Chapter 1: Business Decisions and Financial Accounting

TRUE/FALSE

[QUESTION]
1. Stockholders are creditors of a corporation.

Answer: False
Difficulty: 1 Easy
LO: 01-01
Topic: Accounting for Business Decisions
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: Stockholders are the owners of a corporation.

[QUESTION]
2. All corporations acquire financing by issuing stock for sale on public stock exchanges.

Answer: False
Difficulty: 2 Medium
LO: 01-01
Topic: Organizational Forms
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: Most corporations start out as private companies and will apply to become public companies ("go public") if they need a lot of financing. Financing can also be acquired by borrowing from banks.

[QUESTION]
3. You paid $10,000 to buy 1% of the stock in a corporation that is now bankrupt. The company owes $10 million dollars to its creditors. As a result of the bankruptcy, you are responsible for paying $100,000 (or $10 million × 1%) of the amount owed to the creditors.

Answer: False
Difficulty: 2 Medium
LO: 01-01
Topic: Organizational Forms
Blooms: Apply
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Measurement

Feedback: Unlike sole proprietorships and partnerships, a corporation is a separate entity from both legal and accounting perspectives. This means that a corporation, not its owners, is legally responsible for its own taxes and debts.

[QUESTION]
4. Building a new warehouse is an operating activity on the statement of cash flows.

Answer: False
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Building a new warehouse is an investing activity on the statement of cash flows.

[QUESTION]
5. The payment of dividends is a financing activity on the statement of cash flows.

Answer: True
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: On the statement of cash flows, payment of dividends to the company's stockholders is a financing activity.

[QUESTION]
6. The daily activities involved in running a business, such as buying supplies and paying salaries and wages, are classified as operating activities on the statement of cash flows.

Answer: True
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting

Feedback: Buying supplies and paying salaries and wages are normal operating costs on the statement of cash flows.

[QUESTION]
7. Stockholders' equity is the difference between a company's assets and its liabilities.

Answer: True
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Assets = Liabilities + Stockholders' Equity; therefore, Assets – Liabilities = Stockholders' Equity

[QUESTION]
8. A company owes $200,000 on a bank loan. It will be reported by the company as Notes Payable.

Answer: True
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Formal debt, evidenced by a written contract or note, is reported as Notes Payable.

[QUESTION]
9. Amounts reported on financial statements are sometimes rounded to the nearest million.

Answer: True
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting

Feedback: Large businesses often round the numbers on their financial statements to the nearest thousand or million.

[QUESTION]
10. Accounts Payable, Notes Payable, and Salaries and Wages Payable are examples of liabilities.

Answer: True
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: An account with the word “payable” in its title is a liability.

[QUESTION]
11. Dividends are subtracted from revenues on the income statement.

Answer: False
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: The income statement reports revenues and expenses. Dividends are not expenses. Rather, dividends are an optional distribution of earnings to stockholders, approved by the company’s board of directors.

[QUESTION]
12. If a company reports net income on the income statement, then the statement of cash flows will report the same amount as cash flows from operating activities for the period.

Answer: False
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management

AICPA FN: Measurement
Feedback: Net income is not the same as cash flows from operating activities. Net income is not necessarily equal to cash because revenues are reported when earned and expenses when incurred regardless of when cash is received or paid.

[QUESTION]
13. Revenue is reported on the income statement only if cash was received at the point of sale.

Answer: False
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Revenues are reported on the income statement when goods or services are provided to customers. It's quite common for a business to provide goods or services to customers, but not collect cash from them until a later month.

[QUESTION]
14. Generally Accepted Accounting Principles (GAAP) require profitable companies to distribute some of their earnings to their stockholders.

Answer: False
Difficulty: 2 Medium
LO: 01-02
The Basic Accounting Equation
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Decision-making
Feedback: There is no GAAP requirement that companies pay dividends. Dividends are an optional distribution of earnings to stockholders, approved by the company's board of directors.

[QUESTION]
15. Common Stock is reported as an asset on the balance sheet.

Answer: False
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements

Blooms: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Common Stock is a component of stockholders' equity.

[QUESTION]
16. Creditors are mainly interested in the profitability of a company.

Answer: False
Difficulty: 2 Medium
LO: 01-03
Topic: Using Financial Statements
Blooms: Understand
AACSB: Reflective thinking
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Creditors are mainly interested in a company's ability to repay a debt.

[QUESTION]
17. A stock that does not pay a dividend is an undesirable investment.

Answer: False
Difficulty: 3 Hard
LO: 01-03
Topic: Using Financial Statements
Blooms: Evaluate
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision-making
Feedback: There are two sources of potential return on an investment in stock: the dividend and an increase in the stock price.

[QUESTION]
18. In the United States, generally accepted accounting principles (GAAP) are established by the PCAOB (Public Company Accounting Oversight Board).

Answer: False
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytic

AICPA BB: Legal
AICPA FN: Reporting
Feedback: GAAP in the United States are established by the Financial Accounting Standards Board (FASB).

[QUESTION]
19. The Securities and Exchange Commission (SEC) is the government agency that has primary responsibility for setting accounting standards in the U.S.

Answer: False
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: Currently, the Financial Accounting Standards Board (FASB) has the primary responsibility for setting the underlying rules of accounting in the United States. The Securities and Exchange Commission (SEC) is responsible for the functioning of stock markets.

[QUESTION]
20. The Sarbanes-Oxley Act (SOX) requires top management of companies to sign a report certifying that the financial statements are free of error.

Answer: False
Difficulty: 3 Hard
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: SOX requires top managers of public companies to sign a report certifying their responsibilities for the financial statements, maintain an audited system of internal controls to ensure accuracy in the accounting reports, and maintain an independent committee to oversee top management and ensure that they cooperate with auditors. SOX does not required a certification that states the financial statements are free from error.

MULTIPLE CHOICE

[QUESTION]

Chapter 1: Business Decisions and Financial Accounting

21. Public corporations are businesses:
A) owned by two or more people, each of whom is personally liable for the debts of the business.
B) whose stock is bought and sold on a stock exchange.
C) whose stock is bought and sold privately.
D) where stock is not used as evidence of ownership.

Answer: B
Difficulty: 1 Easy
LO: 01-01
Topic: Organizational Forms
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: The owners of a company's stock (stockholders) can buy and sell stock privately or publicly on a stock exchange if the company has legally registered to do so. Most corporations start out as private companies and will apply to become public companies ("go public").

[QUESTION]
22. The owner(s) of a business are taxed on the profits of the business if the business is a:
A) sole proprietorship.
B) partnership.
C) corporation.
D) public partnership.

Answer: C
Difficulty: 2 Medium
LO: 01-01
Topic: Organizational Forms
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: A corporation, not its owners, is legally responsible for its own taxes and debts. In sole proprietorships and partnerships, the owners are taxed on the profits of the business. A sole proprietorship is considered a part of the owner's life, with all profits becoming part of the taxable income of the owner. A partnership is similar to a sole proprietorship in this regard, except that the taxes are the responsibility of two or more owners instead of just one.

[QUESTION]

23. Which of the following is typically not a benefit of corporations over other organizational forms?
A) Easier to transfer ownership
B) Easier to limit an owner's liability for the organization's debt
C) Easier to raise large amounts of money
D) Easier to create with few legal fees

Answer: D
Difficulty: 02 Medium
LO: 01-01
Topic: Organizational Forms
Blooms: Understand
AACSB: Communication
AICPA BB: Legal
AICPA FN: Decision Making
Feedback: Corporations can raise large amounts of money by dividing ownership into easily transferable shares. Owners have limited liability for the company's debt but legal fees tend to be high when the corporations are formed.

[QUESTION]
24. With respect to the audience targeted for financial accounting reports, which of the parties below is not an external user?
A) Customers of the company issuing the reports
B) Creditors of the company issuing the reports
C) Managers of the company issuing the reports
D) Stockholders of the company issuing the reports

Answer: C
Difficulty: 01 Easy
LO: 01-01
Topic: Accounting for Business Decisions
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA BB: Global
AICPA BB: Legal
AICPA FN: Decision Making
Feedback: External users of financial accounting reports include creditors, investors, directors, and government. Managers are considered internal users.

[QUESTION]
25. Accounting systems:
A) are summarized in publicly published reports.

B) analyze, record, summarize, and the activities affecting its financial condition and performance.
C) monitor business activities only in financial terms.
D) capture only the information that is needed by the owners of the company.

Answer: B
Difficulty: 2 Medium
LO: 01-01
Topic: Accounting for Business Decisions
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback: Accounting is an information system designed by an organization to capture (analyze, record, and summarize) the activities affecting its financial condition and performance and then report the results to decision makers, both inside and outside the organization.

[QUESTION]
26. Creditors are:
A) people or organizations who owe money to a business.
B) people or organizations to whom a business owes money.
C) stockholders of a business.
D) customers of a business.

Answer: B
Difficulty: 2 Medium
LO: 01-01
Topic: Accounting for Business Decisions
Blooms: Remember
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: Creditors include suppliers, banks, and anyone to whom money is owed.

[QUESTION]
27. The owner is not responsible for the entity's taxes and debts if the entity is organized as a(n):
A) corporation
B) sole proprietorship
C) unlimited liability corporation
D) limited liability corporation

Answer: B
Difficulty: 1 Easy
LO: 01-01
Topic: Organizational Forms
Blooms: Remember
AACSB: Reflective Thinking
AICPA BB: Legal
AICPA FN: Reporting
Source: LearnSmart
Feedback: Unlike sole proprietorships and partnerships, a corporation is a separate entity from both legal and accounting perspectives. This means that a corporation, not its owners, is legally responsible for its own taxes and debts.

[QUESTION]
28. Which of the following a characteristic of a sole proprietorship?
A) The owner is personally responsible for the debts of the business even if the debts are more than the owner has invested in the business.
B) It is a legal entity separate from its owner.
C) Its income is taxed twice – once on the company's income tax return and again on the owner's individual income tax returns.
D) It is the only organizational form appropriate for service businesses.

Answer: A
Difficulty: 1 Easy
LO: 01-01
Topic: Organizational Forms
Blooms: Remember
AACSB: Reflective Thinking
AICPA BB: Legal
AICPA FN: Reporting
Source: LearnSmart
Feedback: A partnership is similar to a sole proprietorship, except that profits, taxes, and legal liability are the responsibility of two or more owners instead of just one.

[QUESTION]
29. Managerial accounting reports prepared for internal use are used by the company's:
A) suppliers.
B) bank.
C) employees.
D) stockholders.

Answer: C
Difficulty: 1 Easy

LO: 01-01
Topic: Accounting for Business Decisions
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
Source: LearnSmart
Feedback: Managerial accounting reports are made available only to the company's employees (internal users) so that they can make business decisions related to production, marketing, human resources, and finance.

[QUESTION]
30. The primary goal of most companies is to:
A) raise capital.
B) make a profit.
C) reduce liabilities.
D) pay taxes.

Answer: B
Difficulty: 1 Easy
LO: 01-01
Topic: Accounting for Business Decisions
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
Source: LearnSmart
Feedback: Most companies exist to earn profits for their stockholders by selling goods and services to customers for more than they cost to produce.

