

CHAPTER 2—INTRODUCTION TO FINANCIAL STATEMENTS AND OTHER FINANCIAL REPORTING TOPICS

MULTIPLE CHOICE

1. At the end of the fiscal year, an adjusting entry is made that increases both interest expense and interest payable. This entry is an application for which accounting principle?
- Full disclosure
 - Materiality
 - Matching
 - Going concern
 - Realization

ANS: C PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Adjusting Entries | IMA: Reporting
TOP: The Accounting Cycle KEY: Bloom's: Application
NOT: Time: 1 min.

2. Who is responsible for the preparation and integrity of financial statements?
- A cost accountant
 - Management
 - An auditor
 - A bookkeeper
 - The FASB

ANS: B PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Reporting
TOP: Management's Responsibility for Financial Statements KEY: Bloom's: Knowledge
NOT: Time: 1 min.

3. Which of the following is not an objective of the SEC's integrated disclosure system?
- To coordinate the Form 10-K requirements with those of the annual report
 - To lessen the impact of the FASB
 - To expand the management discussion of liquidity, capital resources, and results of operations
 - To improve the quality of disclosure
 - To standardize information requirements

ANS: B PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: GAAP | IMA: Reporting
TOP: The SEC's Integrated Disclosure System KEY: Bloom's: Knowledge
NOT: Time: 3 min.

4. Which of the following is not a type of audit opinion?
- Unqualified opinion
 - Qualified opinion
 - Adverse opinion
 - Clean opinion
 - Disclaimer of opinion

ANS: D PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Reporting
TOP: Auditor's Opinion KEY: Bloom's: Knowledge
NOT: Time: 1 min.

5. Which of the following statements is not true?
- A qualified opinion or an adverse opinion may bring into question the reliability of the financial statements.
 - A disclaimer of opinion indicates that one should not look to the auditor's report as an indication of the reliability of the statements.
 - In some cases, outside accountants are associated with financial statements when they have performed less than an audit.
 - A review is substantially less in scope than an examination in accordance with generally accepted auditing statements.
 - The accountant's report expresses an opinion on reviewed financial statements.

ANS: E PTS: 1 DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Reporting
TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 3 min.

6. In addition to the balance sheet, the income statement, and the statement of cash flows, a complete set of financial statements must include:
- an auditor's opinion.
 - a ten-year summary of operations.
 - a note disclosure of such items as accounting policies.
 - historical common-size (percentage) summaries.
 - a list of corporate officers.

ANS: C PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Knowledge
NOT: Time: 1 min.

7. Which of the following statements is not correct concerning summary annual reports?
- A summary annual report omits much of the financial information included in an annual report.
 - When a company issues a summary annual report, the proxy materials it sends to shareholders must include a set of fully audited statements and other required financial disclosures.
 - A summary annual report generally has more nonfinancial pages than financial pages.
 - A summary annual report is adequate for reasonable analysis.
 - The concept of a summary annual report was approved by the Securities and Exchange Commission.

ANS: D PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
TOP: Summary Annual Report KEY: Bloom's: Comprehension
NOT: Time: 3 min.

8. Which of the following is not a true statement relating to the Treadway Commission?
- The Treadway Commission is the popular name for the National Commission on

Fraudulent Reporting.

- b. The Treadway Commission has released reports detailing internal control systems.
- c. Management's Report on Internal Control over Financial Reporting and the independent public accounting from report to the shareholders and board of directors often refer to criteria established on internal control by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- d. The Treadway Commission has issued a number of recommendations for the prevention of fraud on financial reports, ethics, and effective internal controls.
- e. The Treadway Commission is a voluntary-sector organization formed to support the Sarbanes-Oxley Act.

ANS: E PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Reporting
TOP: The Financial Statements KEY: Bloom's: Comprehension
NOT: Time: 3 min.

9. Which of these statements is not true?
- a. Transactions must be recorded in a journal.
 - b. All transactions could be recorded in the general journal.
 - c. Companies use a number of special journals to record most transactions.
 - d. Special journals are designed to improve record-keeping efficiency.
 - e. The form of the journals are the same from industry to industry.

