insurance expense	$ 2,000	
Wages expense	75,000	
Advertising expense	22,000	
Maintenance expense	39,000	
Total expenses		138,000
Net income		$ 79,000

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Statement of Retained Earnings

244. The records of Skymaster Airplane Rentals show the following information as of December 31, 2014:

Accounts payable	$36,000	2014 wages expense	$75,000
Insurance expense	2,000	2014 advertising expense	22,000
Accounts receivable	24,000	Cash	11,000
Retained earnings, December 31, 2013	 130,000	Common stock Office furniture	20,000 15,000
Airplanes	150,000	2014 maintenance expense	39,000
Notes payable	47,000	2014 revenues	217,000
Hangar	60,000		

Dividends of $52,000 were paid during 2014.

Using the above information, prepare a balance sheet at December 31, 2014.

Answer:

SKYMASTER AIRPLANE RENTALS Balance Sheet December 31, 2014			
Assets		Liabilities	
Cash	$ 11,000	Accounts payable	$ 36,000
Accounts receivable	24,000	Notes payable	47,000
Airplane	150,000	Total liabilities	83,000
Hangar	60,000	Common stock	20,000
		Retained earnings	157,000
Office furniture	15,000	Total equity	177,000
Total assets	$260,000	Total liabilities and Equity	$260,000

Blooms Taxonomy: Create
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 3 Hard
Learning Objective: 01-P1
Topic: Balance Sheet

Fill in the Blank Questions

[Question]

245. _________________________ is the recording of transactions or events and is just one part of accounting.
Answer: Recordkeeping (or bookkeeping)

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Bookkeeping

[Question]

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

Answer: Information and measurement system (or information system)

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C1
Topic: Accounting

[Question]

247. A ____________________ is a noncorporate business that is owned by only one person.
Answer: Sole proprietorship

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Sole Proprietorship

[Question]

248. ______________ users of accounting information are users that are not directly involved in running the organization.
Answer: External

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: External Information Users

[Question]

249. ______________ is the area of accounting aimed at serving external users.
Answer: Financial accounting

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Communication
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA FN: Measurement
AICPA FN: Reporting
Difficulty: 1 Easy
Learning Objective: 01-C2
Topic: Financial Accounting

[Question]

250. ______________________ are procedures set up to protect company property and equipment, ensure reliable accounting reports, promote efficiency, and encourage adherence to company policies.
Answer: Internal controls

Blooms Taxonomy: Remember
AACSB: Analytic
AACSB: Ethics
AICPA BB: Critical Thinking
AICPA BB: Industry
AICPA BB: Legal
AICPA FN: Measurement
AICPA FN: Reporting
AICPA FN: Risk Analysis
Difficulty: 1 Easy
Learning Objective: 01-C4
Topic: Internal Controls