[QUESTION]
31. The main goal of an accounting system is to:
A) capture information about a business so that it can be reported to decision makers.
B) earn a profit for the company's stockholders.
C) prove that assets equal liabilities plus stockholders' equity.
D) provide initial financing for a new start-up.

Answer: A
Difficulty: 1 Easy
LO: 01-01
Topic: Accounting for Business Decisions
Blooms: Remember
AACSB: Analytical Thinking

AICPA BB: Industry
AICPA FN: Decision Making
Source: LearnSmart
Feedback: Managerial accounting reports include detailed financial plans and continually updated reports about the operating performance of the company. These reports are made available only to the company's employees (internal users) so that they can make business decisions related to production, marketing, human resources, and finance.

[QUESTION]
32. Financing that individuals or institutions have provided to a corporation is:
A) always classified as a liability.
B) classified as a liability when provided by creditors and as stockholders' equity when provided by owners.
C) always classified as equity.
D) classified as a stockholders' equity when provided by creditors and a liability when provided by owners.

Answer: B
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: Financing can be provided by creditors (classified as liabilities) or owners (classified as stockholders' equity).

[QUESTION]
33. An investor who is looking at a company's financial statements cannot determine whether the:
A) company's earnings are rising or falling.
B) company pays a dividend.
C) company has positive cash flow.
D) company's owners are financially sound.

Answer: D
Difficulty: 3 Hard
LO: 01-01
Topic: Accounting for Business Decisions
Blooms: Understand
AACSB: Reflective Thinking
AICPA BB: Resource Management

AICPA FN: Decision-making
Feedback: As set forth in the separate entity assumption, the financial reports of a business are assumed to include the results of only that business's activities. A company's financial statements do not contain information about the company's owners.

[QUESTION]
34. Which of the following business organizations has only one owner?
A) Corporation
B) Sole proprietorship
C) Public company
D) Partnership

Answer: B
Difficulty: 1 Easy
LO: 01-01
Topic: Organizational Forms
Blooms: Remember
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: A sole proprietorship is the form of business owned (and usually operated) by one individual.

[QUESTION]
35. Internal users of financial data include:
A) investors.
B) creditors.
C) management.
D) regulatory authorities.

Answer: C
Difficulty: 1 Easy
LO: 01-01
Topic: Accounting for Business Decisions
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Internal users include managers, supervisors, etc. External users include creditors, investors, etc.

[QUESTION]
36. Which of the following statements about financial accounting is correct?

A) Financial accounting reports are used primarily by employees to make business decisions related to production.
B) Financial accounting reports are used primarily by management to understand whether a product line should be discontinued.
C) Financial accounting reports are primarily prepared to provide information for external decision makers.
D) Financial accounting reports primarily contain detailed internal records of the company.

Answer: C
Difficulty: 1 Easy
LO: 01-01
Topic: Accounting for Business Decisions
Blooms: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Financial accounting reports, called financial statements, are prepared periodically to provide information to people not employed by the business.

[QUESTION]
37. Which of the following statements about organizational forms of a business is not correct?
A) In a sole proprietorship form of business or in a partnership form, the owner(s) are personally responsible for the debts of the business.
B) The partnership agreement states how profits are to be shared between partners and what happens when a new partner is to be admitted or an existing partner is retiring.
C) A corporation is a separate entity from both a legal and accounting perspective.
D) The owners of a corporation are legally responsible for the corporation's debts and taxes.

Answer: D
Difficulty: 2 Medium
LO: 01-01
Topic: Organizational Forms
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Measurement
Feedback: Unlike sole proprietorships and partnerships, a corporation is a separate entity from both legal and accounting perspectives. This means that a corporation, not its owners, is legally responsible for its own taxes and debts.

[QUESTION]
38. A legal document called a stock certificate is used to indicate ownership in a:
A) Corporation.

B) Sole proprietorship.
C) Partnership.
D) Both sole proprietorship and partnership.

Answer: A
Difficulty: 1 Easy
LO: 01-01
Topic: Organizational Forms
Blooms: Remember
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Measurement
Feedback: A share of the corporation's ownership is indicated on a legal document called a stock certificate.

[QUESTION]
39. Which of the following statements below is correct about a corporation and a partnership?
A) A partnership is comprised of two or more owners, whereas a corporation must have only one owner.
B) A corporation is legally responsible for its own taxes and debts.
C) Owners of both entities are legally responsible for the taxes and debts of the business.
D) Both entities issue shares of stock to owners.

Answer: B
Difficulty: 01 Easy
LO: 01-01
Topic: Organizational Forms
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
Feedback: A key difference between a corporation and a partnership is that the corporation is a separate entity from both a legal and accounting perspective. This means that a corporation (not its shareholders) is legally responsible for its own taxes and debts; the owners of a partnership have this responsibility.

[QUESTION]
40. Which of the following expressions of the accounting equation is correct?
A) Liabilities + Assets = Stockholder's Equity
B) Stockholder's Equity + Assets = Liabilities
C) Assets = Liabilities – Stockholder's Equity
D) Stockholder's Equity = Assets – Liabilities

Answer: D
Difficulty: 01 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Feedback:
Assets = Liabilities + Stockholders' Equity
Stockholders' Equity = Assets – Liabilities

[QUESTION]
41. Net income is the amount:
A) the company earned after subtracting expenses and dividends from revenue.
B) by which assets exceed expenses.
C) by which assets exceed liabilities.
D) by which revenues exceed expenses.

Answer: D
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback: Net income is calculated as revenues minus expenses. Dividends are not expenses of doing business and are not involved in determining the amount of net income on the income statement. Assets and liabilities are reported on the balance sheet.

[QUESTION]
42. Expenses are reported on the:
A) income statement in the time period in which they are paid.
B) income statement in the time period in which they are incurred.
C) balance sheet in the time period in which they are paid.
D) balance sheet in the time period in which they are incurred.

Answer: B
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Understand

AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Expenses are reported on the income statement when incurred (that is, when the related goods or services are used) regardless of when the cash is paid.

[QUESTION]
43. The financial reports of a business include only the results of that business's activities. This is:
A) required only for large corporations.
B) the cost principle.
C) the accounting equation.
D) true only for financial statements prepared under IFRS.
E) the separate entity assumption.

Answer: E
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: The business itself, not the stockholders who own the business, is viewed as owning the assets and owing the liabilities. This is called the separate entity assumption, which requires that a business's financial reports include only the activities of the business and not the personal dealings of its stockholders.

[QUESTION]
44. The separate entity assumption assumes:
A) the financial reports of a business include only the results of that business's activities.
B) assets equal liabilities plus stockholder's equity.
C) revenues and expenses are reported in separate sections of a company's income statement.
D) assets are reported in a separate financial statement from liabilities.

Answer: A
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry

AICPA FN: Reporting
Source: LearnSmart
Feedback: The business itself, not the stockholders who own the business, is viewed as owning the assets and owing the liabilities. This is called the separate entity assumption, which requires that a business's financial reports include only the activities of the business and not the personal dealings of its stockholders.

[QUESTION]
45. Mauricio invested $30,000 in Pizza Aroma in exchange for its stock. Pizza Aroma now has:
A) a liability.
B) retained earnings.
C) common stock.
D) net income.

Answer: C
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Understand
AACSB: Analytical Thinking
AICPA BB: Resource Management
AICPA FN: Measurement
Source: LearnSmart
Feedback: The owners have a claim on amounts they contributed directly to the company in exchange for its stock (Common Stock).

[QUESTION]
46. Revenues are:
A) earned by selling goods or services to customers.
B) amounts that owners have contributed directly to the business.
C) cash payments that a business has made directly to its owners.
D) the amount of cash a company has left after it has paid its liabilities.

Answer: A
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart

Feedback: Revenues are earned by selling goods or services to customers.

[QUESTION]
47. Profit is equal to:
A) revenues minus expenses.
B) assets minus liabilities.
C) the amount of cash that a company has.
D) the amount of cash that owners have contributed to the business.

Answer: A
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: Although *profit* is used in casual conversation, the preferred term in accounting is *net income.* Net income is calculated as revenues minus expenses.

[QUESTION]
48. When a company earns net income, the company's Retained Earnings:
A) increase.
B) decrease.
C) are converted to cash.
D) are paid to stockholders.

Answer: A
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: By generating net income, a company increases its stockholders' equity. Amounts the company has earned through profitable business operations are included in Retained Earnings.

[QUESTION]
49. A cost of doing business is referred to as a(n) ______ and it is necessary to earn ______.

A) revenue; assets
B) expense; revenue
C) liability; expenses
D) dividend; revenue

Answer: B
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: Expenses are all costs of doing business that are necessary to earn revenues.

[QUESTION]
50. Expenses are:
A) equal to a company's liabilities.
B) always less than revenues .
C) the costs of doing business that are necessary to earn revenue.
D) always less than the amount of cash a company has available.

Answer: C
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: Expenses are all costs of doing business that are necessary to earn revenues.

[QUESTION]
51. An economic resource that is owned by a company and will provide future benefits is referred to as:
A) revenue.
B) an asset.
C) retained earnings.
D) net income.

Answer: B

Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: An asset is an economic resource presently controlled by the company; it has measurable value and is expected to benefit the company by producing cash inflows or reducing cash outflows in the future.

[QUESTION]
52. Alpha sold $2,000 of services to Beta on credit. Beta promised to pay for it next month. Alpha will report a $2,000:
A) Accounts Receivable.
B) Account Payable.
C) increase in Cash, since Beta is sure to pay next month.
D) net loss.

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Understand
AACSB: Analytical Thinking
AICPA BB: Resource Management
AICPA FN: Measurement
Source: LearnSmart
Feedback: Alpha is the seller and thus will report Accounts Receivable, which is a right to collect for sales/services provided on account.

[QUESTION]
53. Alpha sold $2,000 of services to Beta on credit. Beta promised to pay for it next month. Beta will report a $2,000:
A) Account Payable.
B) Accounts Receivable.
C) Decrease in Cash, since it plans to pay for sure next month.
D) Net income.

Answer: A
Difficulty: 2 Medium
LO: 01-02

Topic: The Basic Accounting Equation
Blooms: Understand
AACSB: Analytical Thinking
AICPA BB: Resource Management
AICPA FN: Measurement
Source: LearnSmart
Feedback: The buyer, Beta, will report Accounts Payable, which is the amount owed to suppliers for prior credit purchases (on account).

[QUESTION]
54. Ace Electronics sold $5,000 of goods to customers of which $3,000 has been collected. Ace Electronics should report revenues of:
A) $5,000.
B) $3,000.
C) $2,000.
D) $0.

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Understand
AACSB: Analytical Thinking
AICPA BB: Resource Management
AICPA FN: Measurement
Source: LearnSmart
Feedback: Revenues equal the amount earned, regardless of whether the cash has been collected.

[QUESTION]
55. Cash flows from (used in) investing activities includes amounts:
A) received from a company's stockholders for the sale of stock.
B) received from the sale of the company's office building.
C) paid for dividends to the company's stockholders.
D) paid for salaries of employees.

Answer: B
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management

AICPA FN: Reporting
Feedback: Investing activities involve buying and selling productive resources with long lives (such as buildings, land, equipment, and software), purchasing investments, and lending to others.