ANS: E PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Recording Transactions | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Comprehension
NOT: Time: 3 min.

10. Which of these statements is not true?
- a. Asset, liability, and stockholders' equity accounts are referred to as permanent accounts.
 - b. Revenue, expense, and dividend accounts are described as temporary accounts.
 - c. Temporary accounts are closed at the end of the period to retained earnings.
 - d. The balance sheet will not balance until the temporary accounts are closed to retained earnings.
 - e. With double-entry, each transaction is recorded twice.

ANS: E PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Closing Entries | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Comprehension
NOT: Time: 3 min.

11. Which of the following is a type of audit opinion that a firm would usually prefer?
- a. Unqualified opinion
 - b. Qualified opinion
 - c. Adverse opinion
 - d. Clear opinion
 - e. None of the answers are correct.

ANS: A PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Reporting | ACBSP: Financial Statements | IMA: Reporting
TOP: Auditor's Opinion KEY: Bloom's: Knowledge

NOT: Time: 1 min.

12. Which of the following is a permanent account?
- Dividends
 - Advertising expense
 - Building
 - Selling expense
 - Insurance expense

ANS: C PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis

TOP: The Financial Statements KEY: Bloom's: Application

NOT: Time: 1 min.

13. Which of the following is a temporary account?
- Advertising expense
 - Land
 - Building
 - Accounts payable
 - Bonds payable

ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis

TOP: The Financial Statements KEY: Bloom's: Application

NOT: Time: 1 min.

14. In terms of debits and credits, which of the following accounts have the same normal balances?
- Accounts payable, accounts receivable, notes payable
 - Dividends, accounts receivable, notes payable
 - Advertising expense, selling expense, accounts receivable
 - Land, building, accounts payable
 - Common stock, notes payable, land

ANS: C PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Recording Transactions | IMA: Financial Statement Analysis

TOP: The Financial Statements KEY: Bloom's: Application

NOT: Time: 3 min.

15. If liabilities total \$70,000 and stockholders' equity totals \$50,000, then total assets must be:
- \$20,000.
 - \$80,000.
 - \$120,000.
 - \$30,000.
 - \$30,000.

ANS: C PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis

TOP: The Financial Statements KEY: Bloom's: Application

NOT: Time: 3 min.

16. Tiffin Company had retained earnings of \$50,000 at the end of last year. For the current year, income was \$20,000 and dividends \$15,000. What is the balance in retained earnings at the end of the current year?
- a. \$85,000
 - b. \$45,000
 - c. \$55,000
 - d. \$60,000
 - e. none of the answers are correct

ANS: C

PTS: 1

DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis

TOP: The Financial Statements

KEY: Bloom's: Application

NOT: Time: 3 min.

17. Smith Company had retained earnings of \$60,000 at the end of the current year. For the current year, income was \$30,000 and dividends \$10,000. What was the balance in retained earnings at the end of the prior year?
- a. \$30,000
 - b. \$40,000
 - c. \$60,000
 - d. \$30,000
 - e. \$70,000

ANS: B

PTS: 1

DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis

TOP: The Financial Statements

KEY: Bloom's: Application

NOT: Time: 3 min.

TRUE/FALSE

1. Financial statements of legally separate entities may be issued to show financial position, income, and cash flow as they would appear if the companies were a single entity.

ANS: T

PTS: 1

DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis

TOP: Consolidated Statements

KEY: Bloom's: Knowledge

NOT: Time: 1 min.

2. A disclaimer of opinion is necessary when the exceptions to fair presentation are so material that a qualified opinion is not justified.

ANS: F

PTS: 1

DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Reporting | ACBSP: Financial Statement Analysis | IMA: Reporting

TOP: Auditor's Opinion

KEY: Bloom's: Knowledge

NOT: Time: 1 min.

3. The responsibility for the preparation and integrity of financial statements rests with management.

ANS: T

PTS: 1

DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Management's Responsibility for Financial Statements
KEY: Bloom's: Knowledge NOT: Time: 1 min.