[QUESTION]
56. Which of the following would not represent a financing activity?
A) Paying dividends to stockholders.
B) An investment of capital by the owners.
C) Borrowing money from a bank to purchase new equipment.
D) Buying supplies on account.

Answer: D
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Financing activities include any borrowing from banks, repaying bank loans, receiving cash from stockholders for company stock, or paying dividends to stockholders. Operating activities are directly related to running the business to earn profit and would include buying supplies on account.

[QUESTION]
57. Operating activities include:
A) interest paid on a bank loan
B) the buying or selling of land, buildings, equipment, and other long-term investments.
C) the repayment of loan proceeds to the bank.
D) obtaining a bank loan to cover the payment of wages, rent and other operating costs.

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Operating activities are directly related to running the business to earn profit and would include paying interest on a loan. Investing activities involve buying and selling productive resources with long lives (such as buildings, land, equipment, and software),

purchasing investments, and lending to others. Financing activities include any borrowing from banks, repaying bank loans, receiving cash from stockholders for company stock, or paying dividends to stockholders.

[QUESTION]
58. The separate entity assumption means:
A) a company's financial statements reflect only the business activities of that company.
B) each separate owner's finances must be revealed in the financial statements.
C) each separate entity that has a claim on a company's assets must be shown in the financial statements.
D) if the business is a sole proprietorship, the owners' personal activities are included in the company's financial statements.

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: The separate entity assumption means that the financial reports of a business are assumed to include the results of only that business's activities.

[QUESTION]
59. The types of business activities measured by the statement of cash flows are:
A) selling goods, selling services, and obtaining financing.
B) operating activities, investing activities, and financing activities.
C) hiring, producing, and advertising.
D) generating revenues, paying expenses, and paying dividends.

Answer: B
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: The statement of cash flows include operating activities (which are directly related to running the business to earn profit), investing activities (which involve buying and selling productive resources with long lives), and financing activities (which include any borrowing from banks, repaying bank loans, receiving cash from stockholders for company stock, or

paying dividends to stockholders).

[QUESTION]
60. Financial statements are most commonly prepared:
A) daily.
B) monthly, quarterly and annually.
C) as needed.
D) weekly.

Answer: B
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Financial statements can be prepared at any time during the year, although they are most commonly prepared monthly, every three months (quarterly reports), and at the end of the year (annual reports).

[QUESTION]
61. Which of the following statements about a fiscal year is correct?
A) Companies can choose to end their fiscal year on any date they feel is most relevant.
B) Companies must end their fiscal year on March 31, June 30, September 30, or December 31.
C) Companies can select any date except a holiday to end their fiscal year.
D) Companies must end their fiscal year on December 31.

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: Companies are allowed to choose a calendar or fiscal year-end. A calendar year is a 12-month period ending on December 31, and a fiscal year is a 12-month period ending on a day other than December 31.

[QUESTION]
62. Assets:

A) represent the amounts earned by a company.
B) must equal the liabilities of a company.
C) must equal the stockholders' equity of the company.
D) represent the resources presently controlled by a company.

Answer: D
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: An asset is an economic resource presently controlled by the company; it has measurable value and is expected to benefit the company by producing cash inflows or reducing cash outflows in the future.

[QUESTION]
63. A net loss for a period arises when:
A) Assets are greater than liabilities.
B) Revenues are less than expenses.
C) Liabilities are greater than stockholder’s equity.
D) Revenues are greater than expenses.

Answer: B
Difficulty: 01 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Feedback: The determination of net income or loss is made from revenues and expenses for a period. A net loss results when revenues are less than expenses.

[QUESTION]
64. Net income that has been paid out to the company’s stockholders for their own personal use is referred to as:
A) dividends.
B) equities.
C) revenues.
D) Retained Earnings.

Answer: A
Difficulty: 01 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Legal
AICPA FN: Measurement
Feedback: net income can be left in the company to accumulate (with earnings that have been retained from prior years) or it can be paid out to the company's stockholders for their own personal use (called dividends).

Use the following information to answer questions 65 and 66:

Maxine's Bakery recorded $220,000 in revenues, $165,000 in expenses, and $30,000 of dividends for the year. The company began the year with total assets of $190,000 and stockholder's equity of $87,000.

[QUESTION]
65. Use the information above to answer the following question. What net income (loss) was reported by Maxine's Bakery for the year?
A) $25,000
B) $63,000
C) $55,000
D) $33,000

Answer: C
Difficulty: 03 Hard
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Apply
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Feedback:
Net income = Revenues – Expenses
= $220,000 – $165,000 = $55,000

[QUESTION]
66. Use the information above to answer the following question. Suppose that liabilities increased by $60,000 and stockholders' equity increased by $25,000. What would be the change in Maxine's assets?
A) $112,000 increase

B) $85,000 increase
C) $103,000 increase
D) $35,000 increase

Answer: B
Difficulty: 03 Hard
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Apply
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Feedback:
Assets = Liabilities + Stockholders' Equity
Change in Assets = Change in Liabilities + Change in Stockholders' Equity
= $60,000 in Liabilities + $25,000 = $85,000

[QUESTION]
67. The obligations and debts of a business are referred to as:
A) equities.
B) assets.
C) dividends.
D) liabilities.

Answer: D
Difficulty: 01 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Legal
AICPA FN: Reporting
Feedback: Liabilities are measurable amounts that the company owes to creditors. From a legal perspective, creditors have priority over stockholders. Thus, if a company goes out of business, liabilities must be paid before any amounts are paid to stockholders.

[QUESTION]
68. Which of the following are the three basic elements of the balance sheet?
A) assets, liabilities, and retained earnings.
B) assets, liabilities, and common stock.
C) assets, liabilities, and revenues.
D) assets, liabilities, and stockholders' equity.

Answer: D
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: The balance sheet reports the amount of a business's assets, liabilities, and stockholders' equity at a specific point in time.

[QUESTION]
69. The Don't Bite Me Pest Control Company has 10,000 gallons of insecticide supplies on hand that cost $300,000; a bill from the vendor for $100,000 of these supplies has not yet been paid. The company expects to earn $800,000 for its services when it uses the insecticide supplies. The company's balance sheet would include an asset, Supplies, in the amount of:
A) $10,000.
B) $200,000.
C) $300,000.
D) $800,000.

Answer: C
Difficulty: 3 Hard
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Feedback: An asset is an economic resource presently controlled by the company; it has measurable value and is expected to benefit the company by producing cash inflows or reducing cash outflows in the future. The insecticide supplies on hand that cost $300,000 would be reported as an asset on the balance sheet.

[QUESTION]
70. The Publish or Perish Printing Company paid a dividend to stockholders. This will be reported on the:
A) audit report.
B) income statement.
C) balance sheet.
D) statement of retained earnings.

Answer: D
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: The company's profits are accumulated in Retained Earnings until a decision is made to distribute them to stockholders in what is called a dividend. Dividends are not an expense incurred to generate earnings and, as a result, are not reported on the income statement. Rather, a dividend is an optional distribution of earnings to stockholders, approved by the company's board of directors. Dividends are reported as a reduction in Retained Earnings on the statement of retained earnings.

[QUESTION]
71. Which of the following is not correct?
A) Assets = Liabilities + Stockholders' Equity
B) Liabilities = Assets – Stockholders' Equity
C) Stockholders' Equity + Liabilities – Assets = 0
D) Assets = Liabilities – Stockholders' Equity

Answer: D
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: The basic accounting equation is: Assets = Liabilities + Stockholders' Equity. It can be rearranged algebraically as Liabilities = Assets – Stockholders' Equity or as Assets = Liabilities – Stockholders' Equity.

[QUESTION]
72. At the end of last year, the company's assets totaled $860,000 and its liabilities totaled $740,000. During the current year, the company's total assets increased by $58,000 and its total liabilities increased by $24,000. At the end of the current year, stockholders' equity was:
A) $154,000.
B) $120,000.
C) $34,000.
D) $178,000.

Answer: A
Difficulty: 3 Hard
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Stockholders' equity = Assets – Liabilities
Beginning stockholders' equity = $860,000 – $740,000 = $120,000
Change in stockholders' equity = Change in assets – Change in liabilities
= $58,000 – $24,000 = $34,000
Ending stockholders' equity = Beginning stockholders' equity + Change in stockholders' equity
= $120,000 + $34,000 = $154,000

[QUESTION]
73. If total liabilities decreased by $25,000 and stockholders' equity increased by $5,000 during a period of time, then total assets must change by what amount and direction during that same time period?
A) $20,000 increase
B) $20,000 decrease
C) $30,000 increase
D) $30,000 decrease

Answer: B
Difficulty: 03 Hard
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Apply
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Feedback:
Assets = Liabilities + Stockholders' Equity
Change in Assets = Change in Liabilities + Change in Stockholders' Equity
= ($25,000) + $5,000 = ($20,000)

[QUESTION]
74. A company's balance sheet contained the following information:

Common Stock	$12,000	Total Assets	$176,000

Accounts Payable	64,000	Retained Earnings	28,000

Notes Payable is the only other item on the balance sheet. Notes Payable must equal:
A) $200,000.
B) $8,000.
C) $72,000.
D) $344,000.

Answer: C
Difficulty: 3 Hard
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: resource management
AICPA FN: Reporting
Feedback:
Total assets = Total liabilities + Total stockholders' equity
$176,000 = ($64,000 + Notes Payable) + ($12,000 + $28,000)
Notes Payable = $176,000 – $64,000 – $12,000 – $28,000= $72,000

[QUESTION]
75. During Year 3, a company's assets increase by $56,000 and its liabilities increase by $38,000. If no dividends were paid and there were no changes in the amount of common stock issued during the year, net income for Year 3 was:
A) $56,000.
B) $18,000.
C) $94,000.
D) $38,000.

Answer: B
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Feedback:
The basic accounting equation can also be thought of as follows:
Change in Assets = Change in Liabilities + Change in Stockholders' Equity
Change in Stockholders' Equity = Change in Assets – Change in Liabilities

= $56,000 – $38,000 = $18,000
Since there were no dividends and no changes in the common stock, the change in stockholders' equity must equal net income.

[QUESTION]
76. A company began the year with assets of $100,000, liabilities of $20,000, and stockholders' equity of $80,000. During the year assets increased $55,000 and stockholders' equity increased $20,000. What was the change in liabilities for the year?
A) Increase of $75,000
B) Increase of $35,000
C) Decrease of $75,000
D) Decrease of $35,000

Answer: B
Difficulty: 3 Hard
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback:
Assets = Liabilities + Stockholders' equity
Liabilities = Assets – Stockholders' equity
Change in liabilities = Change in assets – Change in stockholders' equity
= $55,000 – $22,000 = $35,000

[QUESTION]
77. During its first year of operations, Widgets Incorporated reported Sales Revenue of $386,000 but collected only $303,000 from customers. At the end of the year, Accounts Receivable equal:
A) $689,000.
B) $386,000.
C) $303,000.
D) $83,000.

Answer: D
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic

AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Of the $386,000 of Sales Revenue, customers have paid the company only $303,000, which leaves a balance of Accounts Receivable of $83,000.

[QUESTION]
78. If XYZ Company had $12 million in revenue and net income of $3 million, then its:
A) expenses must have been $15 million.
B) expenses must have been $9 million.
C) assets must have been $12 million.
D) assets must have been $3 million.

Answer: B
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Net income = Revenues – Expenses
Expenses = Net income – Revenues
$12 million – $3 million = $9 million

[QUESTION]
79. If National Inc. has Common Stock of $80,000, total assets of $170,000, and total liabilities of $70,000, its Retained Earnings equals:
A) $20,000.
B) $90,000.
C) $100,000.
D) $110,000.

Answer: A
Difficulty: 03 Hard
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Apply
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Feedback:
Assets – Liabilities + Stockholders' Equity

Assets = Liabilities + (Common Stock + Retained Earnings)
Retained Earnings = Assets – Liabilities – Common Stock
= $170,000 – $70,000 – $80,000
= $20,000

[QUESTION]
80. The Whackem-Smackem Software Company sold $11 million of computer games in its first year of operations. The company received payments of $7.5 million for these computer games. The company's income statement would report:
A) Accounts Receivable of $3.5 million.
B) expenses of $3.5 million.
C) Sales Revenue of $7.5 million.
D) Sales Revenue of $11 million.

Answer: D
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: The income statement would report the Sales Revenue earned of $11 million. The amount still owed by customers of $3.5 million (or $11 million – $7.5 million) would be reported as Accounts Receivable, an asset, on the balance sheet.

[QUESTION]
81. Which of the following financial statements shows how net income (loss) and dividends impacted a stockholders' equity account?
a) Statement of retained earnings
b) Balance sheet

c) Statement of cash flows
d) Income statement

Answer: A
Difficulty: 01 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB Industry
AICPA FN: Reporting
Feedback: The statement of retained earnings sets for the following equation:
Beginning Retained Earnings + Net Income – Dividends = Ending Retained Earnings

[QUESTION]
82. Dividends are reported on the:
A) income statement.
B) balance sheet.
C) statement of retained earnings.
D) income statement and balance sheet.

Answer: C
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: The statement of retained earnings reports the changes in retained earnings during the period; these changes consist of net income and dividends.

[QUESTION]
83. Dividends paid to stockholders:
A) are a reduction to Retained Earnings.
B) appear in the cash flows from operating activities section of the statement of cash flows.
C) appear on the income statement.
D) are subtracted from Common Stock.

Answer: A
Difficulty: 01 Easy
LO: 01-02
Topic: Financial Statements

Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Retained earnings is increased by net income and decreased by dividends. Dividends paid to shareholders appear in the cash flow from financing activities on the statement of cash flows. Only revenues and expenses appear on the income statement.

[QUESTION]
84. Which of the following would not affect a company's net income?
A) A change in the company's income taxes
B) Changing the selling price of a company's product
C) Paying a dividend to stockholders
D) Advertising a new product

Answer: C
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Net income equals the difference between revenues and expenses. Dividends are not expenses. Rather, dividends are an optional distribution of earnings to stockholders and, as such, they are reported on the statement of retained earnings. Income tax expense is reported on the income statement; a change in the company's income taxes would affect net income. Sales of a company's product are revenue on the income statement; and a change in the selling price would affect net income. Advertising expense is reported on the income statement; the expense incurred to advertise a new product would affect net income. Since dividends are not reported on the income statement, paying a dividend to stockholders would not affect net income.

[QUESTION]
85. Which of the following would be reported on the income statement for Year 2?
A) Supplies that were purchased and used in Year 1 but paid for in Year 2.
B) Supplies that were purchased in Year 1, but used in Year 2.
C) Dividends that were paid in Year 2.
D) Accounts Receivable as of December 31, Year 2.

Answer: B
Difficulty: 2 Medium

Chapter 1: Business Decisions and Financial Accounting

LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Supplies that have been used in Year 2 are reported as an expense on the income statement for Year 2 (even though they were purchased in Year 1). Supplies used in Year 1 would be reported as an expense on the income statement for Year 1 (rather than Year 2). Dividends are reported on the statement of retained earnings rather than on the income statement. Accounts Receivable are reported on the balance sheet rather than on the income statement.

[QUESTION]
86. Find the missing data.

CINNAMON AND SPICE, INC.
Income Statement
For the Year Ended December 31, Year 3

Revenues	
Sales Revenue	$3,000,000
Service Revenue	810,200
Total Revenues	Unknown
Expenses	
Salaries and Wages Expense	1,314,900
Advertising and Promotion Expenses	482,200
Other Selling and Administrative Expenses	Unknown
Interest Expense	225,600
Income Tax Expense	117,700
Other Expenses	253,700
Total Expenses	3,445,600
Net Income	Unknown

A) Total revenues are $3,810,200, other selling and administrative expenses are $1,051,500, and net income is $364,600.
B) Total revenues are $2,495,300, other selling and administrative expenses are $1,051,500, and net income is ($950,300).
C) Total revenues are $364,600, other selling and administrative expenses are $3,081,000, and net income is $7,255,800.
D) Total revenues are $3,810,200, other selling and administrative expenses are $364,600, and net income is $7,255,800.

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Total revenues = Sales Revenues + Service Revenue
= $3,000,000 + $810,200 = $3,810,200
Other selling and administrative expenses = Total expenses – All other expenses
= $3,445,600 – $1,314,900 – $482,200 – $225,600 – $117,700 – $253,700 = $1,051,500
Net Income = Revenues – Expenses
= $3,810,200 – $3,445,600 = $364,600

[QUESTION]
87. Which of the following statements about this statement of retained earnings is not correct?

HOOPER'S HOPS
Statement of Retained Earnings
For the Year Ended December 31, Year 3

Retained Earnings, January 1, Year 3	$167,800
Add: Net Income	219,100
Subtract: Dividends	(36,400)
Retained Earnings, December 31, Year 3	$350,500

A) Retained earnings of $350,500 will appear on the balance sheet as of December 31, Year 3.
B) The net income in the above statement came from the income statement for the year ending December 31, Year 3.
C) Dividends are shown in parentheses because they are distributions of earnings to the stockholders.
D) The ending retained earnings amount represents the amount of cash at the end of Year 3.

Answer: D
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management

AICPA FN: Reporting
Feedback: The account, Retained Earnings, is a component of stockholders' equity. It does not represent the amount of cash that a company has at a point in time.

[QUESTION]
88. Universal Corp. has beginning Retained Earnings of $80,000, cash flows from operating activities during the current year of $35,000, dividends paid during the year of $5,000, net income for the current year of $50,000, and Common Stock at the end of the year of $15,000. What is the amount of its Retained Earnings at the end of the year?
A) $125,000
B) $140,000
C) $160,000
D) $175,000

Answer: A
Difficulty: 03 Hard
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Feedback:
Although Common Stock is part of stockholders' equity; it is not part of Retained Earnings.
Ending Retained Earnings = Beginning Retained Earnings + Net Income – Dividends
= $80,000 + $50,000 – $5,000 = $125,000

[QUESTION]
89. Which of the following statements about the financial statements is correct?
A) The "change in cash" reported on the statement of cash flows is also reported on the statement of retained earnings.
B) Both the income statement and the statement of cash flows show the result of a company's operating activities.
C) The statement of cash flows is for a period of time while the income statement is at a point in time.
D) The statement of cash flows is at a point of time while the income statement is for a period of time.

Answer: B
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand

AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: The change in cash is reported on the statement of cash flows. The change in retained earnings (rather than the change in cash) is reported on the statement of retained earnings. Both the statement of cash flows and the income statement cover a specified period of time. The income statement reports the results of operations and the statement of cash flows reports the cash flows from operating activities.

[QUESTION]
90. The purpose of a statement of retained earnings is to:
A) estimate the current value of a company's assets.
B) report the way that net income and dividends affected the financial position of the company during the period.
C) show where the cash is flowing into and out of a company.
D) report the specific revenues and expenses arising during the period.

Answer: B
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: The statement of retained earnings reports the way that net income (profits) and distributions to stockholders (dividends) affect the financial position of the company during the period. Retained earnings are not an estimate of the value of the company’s assets. The statement of cash flows shows cash inflows and outflows. Revenues and expenses are reported on the income statement.

[QUESTION]
91. Which of the following statements about the format of financial statements is correct?
A) A double underline is drawn below the subtotal for Total Liabilities on the balance sheet.
B) Dollar signs are omitted if the heading states that amounts are reported in U.S. dollars.
C) Dividends are shown in parentheses on the statement of retained earnings.
D) The order of the items included in the heading of each financial statement is as follows: the name of the business, the time period covered by the financial statement, and the title of the report.

Answer: C
Difficulty: 3 Hard
LO: 01-02

Chapter 1: Business Decisions and Financial Accounting

Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Since dividends are subtracted in arriving at the ending amount of retained earnings, they are shown in parentheses. A double underline is used for the final totals on the balance sheet, which include "Total Assets" and "Total Liabilities and Stockholders' Equity." Dollar signs appear at the top and bottom of each column of numbers on a financial statement. The order of items in the heading of each financial statement is as follows: the name of the business, the title of the report, and the time period covered by, or the point of time of, the financial statement.

[QUESTION]
92. Which of the following is not an expense?
A) Wages of employees
B) Interest incurred on a note payable
C) Dividends
D) Corporate income tax

Answer: C
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Dividends are not expenses. Rather, dividends are an optional distribution of earnings to stockholders, approved by the company's board of directors.

[QUESTION]
93. Which of the following statements about a company's fiscal year is correct?
A) All companies have a December 31 year end.
B) It usually corresponds to a company's slow period.
C) It always corresponds to the calendar year.
D) The Financial Accounting Standards Board assigns a year end to each company.

Answer: B
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand

AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Feedback: Companies are allowed to choose a calendar or fiscal year-end. A calendar year is a 12-month period ending on December 31, and a fiscal year is a 12-month period ending on a day other than December 31.

[QUESTION]
94. Every financial statement should have "who, what, and when" in its heading. These include the:
A) name of the person preparing the statement, the type of financial statement, and when the financial statement was reported to the SEC.
B) name of the person preparing the statement, the name of the company, and the date the statement was prepared.
C) name of the company, the type of financial statement, and the time period or date from which the data were taken.
D) name of the company, the purpose of the statement, and when the financial statement was reported to the IRS.

Answer: C
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: The heading of a financial statement identifies who, what, and when: the name of the business, the title of the report, and the time period covered by, or the point of time of, the financial statement.

[QUESTION]
95. Which of the following descriptions about a note payable is correct?
A) Written promise to repay a loan
B) A type of long-term asset
C) Generally informal in nature
D) Reported as part of stockholders' equity on the balance sheet

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements

Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: If a company borrows from a bank, it would owe a liability called a Note Payable. This particular name is used because banks require borrowers to sign a legal document called a note that describes details about the company's promise to repay the bank.

[QUESTION]
96. The WC Company borrowed $26,500 from a bank during the year. This borrowing would be reported on the statement of cash flows as a(n):
A) investing activity is the amount of ($26,500).
B) financing activity in the amount of ($26,500).
C) investing activity is the amount of $26,500.
D) financing investing activity is the amount of $26,500.