4. The assets for the balance sheet must equal the liabilities and stockholders' equity.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Knowledge
NOT: Time: 1 min.

5. The retained earnings account is the link between the balance sheet and the statement of cash flows.

ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Comprehension
NOT: Time: 1 min.

6. A summary annual report is a condensed annual report that omits much of the financial information included in a typical annual report.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Summary Annual Report KEY: Bloom's: Comprehension
NOT: Time: 1 min.

7. A sole proprietorship is a legal entity separate from its owner.

ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Business Forms | IMA: Financial Statement Analysis
TOP: Forms of Business Entities KEY: Bloom's: Comprehension
NOT: Time: 1 min.

8. A partnership is a business owned by two or more individuals. Each owner is personally responsible for the debts of the partnership.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Business Forms | IMA: Financial Statement Analysis
TOP: Forms of Business Entities KEY: Bloom's: Comprehension
NOT: Time: 1 min.

9. A corporation is considered to be a legal entity separate and distinct from the stockholders.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Business Forms | IMA: Financial Statement Analysis
TOP: Forms of Business Entities KEY: Bloom's: Comprehension
NOT: Time: 1 min.

10. The principal financial statements of a corporation are the balance sheet, income statement, and statement of cash flows.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Knowledge
NOT: Time: 1 min.

11. A balance sheet shows the financial condition of an accounting entity for a particular period of time.

ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Knowledge
NOT: Time: 1 min.

12. At any point in time, assets must equal the contribution of the creditors only.

ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Comprehension
NOT: Time: 1 min.

13. The income statement is a summary of revenues and expenses and gains and losses, ending with net income, for a particular period of time.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Knowledge
NOT: Time: 1 min.

14. Retained earnings always shows a positive balance.

ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Application
NOT: Time: 1 min.

15. The statement of retained earnings reconciles the beginning retained earnings balance to the retained earnings balance at the end of the current period.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Comprehension
NOT: Time: 1 min.

16. The statement of cash flows consists of two sections: cash flows from operating activities and cash flows from financing activities.

ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Knowledge
NOT: Time: 1 min.

17. Contingent liabilities are recorded as a liability only if the loss is considered substantial and the amount is reasonably determinable.

ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Comprehension
NOT: Time: 1 min.

18. The sequence of accounting procedures completed during each accounting period is called the accounting cycle.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Accounting Cycle | IMA: Financial Statement Analysis
TOP: The Accounting Cycle KEY: Bloom's: Comprehension
NOT: Time: 1 min.

19. Transactions must be external to the company.

ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Recording Transactions | IMA: Financial Statement Analysis
TOP: The Accounting Cycle KEY: Bloom's: Comprehension
NOT: Time: 1 min.

20. Accounts store the monetary information from the recording of transactions.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Recording Transactions | IMA: Financial Statement Analysis
TOP: The Accounting Cycle KEY: Bloom's: Knowledge
NOT: Time: 1 min.

21. T-accounts have a left, or credit, side and a right, or debit, side.

ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Recording Transactions | IMA: Financial Statement Analysis
TOP: The Accounting Cycle KEY: Bloom's: Knowledge
NOT: Time: 1 min.

22. Several accounts could be involved in a single transaction, but the debits and credits must still be equal.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Recording Transactions | IMA: Financial Statement

Analysis TOP: The Accounting Cycle
NOT: Time: 1 min.

KEY: Bloom's: Application

23. After posting, the general ledger accounts contain the same information as in the journals, but the information has been summarized by account.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Recording Transactions | IMA: Financial Statement

Analysis TOP: The Accounting Cycle

KEY: Bloom's: Comprehension

NOT: Time: 3 min.

24. The point of cash receipt for revenue and cash disbursement for expenses is important under the accrual basis when determining income.

ANS: F PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Adjusting Entries | IMA: Financial Statement Analysis

TOP: The Accounting Cycle

KEY: Bloom's: Comprehension

NOT: Time: 1 min.

25. The accrual basis needs numerous adjustments at the end of the accounting period.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Adjusting Entries | IMA: Financial Statement Analysis

TOP: The Accounting Cycle

KEY: Bloom's: Application

NOT: Time: 1 min.