Answer: D
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Any borrowing from banks, repaying bank loans, receiving cash from stockholders for company stock, or paying dividends to stockholders is considered a financing activity. Since the company would receive cash as a result of the borrowing, the amount would be reported as a cash inflow.

[QUESTION]
97. Which of the following would be acceptable as an alternative name for the income statement?
A) Statement of operations
B) Statement of financial position
C) Statement of retained earnings
D) Statement of revenues and expenses

Answer: A
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic

AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Statement of operations is an alternative term for the income statement.

[QUESTION]
98. Which of the following statements is prepared as of a point in time?
A) Income statement
B) Statement of Retained Earnings
C) Balance sheet
D) Statement of cash flows

Answer: C
Difficulty: 01 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: The income statement, statement of Retained Earnings, and the statement of cash flows are prepared for a period of time. The balance sheet is prepared as of a point in time.

[QUESTION]
99. Which of the following would not be reported on the balance sheet?
A) Accounts Receivable
B) Accounts Payable
C) Advertising Expense
D) Cash

Answer: C
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytical
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: The balance sheet reports assets (such as Cash and Accounts Receivable), Liabilities (such as Accounts Payable) and stockholders' equity. Advertising Expense is an expense reported on the income statement.

[QUESTION]

Chapter 1: Business Decisions and Financial Accounting

100. A company incurred $2,000 for utilities for the last month of Year 2. The company paid the bill during the first month of Year 2. Which of the following statements is correct?
A) The related $2,000 should be reported on the income statement for Year 1 as Utilities Expense.
B) Since it has not been paid, this utility bill would not be reported in the financial statements for Year 1.
C) The related $2,000 should be included in Accounts Receivable on the balance sheet at the Year 1.
D) The related $2,000 should be included in Utilities Expense on the balance sheet at the end Year 1.

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Since the expense was incurred (that is, the utilities were used), the related $2,000 should be included in the amount of Utilities Expense reported on the income statement for Year 1. (Note that the unpaid amount of $2,000 should be included in Accounts Payable in the liabilities section of the balance sheet at the end of Year 1.)

[QUESTION]
101. During the first year of operations, a company sold $100,000 of goods to customers and received $90,000 in cash from customers. The remainder is owed to the company at the end of the year. The company incurred $70,000 in expenses for the year and paid $65,000 in cash for these expenses. The remainder is owed by the company at the end of the year. Based on this information, what is the amount of net income for the year?
A) $25,000
B) $35,000
C) $20,000
D) $30,000

Answer: D
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic

AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Revenue is reported on the income statement when it is earned and expenses are reported when they are incurred.
Net Income = Revenue – Expenses
= $100,000 – $70,000 = $30,000

[QUESTION]
102. Which of the following items appear on more than one financial statement?
A) Ending Cash and ending Retained Earnings
B) Ending Cash and beginning Retained Earnings
C) Sales Revenue and ending Retained Earnings
D) Beginning Cash and Sales Revenue

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Analyze
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Feedback: Ending Cash appears on the balance sheet and the statement of cash flows. Ending Retained Earnings appears on the balance sheet and the statement of retained earnings.

[QUESTION]
103. A company incurred $5,000 in wages for employees for the year. Of these wages, $4,500 was paid by the end of the year. Which of the following statements is correct?
A) Salaries and Wages Payable on the income statement will be $4,500.
B) Salaries and Wages Expense on the income statement will be $500.
C) Salaries and Wages Expense on the balance sheet will be $5,000.
D) Salaries and Wages Payable on the balance sheet will be $500.

Answer: D
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement

Feedback: The unpaid wages of $500 are reported as a liability, called Salaries and Wages Payable, on the balance sheet. (Note that Salaries and Wages Expense of $5,000 will be reported on the income statement.)

[QUESTION]
104. Net income appears on which of the following financial statements?
A) Balance sheet and income statement
B) Balance sheet and statement of retained earnings
C) Balance sheet and statement of cash flows
D) Income statement and statement of retained earnings

Answer: D
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback: Net income is the bottom line on the income statement. Net income is also added to beginning retained earnings on the statement of retained earnings.

[QUESTION]
105. Stockholders' equity is:
A) a liability of the business.
B) an economic resource controlled by the business.
C) the owners' claims on the business.
D) the profit generated by the business.

Answer: C
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback: Stockholders' equity represents the owners' claims on the business. These claims arise for two reasons. First, the owners have a claim on amounts they contributed directly to the company in exchange for its stock (Common Stock). Second, the owners have a claim on amounts the company has earned through profitable business operations (Retained Earnings). A company's profits are accumulated in Retained Earnings until a decision is made to distribute them to stockholders in what is called a dividend.

Chapter 1: Business Decisions and Financial Accounting

[QUESTION]
106. The income statement reports:
A) the assets, liabilities, and stockholders' equity of a company.
B) cumulative earnings that have not been distributed to stockholders.
C) the amount of profit distributed to owners during the period.
D) the amount of revenues earned and expenses incurred during the period.

Answer: D
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: The income statement reports revenues earned, expenses incurred, and net income (the difference).

[QUESTION]
107. The statement of cash flows shows the following information:
- Cash provided by operating activities of $16,500
- Cash used by investing activities of $8,400
- Cash used by financing activities of $2,900

The beginning cash was $14,000. What is the amount of cash at the end of the period?
A) $41,800.
B) $30,500.
C) $8,800.
D) $19,200.

Answer: D
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback:
Ending Cash = Beginning cash + Cash provided by (used in) operating activities + Cash provided by (used in) investing activities + Cash provided by (used in) financing activities
= $14,000 + $16,500 – $8,400 – $2,900 = $19,200

Chapter 1: Business Decisions and Financial Accounting

[QUESTION]
108. Which of the following would not be reported as an asset on the balance sheet?
A. Accounts Receivable
B. Supplies
C. Retained Earnings
D. Cash

Answer: C
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Accounts Receivable, Supplies, and Cash are assets. Retained Earnings is not an asset; it is a component of stockholders' equity on the balance sheet.

[QUESTION]
109. Which of the following would not be reported as a liability on the balance sheet?
A) Accounts Payable
B) Common Stock
C) Notes Payable
D) Salaries and Wages Payable

Answer: B
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Accounts Payable, Notes Payable, and Salaries and Wages Payable are liabilities. Common Stock is not a liability; it is a component of stockholders' equity on the balance sheet.

[QUESTION]
110. The statement of cash flows for a company contained the following:
- Cash flows from operating activities in the amount of $29,000
- Cash flows from investing activities in the amount of$30,000

- Cash flows from (used by) financing activities in the amount of ($45,000)

What was the change in cash for the period?
A) $14,000 increase
B) $15,000 increase
C) $14,000 decrease
D) $15,000 decrease

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Change in Cash = Cash provided by (used in) operating activities + Cash provided by (used in) investing activities + Cash provided by (used in) financing activities
= $29,000 + $30,000 – $45,000 = $14,000

[QUESTION]
111. In this period, a company recorded Sales Revenue of $50,000 from sales of goods to customers who agreed to pay later. In the next period, the company received payment from customers of $45,000. Which of the following statements is correct?.
A) Revenue for this period is $45,000.
B) Accounts Receivable at the end of this period is $50,000.
C) Accounts Payable at the end of this period is $5,000 (or $50,000 – $45,000).
D) Expenses for next period will increase by $5,000 (or $50,000 – $45,000).

Answer: B
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback: Revenue is $50,000. Accounts Receivable at the end of this period is $50,000 since customers did not pay until the next period. Accounts Payable is not affected.

[QUESTION]
112. Investing activities on the statement of cash flows arise from transactions:

A) with lenders, borrowing and repaying cash.
B) with stockholders, selling company stock and paying dividends.
C) directly related to running the business to earn profit.
D) related to buying or selling productive resources with long lives.

Answer: D
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Topic: Business activities
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Investing activities are transactions of buying or selling productive assets with long lives. Transactions with lenders and stockholders are financing activities. Operating activities are directly related to running the business to earn profit.

[QUESTION]
113. The separate entity assumption requires that:
A) financial information depicts the economic substance of the business activities.
B) financial reports of a business are assumed to include the results of only that business's activities.
C) the results of business activities are reported in an appropriate monetary unit.
D) financial information can be compared across businesses because similar accounting methods have been applied.

Answer: B
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: The separate entity assumption requires that a business's financial reports include only the activities of the business and not the personal dealings of its stockholders.

[QUESTION]
114. Assets reported on the balance sheet include:
A) Accounts Receivable, Sales Revenue, and Cash.
B) Equipment, Supplies Expense, and Cash.
C) Accounts Payable, Retained Earnings, and Cash.

D) Accounts Receivable, Equipment, and Cash.

Answer: D
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Accounts Receivable, Equipment, and Cash are assets reported on the balance sheet. Accounts Payable is a liability, while Retained Earnings is a component of stockholders' equity on the balance sheet. Sales Revenue and Supplies Expense are reported on the income statement.

[QUESTION]
115. Liabilities reported on the balance sheet include:
A) Accounts Payable, Notes Payable, and Common Stock.
B) Accounts Receivable, Supplies Expense, and Retained Earnings.
C) Accounts Payable, Notes Payable, and Salaries and Wages Payable.
D) Common Stock, Retained Earnings, and Notes Payable.

Answer: C
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Accounts Payable, Notes Payable, and Salaries and Wages Payable are liabilities reported on the balance sheet. Common Stock and Retained Earnings are component of stockholders' equity on the balance sheet. Supplies Expense is an expense reported on the income statement. Accounts Receivable is an asset reported on the balance sheet.

[QUESTION]
116. Which of the following statements about financial statements is not correct?
A) Cash flows from financing activities would appear on the Statement of Cash Flows.
B) Dividends would appear on the Statement of Retained Earnings.
C) Assets would appear on the Income Statement.
D) Revenues would appear on the Income Statement.

Answer: C
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACS B: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Assets are reported on the balance sheet; the income statement reports revenues and expenses..

[QUESTION]
117. Which of the following statements about financial statement information is correct?
A) If a company has total revenues of $80,000, total expenses of $50,000 and dividends of $10,000, they will have net income of $20,000.
B) A company with total stockholders' equity of $45,000 and total assets of $75,000 must have total liabilities of $120,000.
C) A company with liabilities of $80,000 and stockholders' equity of $50,000 will have Assets of $30,000.
D) A company with total stockholders' equity of $120,000 and common stock of $75,000 must have total retained earnings of $45,000.

Answer: D.
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback:
Net Income = Revenues - Expenses
Assets = Liabilities + Stockholders; Equity
Total stockholders' equity = Common Stock + Retained Earnings
= $75,000 + $45,000 = $120,000

[QUESTION]
118. The income statement would report the amount of:
A) cash at the end of the year.
B) supplies used up during the current year.
C) dividends distributed to owners during the current year.
D) unpaid employee wages at the end of the year.

Answer: B
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Expenses on the income statement would include the amount of Supplies Expense that was incurred by using supplies. Cash is reported as an asset on the balance sheet. Dividends are reported on the statement of retained earnings, not on the income statement. The amount of unpaid wages would be included in the liability called Salaries and Wages Payable on the balance sheet.