26. An adverse opinion states that, except for the effects of the matter(s) to which the qualification relates, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles.

ANS: F PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement

Analysis TOP: Auditor's Opinion

KEY: Bloom's: Comprehension

NOT: Time: 1 min.

27. From the point of view of analysis, the unqualified opinion without an explanatory paragraph or explanatory language carries the highest degree of reliability.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement

Analysis TOP: Auditor's Opinion

KEY: Bloom's: Application

NOT: Time: 1 min.

28. One is unlikely to regard a qualified opinion or an adverse opinion as casting serious doubts on the reliability of the financial statements.

ANS: F PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement

Analysis TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 1 min.

29. A review has substantially less scope than an examination in accordance with generally accepted auditing standards.

ANS: T PTS: 1 DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 3 min.

30. The accountant's report expresses an opinion on reviewed financial statements.

ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 1 min.

31. Sometimes financial statements are presented without an accompanying accountant's report.

ANS: T PTS: 1 DIF: Difficulty: Moderate
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 1 min.

32. The responsibility for the preparation and integrity of financial statements rests with the auditors.

ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Management's Responsibility for Financial Statements
KEY: Bloom's: Comprehension NOT: Time: 1 min.

33. The proxy is the solicitation sent to stockholders for the election of directors and for the approval of other corporation actions.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Proxy KEY: Bloom's: Knowledge
NOT: Time: 1 min.

34. In practice, some of the required information in the 10-K is incorporated by reference.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Reporting | ACBSP: GAAP | IMA: Reporting
TOP: The SEC's Integrated Disclosure System KEY: Bloom's: Knowledge
NOT: Time: 1 min.

35. A summary annual report generally has more nonfinancial pages than financial pages.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Summary Annual Report KEY: Bloom's: Comprehension
NOT: Time: 1 min.

36. Accepted accounting principles leave ample room for arriving at different results in the short run.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Ethics KEY: Bloom's: Comprehension
NOT: Time: 1 min.

37. Ethics can be a particular problem with financial reports.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Ethics
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Ethics KEY: Bloom's: Comprehension
NOT: Time: 1 min.

38. For consolidating, the FASB recognizes risks, rewards, decision-making ability and the primary beneficiary.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
TOP: Consolidated Statements KEY: Bloom's: Comprehension
NOT: Time: 1 min.

39. A company must have majority voting shares of the other company in order to consolidate.

ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
TOP: Consolidated Statements KEY: Bloom's: Comprehension
NOT: Time: 1 min.

40. It is generally recognized that the market is more efficient when dealing with small firms that are not trading on large organized stock markets.

ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
TOP: The Efficient Market Hypothesis KEY: Bloom's: Application
NOT: Time: 1 min.

41. The market will not be efficient if it does not have access to relevant information or if fraudulent information is provided.

ANS: T PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
TOP: The Efficient Market Hypothesis KEY: Bloom's: Application
NOT: Time: 1 min.

42. For consolidated statements, all transactions between entities being consolidated (i.e., intercompany transactions) must be eliminated.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
TOP: Consolidated Statements KEY: Bloom's: Comprehension

NOT: Time: 1 min.

43. The financial statements of the parent and the subsidiary are consolidated for all subsidiaries unless control is temporary or does not rest with the majority.

ANS: F PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
TOP: Consolidated Statements KEY: Bloom's: Comprehension

NOT: Time: 1 min.

44. When a subsidiary is not consolidated, it is accounted for as an investment on the parent's balance sheet.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
TOP: Consolidated Statements KEY: Bloom's: Comprehension

NOT: Time: 1 min.

45. There are three methods of accounting for a business combination.

ANS: F PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Business Forms | IMA: Financial Statement Analysis
TOP: Accounting for Business Combinations KEY: Bloom's: Knowledge

NOT: Time: 1 min.

46. Accounting for a business combination must be accounted for using the purchase method.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Business Forms | IMA: Financial Statement Analysis
TOP: Accounting for Business Combinations KEY: Bloom's: Knowledge

NOT: Time: 1 min.

47. For a business combination, the purchase method views the business combination as the acquisition of one entity by another. The firm doing the acquiring records the identifiable assets and liabilities at fair value at the date of acquisition.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Business Forms | IMA: Financial Statement Analysis

TOP: Accounting for Business Combinations
NOT: Time: 3 min.

KEY: Bloom's: Comprehension

48. The efficient market hypothesis (EMH) relates to the ability of capital markets to generate prices for securities that reflect worth.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis

TOP: The Efficient Market Hypothesis KEY: Bloom's: Comprehension
NOT: Time: 1 min.

49. The auditor will issue a qualified opinion when he/she has not performed an audit sufficient in scope to form an opinion.

ANS: F PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: GAAP | IMA: Financial Statement Analysis

TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 1 min.

50. The audit opinion of a public company is similar to an opinion for a private company except for the public company comments will be added as to the effectiveness of internal control over financial reporting.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: GAAP | IMA: Reporting

TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 3 min.

51. For public companies reporting under Sarbanes-Oxley, the auditor reports on the firm's internal controls in addition to the audit report.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Reporting | ACBSP: GAAP | IMA: Reporting

TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 1 min.

52. For public companies reporting to the SEC, the 10-K, 10-Q, 8-K, and proxy can be found at <http://www.sec.gov>.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Reporting | ACBSP: GAAP | IMA: Reporting

TOP: The SEC's Integrated Disclosure System | Proxy KEY: Bloom's: Knowledge
NOT: Time: 1 min.

53. Most companies consolidate the parent's and subsidiary's accounts summed.

ANS: T PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis

TOP: Consolidated Statements KEY: Bloom's: Comprehension
 NOT: Time: 1 min.

54. Not all reports to the SEC are made available on EDGAR.

ANS: T PTS: 1 DIF: Difficulty: Easy
 NAT: BUSPROG: Analytic
 STA: AICPA: FN: Reporting | ACBSP: GAAP | IMA: Reporting
 TOP: SEC – Paper Filings – EDGAR – XBRL KEY: Bloom's: Knowledge
 NOT: Time: 1 min.

55. The XBRL approach is not unique with the SEC as it is used for many products and many countries.

ANS: T PTS: 1 DIF: Difficulty: Easy
 NAT: BUSPROG: Analytic
 STA: AICPA: FN: Reporting | ACBSP: GAAP | IMA: Reporting
 TOP: SEC – Paper Filings – EDGAR – XBRL KEY: Bloom's: Knowledge
 NOT: Time: 1 min.

PROBLEM

1. The following are selected accounts and account balances of Gorr Company on December 31:

	Permanent (P) or Temporary (T)	Normal Balance Dr. (Cr.)
Inventory	_____	_____
Land	_____	_____
Wages Payable	_____	_____
Capital Stock	_____	_____
Retained Earnings	_____	_____
Revenues	_____	_____
Dividends	_____	_____
Advertising Expense	_____	_____

Required:

- Indicate whether the account is a permanent (P) or temporary (T) account.
- Indicate the normal balance in terms of debit (Dr.) or credit (Cr.).

ANS:

	Permanent (P) or Temporary (T)	Normal Balance Dr. (Cr.)
Inventory	P	Dr.
Land	P	Dr.
Wages Payable	P	Cr.
Capital Stock	P	Cr.
Retained Earnings	P	Cr.
Revenues	T	Cr.
Dividends	T	Dr.
Advertising Expense	T	Dr.

PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Analytic
 STA: AICPA: FN: Measurement | ACBSP: Accounting Cycle | IMA: Financial Statement Analysis
 TOP: The Accounting Cycle KEY: Bloom's: Application
 NOT: Time: 5 min.

2. Listed below are several accounts or statement categories.

<u>Account or Statement Category</u>	Balance Sheet (BS) Income Statement (IS) <u>Statement of Cash Flows (SCF)</u>
Accounts Receivable	
Inventory	
Prepaid Insurance	
Sales	
Cost of Goods Sold	
Cash Flow from Investing Activities	
Notes Payable	
Interest Expense	
Tax Expense	
Taxes Payable	
Administrative Expense	
Current Assets	
Advertising Expense	
Cash Flow from Financing Activities	

Required:

In the space provided, indicate the financial statement as balance sheet (BS), income statement (IS), or statement of cash flows (SCF).