[QUESTION]
119. Which transaction would be reported on the income statement for the current year?
A) The revenue earned from selling sold goods in the current year to customers who have not yet paid for those goods (that is, they have promised to pay for those goods next year).
B) The amount of cash received from customers this year as payment for goods that were sold to those customers last year.
C) The proceeds from a borrowing from the bank that was to be used to finance business activities during the current year.
D) The proceeds from the issuance of common stock to owners that was to be used to finance business activities during the current year.

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Revenue earned this year from the sale of goods is reported on the income statement for the current year, even if customers have not yet paid for the goods.
The revenue earned from selling goods to customers last year would have been reported as revenue on last year's income statement. Borrowing money from the bank and issuing common stock are not transactions that are reported on the income statement.

[QUESTION]
120. The amount of beginning retained earnings is equal to the:
A) beginning retained earnings of the prior year.

B) ending retained earnings of the prior year.
C) beginning retained earnings of the next year.
D) ending retained earnings of the next year.

Answer: B
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Feedback: The ending retained earnings of the prior year become the beginning retained earnings of the current year.

[QUESTION]
121. Able Corp. started business this year. For this year, it had revenues of $200,000, expenses of $150,000 and cash flows from operating activities of $40,000, and paid dividends of $5,000. What is the amount of Retained Earnings at the end of the company's first year of operations?
A) $35,000
B) $40,000
C) $45,000
D) $95,000

Answer: C
Difficulty: 03 Hard
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Feedback:
First, calculate net income:
Net income = Revenues – Expenses
= $200,000 – $150,000 = $50,000
Then, use the statement of retained earnings equation to determine ending Retained Earnings:
Ending Retained Earnings = Beginning Retained Earnings + Net Income – Dividends
= $0 + $50,000 - $5,000 = $45,000

[QUESTION]

Chapter 1: Business Decisions and Financial Accounting

122. Which of the following would appear in the cash flows from operating activities section of the statement of cash flows?
A) Cash paid to suppliers and employees
B) Cash paid to purchase equipment
C) Cash paid on notes payable
D) Cash paid for dividends

Answer: A
Difficulty: 01 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Feedback: Cash paid to suppliers and employees appears in the cash flows from operating activities section of the statement of cash flows. Cash paid to purchase equipment appears in the cash flow from investing activities section of the statement of cash flows. Both cash paid for notes payable and dividends appears in the cash flow from financing activities section of the statement of cash flows.

Use the following to answer questions 123 – 125:

GIL'S FISHING EQUIPMENT, INC.
Statement of Cash Flows
For the Year Ended December 31, Year 3

Cash flows from operating activities		
Cash collected from customers	A	$12,000
Cash paid to suppliers and employees	B	(7,000)
Cash paid for other operating activities	C	Unknown
Net cash flow from operating activities	D	$5,000
Cash flows from investing activities		
Cash paid to purchase equipment and other assets	E	(45,000)
Cash received from selling equipment and other assets	F	Unknown
Net cash flow from (used by) investing activities	G	Unknown
Cash flows from financing activities		
Cash paid on notes payable	H	(32,000)
Cash paid for dividends	I	(10,000)
Net cash flow from (used by) financing activities	J	Unknown
Net change in cash during the year	K	37,000
Beginning cash, January 1, Year 3	L	Unknown
Ending cash, December 31, Year 3	M	122,000

[QUESTION]
123. Use the information above to answer the following question. What amount is represented by letter C in the statement of cash flows?
A) $14,000
B) $10,000
C) ($14,000)
D) $0

Answer: D
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Feedback:
Net cash flow from operating activities = Cash collected from customers – Cash paid to suppliers and employees – Cash paid for other operating activities
Cash paid for other operating activities = Net cash flow from operating activities – Cash collected from customers + Cash paid to suppliers and employees
= $5,000 – $12,000 + $7,000 = $0

[QUESTION]
124. Use the information above to answer the following question. What amount is represented by letter J in the statement of cash flows?
A) ($42,000)
B) $42,000
C) ($22,000)
D) $22,000

Answer: A
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Feedback:
Net cash flow from (used by) financing activities = Cash paid on notes payable + Cash paid for dividends

= ($32,000) + ($10,000) = ($42,000)

[QUESTION]
125. Use the information above to answer the following question. What amount is represented by letter L in the statement of cash flows?
A) $159,000
B) $85,000
C) ($85,000)
D) ($159,000)

Answer: B
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Feedback:
Ending Cash = Beginning cash + Increase (Decrease) in Cash
Beginning cash = Ending Cash – Increase (Decrease) in cash
= $122,000 – $37,000 = $85,000

Use the following information to answer questions 126 – 129:

A company started the year with the following: Assets $100,000; Liabilities $30,000; Common Stock $60,000; Retained Earnings $10,000. During the year, the company earned revenue of $5,000, all of which was received in cash, and incurred expenses of $3,000, all of which were unpaid as of the end of the year. In addition, the company paid dividends of $1,000 to owners. Assume no other activities occurred during the year.

[QUESTION]
126. Use the information above to answer the following question. What was the amount of net income for the year?
A) $2,000.
B) $1,000.
C) $3,000.
D) $5,000.

Answer: A
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation

Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Net Income = Revenue – Expenses
= $5,000 –$3,000 = $2,000

[QUESTION]
127. Use the information above to answer the following question. The amount of retained earnings at the end of the year is
A) $15,000.
B) $11,000.
C) $12,000.
D) $1,000.

Answer: B
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Ending retained earnings = Beginning retained earnings + Net income – Dividends
= $10,000 + $2,000 - $1,000 = $11,000

[QUESTION]
128. Use the information above to answer the following question. The amount of liabilities at the end of the year is
A) $30,000.
B) $33,000.
C) $28,000.
D) $32,000.

Answer: B
Difficulty: 3 Hard
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management

AICPA FN: Measurement
Feedback:
Ending liabilities = Beginning liabilities + Increase (Decrease) in liabilities
= $30,000 + $3,000 = $33,000

[QUESTION]
129. Use the information above to answer the following question. The amount of assets at the end of the year is
A) $105,000.
B) 108,000.
C) $104,000.
D) $107,000.

Answer: C
Difficulty: 3 Hard
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback:
Assets increased during the year by $5,000 (revenues received in cash) and decreased by $1,000 (dividends paid in cash).
Ending assets = Beginning assets + Increase (Decrease) in assets
= $100,000 + $5,000 – $1,000 = $33,000

Use the following information to answer questions 130 - 132:

A company's financial records at the end of the year including the following amounts:

Cash	$70,000
Accounts Receivable	28,000
Supplies	4,000
Accounts Payable	10,000
Notes Payable	5,000
Retained Earnings, beginning of year	17,000
Common Stock	40,000
Service Revenue	53,000
Wages Expense	8,000
Advertising Expense	5,000
Rent Expense	10,000

Chapter 1: Business Decisions and Financial Accounting

[QUESTION]
130. Use the information above to answer the following question. What is the amount of net income on the income statement for the year?
A) $30,000.
B) $38,000.
C) $88,000.
D) $47,000.

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Expenses are comprised of Wages Expense, Advertising Expense, and Rent Expense
Net income = Revenue – Expenses
= $53,000 – ($8,000 + $5,000 + $10,000) = $30,000

[QUESTION]
131. Use the information above to answer the following question. What is the amount of total assets to be reported on the balance sheet at the end of the year?
A) $112,000.
B) $102,000.
C) $119,000.
D) $155,000.

Answer: B
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Total Assets = Cash + Accounts Receivable + Supplies
= $70,000 + $28,000 + $4,000 = $102,000

Chapter 1: Business Decisions and Financial Accounting

[QUESTION]
132. Use the information above to answer the following question. What is the amount of total stockholders' equity that would be reported on the Balance Sheet at the end of the year?
A) $30,000.
B) $57,000.
C) $87,000.
D) $102,000.

Answer: C
Difficulty: 3 Hard
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Expenses are comprised of Wages Expense, Advertising Expense, and Rent Expense
Net income = Revenue – Expenses
= $53,000 – ($8,000 + $5,000 + $10,000) = $30,000
Ending retained earnings = Beginning retained earnings + Net income – Dividends
= $17,000 + $30,000 − $0 = $47,000
Ending stockholders' equity = Common stock + Ending retained earnings
= $40,000 + $47,000 = $87,000

Use the following information to answer questions 133 – 134:

A company began the year with assets of $100,000 and liabilities of $75,000. During the year assets increased by $12,000 and liabilities decreased by $9,000.

[QUESTION]
133. Use the information above to answer the following question. What is the amount of stockholders' equity at the beginning of the year?
A) $0
B) $25,000.
C) $175,000.
D) $100,000.

Answer: B
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation

Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback:
Assets = Liabilities + Stockholders' Equity
Stockholders' Equity = Assets – Liabilities
= $100,000 – $75,000 = $25,000

[QUESTION]
134. Use the information above to answer the following question. What is the amount of the change in stockholders' equity during the year?
A) $3,000 increase
B) $21,000 increase
C) $21,000 decrease
D) $3,000 decrease

Answer: B
Difficulty: 3 Hard
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback:
Beginning of year:
Change in Assets = Change in Liabilities + Change in Stockholders' Equity
Change in Stockholders' Equity = Change in Assets – Change in Liabilities
= $12,000 – ($9,000) = $12,000 + $9,000 = $21,000

Use the following information to answer questions 135 - 136:

The first year of operations for a company was Year 1. The net income for the year Year 1 was $20,000 and dividends of $12,000 were paid. In Year 2, the company reported net income of $34,000 and paid dividends of $5,000. At the end of Year 1, the company had total assets of $150,000. At the end of Year 2, the company had total assets of $240,000.

[QUESTION]
135. Use the information above to answer the following question. What was the amount of retained earnings at the end of Year 1?
A) $20,000.
B) $8,000.

C) $150,000.
D) $155,000.

Answer: B
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Apply
ASCSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback:
Ending retained earnings = Beginning retained earnings + Net income – Dividends
= $0 + $20,000 – $12,000 = $8,000

[QUESTION]
136. Use the information above to answer the following question. What is the amount of retained earnings at the end of Year 2?
A) $37,000.
B) $240,000.
C) $29,000.
D) $269,000.

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Ending retained earnings = Beginning retained earnings + Net income – Dividends
Year 1:
= $0 + $20,000 – $12,000 = $8,000
Year 2:
= $8,000 + $34,000 – $5,000 = $37,000

Use the following information to answer questions 137 - 140:

The following accounts are taken from the December 31, Year 4 financial statements of a company.

Accounts Payable	$2,075

Accounts Receivable	800
Selling & Administrative Expenses	2,500
Cash	2,200
Common Stock	2,000
Dividends	1,900
Income Tax Expense	400
Interest Expense	75
Other Expenses	500
Notes Payable	5,000
Other Assets	2,500
Other Liabilities	3,000
Other Operating Expenses	2,000
Other Revenue	300
Property and Equipment	11,000
Retained Earnings, December 31, Year 3	4,800
Salaries and Wages Expense	3,000
Supplies	300
Service Revenue	10,000

[QUESTION]
137. Use the information above to answer the following question. What is the amount of net income for Year 4?
A) $3,825.
B) $1,825.
C) $10,300.
D) $5,625.