ANS:

<u>Account or Statement Category</u>	Balance Sheet (BS) Income Statement (IS) <u>Statement of Cash Flows (SCF)</u>
Accounts Receivable	BS
Inventory	BS
Prepaid Insurance	BS
Sales	IS
Cost of Goods Sold	IS
Cash Flow from Investing Activities	SCF
Notes Payable	BS
Interest Expense	IS
Tax Expense	IS
Taxes Payable	BS
Administrative Expense	IS
Current Assets	BS
Advertising Expense	IS
Cash Flow from Financing Activities	SCF

PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
TOP: The Accounting Cycle KEY: Bloom's: Application
NOT: Time: 5 min.

3. Listed below is information related to several adjusting entry situations. Assume that the accounting year ends on December 31.
 1. \$3,000 paid for insurance on October 1 for a one-year period (October 1 - September 30). This transaction was recorded as a debit to prepaid insurance (\$3,000) and a credit to cash (\$3,000).
 2. Interest on bonds payable in the amount of \$500 has not been recorded at December 31.
 3. Rent expense in the amount of \$1,200 was paid on November 1. This transaction was recorded as a debit to rent expense (\$1,200) and a credit to cash (\$1,200). This rent payment was for the period November 1 to January 31.

Required:

Record the original entries and the adjusting entries using T-accounts.

ANS:

Prepaid Insurance			
10-1	3,000		
		12-31	750

Cash			
		10-1	3,000
		11-1	1,200

Insurance Expense			
12-31	750		

Interest Expense			
12-31	500		

Interest Payable			
		12-31	500

Prepaid Rent			
12-31	400		

Rent Expense			
11-1	1,200		
		12-31	400

PTS: 1 DIF: Difficulty: Moderate NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Recording Transactions | ACBSP: Adjusting Entries |
IMA: Financial Statement Analysis TOP: The Accounting Cycle
KEY: Bloom's: Application NOT: Time: 15 min.

4. Listed below is information related to several entry situations. Assume that the accounting year ends on December 31.
 1. The company acquired land for \$100,000 issuing a note payable.
 2. Equipment is acquired for \$30,000 cash.
 3. Memberships were sold for \$20,000, accepting accounts receivables.
 4. Salaries of \$15,000 were paid in cash.
 5. Utilities were paid in cash in the amount of \$5,000.

Required:

Record these entries using T-accounts. Use the number of the transaction in lieu of a date for identification purposes.

ANS:

Land		Notes Payable	
(1)	100,000		(1) 100,000
Equipment		Cash	
(2)	30,000		(2) 30,000
			(4) 15,000
			(5) 5,000
Membership Revenue		Accounts Receivable	
	(3) 20,000	(3) 20,000	
Salaries			
(4)	15,000		
Utilities Expense			
(5)	5,000		

PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Analytic
 STA: AICPA: FN: Measurement | ACBSP: Recording Transactions | IMA: Financial Statement
 Analysis TOP: The Accounting Cycle KEY: Bloom's: Application
 NOT: Time: 10 min.

5. Monroe Company recorded these transactions during the year. Monroe Company has an accounting year-end of December 31.
1. An insurance policy was recorded on July 1 in the amount of \$5,000, recorded as prepaid insurance. The policy provides liability protection for a one-year period.
 2. Monroe Company rents property for \$1,000 per month. Rent revenue has not been received for December.
 3. Income taxes of \$8,000 need to be recorded for December.
 4. A promissory note payable of \$10,000 was recorded on October 1. At December 31, interest payable of \$200 was owed.
 5. At December 31, salary expense of \$800 was payable.

Required:

Record the adjusting entries at December 31 using T accounts. Use the number of the transaction in lieu of a date for identification purposes.

ANS:

Prepaid Insurance		Insurance Expense	
	(1) 2,500	(1) 2,500	
Rent Receivable		Rent Revenue	

(2)	1,000		(2)	1,000
Income Taxes Payable			Income Tax Expense	
	(3)	8,000	(3)	8,000
Interest Payable			Interest Expense	
	(4)	200	(4)	200
Salary Payable			Salary Expense	
	(5)	800	(5)	800

PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Analytic
 STA: AICPA: FN: Measurement | ACBSP: Adjusting Entries | IMA: Financial Statement Analysis
 TOP: The Accounting Cycle KEY: Bloom's: Application
 NOT: Time: 10 min.

6. Danner Company reported the following amounts in its 2012 annual report.

Net income for 2012	\$ 8,450
Dividends declared and paid in 2012	_____?
Retained earnings, December 31, 2011	82,000
Retained earnings, December 31, 2012	90,000

Required:

Solve for dividends declared and paid in 2010 and prepare a statement of retained earnings for Danner Company for the year ended December 31, 2010. (Include the proper heading.)

ANS:

Danner Company
 Statement of Retained Earnings
 For the Year Ended December 31, 2012

Retained earnings, December 31, 2011	\$82,000
Net income for 2012	8,450
Less dividends declared and paid in 2012	450
Retained earnings, December 31, 2012	<u>\$90,000</u>

PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Analytic
 STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
 TOP: The Accounting Cycle KEY: Bloom's: Application
 NOT: Time: 5 min.

7. Users of financial reports rely on those reports to aid them in making decisions.

Required:

Determine the financial statement where the specified user would most likely find the answer to the question. Select between the income statement, balance sheet, and statement of stockholders' equity.

- a. _____ User: Management

- | | | | |
|----|-------|-----------|--|
| | _____ | Question: | How did selling expense compare to that of last year? |
| b. | _____ | User: | Supplier of inventory |
| | | Question: | How much does the company currently owe in accounts payable? |
| c. | _____ | User: | Banker |
| | | Question: | How much debt does the company have on its books? |
| d. | _____ | User: | Stockholder |
| | | Question: | How much did the company pay in dividends this past year? |

ANS:

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

PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Analytic
 STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
 TOP: The Accounting Cycle KEY: Bloom's: Comprehension
 NOT: Time: 3 min.

8. Dorset Company began the year with total assets of \$400,000 and total liabilities of \$300,000.

Required:

Using this information and the accounting equation, answer each of the following independent questions.

- a. What was Dorset's stockholders' equity at the beginning of the year?
- b. Assuming Dorset Company's assets increased by \$50,000 and its total liabilities increased by \$30,000 during the year, what would be the amount of stockholders' equity at the end of the year?
- c. Assuming Dorset's total assets increased to \$500,000 and its stockholders' equity increased to \$150,000, what would be the amount of total liabilities at the end of the year?

ANS:

- a. \$100,000
- b. \$120,000
- c. \$350,000

PTS: 1 DIF: Difficulty: Moderate NAT: BUSPROG: Analytic
 STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
 TOP: The Accounting Cycle KEY: Bloom's: Application
 NOT: Time: 10 min.

9. Listed below is information related to the accounts of Jasper Company.

	<u>Case 1</u>	<u>Case 2</u>	<u>Case 3</u>
Total assets, end of period	\$60,000	\$	\$90,000

Total liabilities, end of period		20,000	30,000
Common stock, end of period	20,000	25,000	25,000
Retained earnings, beginning of period	25,000	20,000	30,000
Net income for the period	10,000	5,000	
Dividends for the period	3,000	5,000	4,000

Required:

Fill in the blank with the appropriate dollar amount.

ANS:

Case 1	Total liabilities, end of period	\$ 8,000
Case 2	Total assets, end of period	\$65,000
Case 3	Net income for the period	\$ 9,000

PTS: 1 DIF: Difficulty: Moderate NAT: BUSPROG: Analytic
 STA: AICPA: FN: Measurement | ACBSP: Accounting Cycle | IMA: Financial Statement Analysis
 TOP: The Accounting Cycle KEY: Bloom's: Application
 NOT: Time: 5 min.