Answer: B
Difficulty: 3 Hard
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Total revenues = Service Revenue + Other Revenue
= $10,000 + $300 = $10,300
Total expenses = Salaries Expense + Interest Expense + Income Tax Expense + Selling & Administrative Expense + Other Expense of $500 + Other Operating Expense
= $3,000 + $75 + $400 + $2,500 + $500 + $2,000 = $8,475
Net income = Revenue – Expenses

= $10,300 – $8,475 = $1,825

[QUESTION]
138. Use the information above to answer the following question. What is the amount of total assets at the end of Year 4?
A) $16,800.
B) $16,500.
C) $21,600.
D) $23,500.

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Total Assets = Cash + Accounts Receivable + Other assets + Property and Equipment + Supplies
= $2,200 + $800 + $2,500 + $11,000 + $300 = $16,800

[QUESTION]
139. Use the information above to answer the following question. What is the amount of total liabilities at the end of Year 4?
A) $7,075.
B) $10,075.
C) $9,075.
D) $12,975.

Answer: B
Difficulty: 1 Easy
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Total liabilities = Accounts Payable + Notes Payable + Other Liabilities

= $2,075 + $5,000 + $3,000 = $10,075

[QUESTION]
140. Use the information above to answer the following question. What is the amount of retained earnings on the Balance Sheet at the end of Year 4?
A) $7,725.
B) $6,725.
C) $4,800.
D) $4,725.

Answer: D
Difficulty: 3 Hard
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Total revenues = Service Revenue + Other Revenue
= $10,000 + $300 = $10,300
Total expenses = Salaries Expense + Interest Expense + Income Tax Expense + Selling & Administrative Expense + Other Expense of $500 + Other Operating Expense
= $3,000 + $75 + $400 + $2,500 + $500 + $2,000 = $8,475
Net income = Revenue – Expenses
= $10,300 – $8,475 = $1,825
Ending Retained Earnings = Beginning Retained Earnings + Net income – Dividends
= $4,800 + $1,825 –$1,900 = $4,725

Use the following information to answer questions 141-143:

A company started the current year with assets of $700,000, liabilities of $350,000 and common stock of $200,000. During the current year, assets increased by $400,000, liabilities decreased by $50,000 and common stock increased by $275,000. There was no payment of dividends to owners during the year.

[QUESTION]
141. Use the information above to answer the following question. Based on this information, what was the amount of retained earnings at the beginning of the year?
A) $150,000.
B) $850,000.
C) $550,000.

D) $350,000.

Answer: A
Difficulty: 3 Hard
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback:
Assets = Liabilities + Stockholders' Equity
Stockholders' Equity = Assets – Liabilities
= $700,000 – $350,000 = $350,000
Stockholders' Equity = Common Stock + Retained earnings.
Retained Earnings = Stockholders' Equity – Common Stock
= $350,000 – $200,000 = $150,000

[QUESTION]
142. Use the information above to answer the following question. What was the amount of the change in total stockholders' equity during the year?
A) $350,000 increase
B) $450,000 increase
C) $250,000 increase
D) $200,000 increase

Answer: B
Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback:
Change in Assets = Change in Liabilities + Change in Stockholders' Equity
Change in Stockholders' Equity = Change in Assets – Change in Liabilities
= $400,000 - ($50,000) = $400,000 + $50,000 = $450,000

[QUESTION]
143. Use the information above to answer the following question. What was the amount of net income for the year?

A) $225,000.
B) $275,000.
C) $175,000.
D) $450,000.

Answer: C
Difficulty: 3 Hard
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback:
Change in Assets = Change in Liabilities + Change in Stockholders' Equity
Change in Stockholders' Equity = Change in Assets – Change in Liabilities
= $400,000 - ($50,000) = $400,000 + $50,000 = $450,000
Change in Stockholders' Equity = Change in Common Stock + Change in Retained Earnings
Change in Retained Earnings = Change in Stockholders' Equity – Change in Common Stock
= $450,000 – $275,000 = $175,000
Change in Retained Earnings = Net income = Dividends
Net income = Change in Retained Earnings – Dividends
= $175,000 - $0 = $175,000

Use the following information to answer questions 144-146

The Statement of Cash Flows for the current year contained the following:

Cash received from customers	$10,000
Cash used for purchase of equipment	40,000
Cash received for stock issuance	30,000
Cash used for payments to suppliers & employees	5,000
Cash dividends paid to stockholders	1,000
Cash borrowed from bank	20,000

The change in cash for the current year was an increase of $14,000.

[QUESTION]
144. Use the information above to answer the following question. What was the amount of cash flows from (used in) operating activities?
A) $5,000.
B) $35,000.

C) $25,000.
D) $4,000.

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Cash flows from operating activities = Cash received from customers – Cash paid to suppliers and employees
= $10,000 – $5,000 = $5,000

[QUESTION]
145. Use the information above to answer the following question. What was the amount of cash flows from (used in) investing activities?
A) ($1,000)
B) ($40,000)
C) ($10,000)
D) $10,000

Answer: B
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Cash flows from (used in) investing activities = Cash used to purchase equipment
= ($40,000)

[QUESTION]
146. Use the information above to answer the following question. What is the amount of cash flows from (used in) financing activities?
A) ($40,000)
B) $5,000
C) $49,000
D) $10,000

Answer: C
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
Cash flows from (used in) financing activities = Cash received for stock issuance + Cash borrowed from bank – Cash dividends paid to stockholders
= $30,000 + $20,000 – $1,000= $49,000

Use the following to answer questions 147 – 149:

ANONYMOUS, INC.
Balance Sheet
September 30, Year 3

Assets	
Cash	$1,568,000
Accounts Receivable	310,500
Inventories	208,200
Property, Plant & Equipment	391,600
Other Assets	869,400
Total Assets	$3,347,700
Liabilities	
Accounts Payable	$1,439,200
Notes Payable	Unknown
Total Liabilities	Unknown
Stockholders' Equity	
Common Stock	1,263,600
Retained Earnings	207,100
Total Stockholders' Equity	1,470,700
Total Liabilities & Stockholders' Equity	$3,347,700

[QUESTION]
147. Use the information above to answer the following question. What is the missing amount for Total Liabilities?
A) $3,347,700.

B) $1,439,200.
C) $1,470,700.
D) $1,877,000.

Answer: D
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Analyze
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback:
Total Assets = Total Liabilities + Total Stockholders' Equity
Total Liabilities = Total Stockholders' Equity – Total Assets
= $3,347,700 – $1,470,700 = $1,877,000

[QUESTION]
148. Use the information above to answer the following question. What is the missing amount for Notes Payable?
A) $207,100.
B) $437,800.
C) $1,439,200.
D) $3,347,700.

Answer: B
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Analyze
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Measurement
Feedback:
Total Assets = Total Liabilities + Total Stockholders' Equity
Total Liabilities = Total Stockholders' Equity – Total Assets
= $3,347,700 – $1,470,700 = $1,877,000
Total Liabilities = Accounts Payable + Notes Payable
Notes Payable = Total Liabilities – Accounts Payable
= $1,877,000 = $1,439,200 = $437,800

[QUESTION]
149. Use the information above to answer the following question. Which one of the following

statements regarding the balance sheet for Anonymous Inc. is correct?
A) Retained Earnings is misclassified; it should be reported in the Assets section of the balance sheet.
B) The $207,100 shown as Retained Earnings on the balance sheet represents the cumulative amount of dividends distributed.
C) Anonymous, Inc. is owed $310,500 from customers who have purchased goods or services from the company, but have not yet paid for them.
D) The amount of retained earnings reported on this balance sheet represents the retained earnings at the beginning of the year.

Answer: C
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
BLOOMS: Analyze
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback:
The Accounts Receivable of $310,500 represents the amounts owed by customers. Retained Earnings is properly classified as a component of Stockholders' Equity. Retained Earnings represents the cumulative amount of a company's profits (or net income) less the cumulative amount of dividends that have been distributed to stockholders. The amount of retained earnings reported on this balance sheet represents the retained earnings at the end (rather than the beginning) of the year.

[QUESTION]
150. Ace Electronics received $200 of copy paper from its supplier and promised to pay for it next month. Ace should report:
A) Accounts payable of $200 on its balance sheet.
B) Accounts payable of $200 on its income statement.
C) Accounts receivable of $200 on its balance sheet.
D) Accounts receivable of $200 on its income statement.
E) Cash of $(200) on its balance sheet.
F) nothing, because cash hasn't been paid yet.

Answer: A
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytical Thinking
AICPA BB: Resource Management

AICPA FN: Reporting
Source: LearnSmart
Feedback: Ace will report Accounts Payable, which is the amount owed to suppliers for prior credit purchases (on account), as a liability on its balance sheet.

[QUESTION]
151. Which of these appears on both the income statement and the statement of retained earnings?
A) Cash
B) Revenues
C) Expenses
D) Net income

Answer: D
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: Net income is reported on both the income statement and the statement of retained earnings. Cash is reported on the balance sheet and statement of cash flows. Revenues and expenses are reported only on the income statement.

[QUESTION]
152. Pizza Aroma delivered $500 of pizzas to the local high school, but hasn't received payment yet. Pizza Aroma will report:
A) nothing, because payment hasn't been received yet.
B) Cash of $500, because the school will pay for the pizzas eventually.
C) Accounts payable of $500.
D) Accounts receivable of $500.

Answer: D
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytical Thinking
AICPA BB: Resource Management
AICPA FN: Measurement
Source: LearnSmart

Feedback: Pizza Aroma is the seller and thus will report $500 of Accounts Receivable, which is a right to collect for sales/services provided on account.

[QUESTION]
153. Accounts receivable are:
A) amounts the company expects to pay for previous credit sales.
B) amounts the company expects to collect for previous credit sales.
C) always less than the company's cash.
D) reported in the liabilities section of the balance sheet.
E) reported on the income statement.

Answer: B
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: Accounts Receivable represent the seller's right to collect from customers for sales and services provided on credit.

[QUESTION]
154. If a company reports a negative dollar amount under cash flows from investing activities, a possible explanation is that:
A) it has purchased a significant amount of equipment.
B) its expenses are greater than its revenues.
C) the market value of its stock has gone down.
D) it has paid a large cash dividend to its stockholders.

Answer: A
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: Investing activities involve buying and selling productive resources with long lives (such as buildings, land, equipment, and software), purchasing investments, and lending to

others. A cash purchase of a long-lived asset would be reported as a negative number representing an outflow of cash.

[QUESTION]
155. A company might report negative cash flows from financing activities when:
A) it has purchased a significant amount of equipment.
B) the market value of its stock has gone down.
C) it has paid a cash dividend to its stockholders.
D) it has borrowed money from a bank during the year.

Answer: C
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: Any borrowing from banks, repaying bank loans, receiving cash from stockholders for company stock, or paying dividends to stockholders is considered a financing activity. A cash payment to banks or stockholders would be reported as a negative number representing an outflow of cash.

[QUESTION]
156. Borrowing from a bank is a(n) :
A) operating activity.
B) investing activity.
C) financing activity.
D) expense.

Answer: C
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: Any borrowing from banks, repaying bank loans, receiving cash from stockholders for company stock, or paying dividends to stockholders is considered a financing activity.