10. Consider the rules for increasing and decreasing the various types of accounts, as listed below.

<u>Type of Account</u>	<u>Debit</u>	<u>Credit</u>
Asset		
Liability		
Owner's equity		
Revenue		
Expense		
Dividends		

Required:

Indicate increase or decrease following the debit and credit rules for the type of account.

ANS:

<u>Type of Account</u>	<u>Debit</u>	<u>Credit</u>
Asset	Increase	Decrease
Liability	Decrease	Increase
Owner's equity	Decrease	Increase
Revenue	Decrease	Increase
Expense	Increase	Decrease
Dividends	Increase	Decrease

PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Analytic
 STA: AICPA: FN: Measurement | ACBSP: Recording Transactions | IMA: Financial Statement Analysis
 TOP: The Accounting Cycle KEY: Bloom's: Application
 NOT: Time: 5 min.

11. Required:

Indicate in days, the Form 10-K deadline for each category of filers.

Case 1: Large accelerated filer (\$700 million or more market value)

Case 2: Accelerated filer (\$75 million or more and less than \$700 million market value)

Case 3: Non-accelerated filer (less than \$75 million market value)

Case 1: _____

Case 2: _____

Case 3: _____

ANS:

Case 1: 60

Case 2: 75

Case 3: 90

PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Analytic
STA: AICPA: FN: Reporting | ACBSP: GAAP | IMA: Reporting
TOP: The SEC's Integrated Disclosure System KEY: Bloom's: Knowledge
NOT: Time: 5 min.

MATCHING

Below is a list of auditor's reports as well as a list of phrases describing the reports.

Required:

Match each auditor's report with the phrase that correctly describes it.

- a. adverse
 - b. unqualified
 - c. qualified
 - d. reviewed
 - e. disclaimer
 - f. compiled
1. Presentation of financial information as presented by management
 2. This opinion states that except for the effects of the matter(s) to which the qualification relates, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of entity in conformity with generally accepted accounting principles.
 3. This opinion states that the financial statements do not present fairly the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles.
 4. Consists principally of inquiries made to company personnel and analytical procedures applied to financial data.
 5. The auditor does not express an opinion on the financial statements.
 6. This opinion states that the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles.

1. ANS: F PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement

- Analysis TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 10 min.
2. ANS: C PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 10 min.
3. ANS: A PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 10 min.
4. ANS: D PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 10 min.
5. ANS: E PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 10 min.
6. ANS: B PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statement Analysis | IMA: Financial Statement Analysis
TOP: Auditor's Opinion KEY: Bloom's: Comprehension
NOT: Time: 10 min.

Listed below are several terms related to financial statements.

Required:

Match the financial statement that goes with each term.

- a. income statements
 - b. notes
 - c. balance sheet
 - d. statement of cash flows
 - e. statement of retained earnings (reconciliation of retained earnings)
7. Shows the financial condition of an accounting entity as of a particular date.
 8. Details the inflows and outflows of cash during a specified period of time.
 9. Summarizes the results of operations for a particular period of time.
 10. Links the balance sheet to the income statement.
 11. Used to present additional information on items included in the financial statements and to present additional financial information.
7. ANS: C PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic
STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Comprehension
NOT: Time: 5 min.
8. ANS: D PTS: 1 DIF: Difficulty: Easy
NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis
TOP: The Financial Statements KEY: Bloom's: Comprehension

NOT: Time: 5 min.

9. ANS: A PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis

TOP: The Financial Statements KEY: Bloom's: Comprehension

NOT: Time: 5 min.

10. ANS: E PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis

TOP: The Financial Statements KEY: Bloom's: Comprehension

NOT: Time: 5 min.

11. ANS: B PTS: 1 DIF: Difficulty: Easy

NAT: BUSPROG: Analytic

STA: AICPA: FN: Measurement | ACBSP: Financial Statements | IMA: Financial Statement Analysis

TOP: The Financial Statements KEY: Bloom's: Comprehension

NOT: Time: 5 min.