Chapter 1: Business Decisions and Financial Accounting

[QUESTION]
157. Paying a cash dividend to stockholders is a(n):
A) operating activity.
B) investing activity.
C) financing activity.
D) expense.

Answer: C
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: Any borrowing from banks, repaying bank loans, receiving cash from stockholders for company stock, or paying dividends to stockholders is considered a financing activity.

[QUESTION]
158. Cash activity with stockholders and creditors, such as banks, are reported as cash flows from ______ activities on the statement of cash flows.
A) financing
B) investing
C) operating
D) managing

Answer: A
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: Any borrowing from banks, repaying bank loans, receiving cash from stockholders for company stock, or paying dividends to stockholders is considered a financing activity.

[QUESTION]
159. Cash activity from the buying and selling of productive resources, such as land, buildings and equipment, are reported as cash flows from _________ activities on the statement of cash flows.

A) investing
B) operating
C) financing
D) managing

Answer: A
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: Investing activities involve buying and selling productive resources with long lives (such as buildings, land, equipment, and software), purchasing investments, and lending to others. Operating activities are directly related to running the business to earn profit. They include selling apps and services, paying employee wages, buying advertising, renting a building, obtaining insurance coverage, and so on. Any borrowing from banks, repaying bank loans, receiving cash from stockholders for company stock, or paying dividends to stockholders is considered a financing activity.

[QUESTION]
160. Ace Electronics paid $4,000 of the $5,000 its employees had earned during the period. Ace Electronics should report Salaries and Wages Expense of ______ on the income statement, Salaries and Wages Payable of ______ on the balance sheet, and a reduction in Cash of ______.
A) $0; $5,000; $0
B) $4,000; $1,000; $0
C) $1,000; $1,000; $0
D) $5,000; $1,000; $4,000

Answer: D
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytical Thinking
AICPA BB: Resource Management
AICPA FN: Reporting
Source: LearnSmart
Feedback: Expenses equal the amount incurred, regardless of whether the cash has been paid. As such, Salaries and Wages Expense, which is reported on the income statement, equals

$5,000. The amount owed to employees of $1,000 will be reported as Salaries and Wages Payable, a liability, on the balance sheet. The cash payment of $4,000 would have decreased the company's cash account.

[QUESTION]
161. Expenses appear on the:
A) statement of retained earnings.
B) balance sheet.
C) income statement.

Answer: C
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: The body of an income statement has three major captions—revenues, expenses, and net income—corresponding to the equation for the income statement (Revenues – Expenses = Net Income). Individual types of revenues and expenses are reported under the revenue and expense headings.

[QUESTION]
162. The unit of measure assumption states that:
A) results of business activities should be reported in an appropriate monetary unit.
B) assets should be recorded at cost.
C) a business's financial reports include only the activities of the business.
D) assets equal liabilities plus stockholder's equity.

Answer: A
Difficulty: 1 Easy
LO: 01-02
Topic: Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: The unit of measure assumption states that results of business activities should be reported in an appropriate monetary unit, which in the United States is the U.S. dollar.

Chapter 1: Business Decisions and Financial Accounting

[QUESTION]
163. Use the information above to answer the following question. As of September 30, Year 3, who provided more financing for Anonymous, Inc.?
A) Owners
B) Creditors
C) Both provided equal financing
D) Neither provided any financing

Answer: B
Difficulty: 3 Hard
LO: 01-03
Topic: Using Financial Statements
Blooms: Analyze
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Total liabilities of $1,877,000 are greater than $1,470,700 of total stockholders' equity. As a result, creditors provided more financing than owners.

[QUESTION]
164. Investors in stock of a company increase their wealth by receiving dividends and by:
A) receiving interest.
B) an increase in the market value of their stock.
C) studying the company's annual financial statements.
D) insider trading.

Answer: B
Difficulty: 1 Easy
LO: 01-03
Topic: Using Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
Source: LearnSmart
Feedback: Investors expect a return on their contributions to a company. The return may be immediate (through dividends) or long-term (through selling stock certificates at a price higher than their original cost).

[QUESTION]
165. A creditor might look at a company's financial statements to determine if the:
A) company is likely to have the resources to repay its debts.
B) company's stock price is likely to fall, signaling a good time to sell.

C) company's stock price is likely to rise, signaling a good time to buy.
D) company pays a dividend.

Answer: A
Difficulty: 2 Medium
LO: 01-03
Topic: Using Financial Statements
Blooms: Understand
AACSB: Reflective Thinking
AICPA BB: Resource Management
AICPA FN: Decision-making
Feedback: Creditors are mainly interested in assessing whether the company generating enough cash to make payments on its loan and fs the company has enough assets to cover its liabilities.

[QUESTION]
166. Aspects of the financial statements may have different relevance to investors and creditors. Which of the following types of information are consistent with the concerns of these two parties?
A) Investors: Dividends; Creditors: Sufficient cash to make loan payments
B) Investors: Cash flows from investing activities; Creditors: Dividends
C) Investors: Sufficient cash to make loan payments; Creditors: Cash flows from investing activities
D) Investors: Sufficient cash to make loan payments; Creditors: Stock prices

Answer: A
Difficulty: 01 Easy
LO: 01-03
Topic: Using Financial Statements
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
Feedback: Creditors are interested in whether the company's cash flows from operating activities are sufficient to make payments on loans and other liabilities. Investors look for intermediate and long-term returns on their contributions to the company, through dividends and stock price increases.

[QUESTION]
167. Investors and creditors look at the balance sheet to see whether the company:
A) is profitable.
B) can maintain its existing product line.
C) owns enough assets to pay all that it owes to creditors.

D) has had a positive cash flows from operating activities.

Answer: C
Difficulty: 02 Medium
LO: 01-03
Topic: Using Financial Statements
Blooms: Understand
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Feedback: Investors and creditors look at the balance sheet to see whether the company owns enough assets to pay all that it owes to creditors. The income statement is used to determine its profitability. The statement of cash flows indicates the cash flows from operating activities.

[QUESTION]
168. A company's quarterly income statements show that in the last three quarters both Sales Revenue and net income have been falling. Given this information, which of the following conclusions drawn by users are valid?
A) Creditors are likely to conclude that the risk of lending to the company is declining and might be willing to accept a lower interest rate on loans.
B) Investors are likely to conclude that the stock price is likely to rise, making the company more attractive as a potential investment.
C) Customers are likely to conclude that the company is struggling; therefore it is permissible to take longer to pay amounts they owe to the company.
D) Owners may conclude that the company will be less likely to distribute dividends.

Answer: D
Difficulty: 2 Medium
LO: 01-01
LO: 01-03
Topic: Accounting for Business Decisions
Topic: Using Financial Statements
Blooms: Evaluate
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision-making
Feedback: Given the downward trend in sales and net income, owners may conclude that the company will be less likely to distribute dividends. Creditors are likely to conclude that the risk of lending to the company is increasing (rather than declining) and might demand a higher (rather than be willing to accept a lower) interest rate on loans. Investors are likely to conclude that the stock price is likely to decline (rather than rise), making the company less (rather than more) attractive as a potential investment. Customers are legally required to pay amounts they owe to the company when they are due; customers do not have the options of

changing those terms.

[QUESTION]
169. Which of the following statements about the use of financial statements is not correct?
A) When choosing between a company that pays steady dividends and one that retains its earnings to support future growth, investors will always choose the company that pays steady dividends.
B) Companies can develop reputations for honest financial reporting even when conveying bad news.
C) Trends in a company's net income from year to year can provide clues about its future earnings, which can help investors to decide whether to buy stock in the company.
D) Information in the notes to the financial statements can influence a user's interpretation of balance sheet and income statement information.

Answer: A
Difficulty: 2 Medium
LO: 01-03
Topic: Using Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Feedback: The return to investors may be immediate (through dividends) or long-term (through selling stock certificates at a price higher than their original cost). As a result, when choosing between a company that pays steady dividends and one that retains its earnings to support future growth, investors won’t always choose the company that pays steady dividends. They might be interested in longer-term returns.

[QUESTION]
170. Investors are often interested in the amount of net income distributed as dividends. Where would investors look for this information in the company’s annual report?
A) Statement of retained earnings
B) Balance sheet
C) Notes to the financial statements
D) Income statement

Answer: A
Difficulty: 1 Easy
LO: 01-02
LO: 01-03
Topic: Financial Statements
Topic: Using Financial Statements
Blooms: Understand

AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: The statement of retained earnings reports the amount of cash dividends paid to stockholders.

[QUESTION]
171. Creditors look at the balance sheet to see whether the company:
A) is profitable.
B) owns enough assets to pay what it owes to creditors.
C) has had a positive cash flow from operations.
D) is paying sufficient dividends to stockholders.

Answer: B
Difficulty: 1 Easy
LO: 01-02
LO: 01-03
Topic: Financial Statements
Topic: Using Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Creditors are mainly interested in assessing whether the company generating enough cash to make payments on its loan and fs the company has enough assets to cover its liabilities. The balance sheet reports the amount of assets, liabilities and stockholders' equity and could be used to evaluate the amount of cash and the amount of liabilities to see whether the company's resources are sufficient to pay creditors.

[QUESTION]
172. Which one of the following is not likely to be a consequence of fraudulent financial reporting?
A) The company's stock price drops once the fraud is discovered.
B) Innocent accountants who work for the company's CPA firm lose their jobs.
C) Creditors recover 100% of amounts owed to them.
D) Employees lose their retirement savings.

Answer: C
Difficulty: 2 Medium
LO: 01-04
Topic: Useful Financial Information
Blooms: Understand
AACSB: Ethics

AICPA BB: Critical Thinking
AICPA FN: Risk Analysis
Feedback: In the long run, fraud harms most individuals and organizations. When it is uncovered, the corporation's stock price drops dramatically.

[QUESTION]
173. When several parties can reach similar values in financial statements by using similar methods, the information is said to be:
A) comparable.
B) understandable.
C) verifiable.
D) timely.

Answer: C
Difficulty: 2 Medium
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Communication
AICPA BB: Legal
AICPA FN: Research
Feedback: The usefulness of financial information is enhanced when it is timely, verifiable, comparable, and understandable. Information is verifiable if others, such as external auditors, reach similar values using similar methods. Information is timely if it is available in time to influence decision makers. It is comparable if the same accounting principles are used over time and across companies. It is understandable if reasonably informed users can comprehend and interpret it.

[QUESTION]
174. Which of the following requires that its members adhere to a Code of Professional Conduct?
A) SEC
B) FASB
C) PCAOB
D) AICPA

Answer: D
Difficulty: 2 Medium
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytic
AICPA BB: Legal

AICPA FN: Reporting
Feedback: The AICPA (American Association of Certified Public Accountants) requires its members to adhere to a Code of Professional Conduct.

[QUESTION]
175. In the U.S., Generally Accepted Accounting Principles (GAAP) are established by the:
A) International Accounting Standards Board (IASB).
B) Public Company Accounting Oversight Board (PCAOB).
C) Financial Accounting Standards Board (FASB).
D) American Institute of Certified Public Accountants (AICPA).

Answer: C
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: Currently, the Financial Accounting Standards Board (FASB) has the primary responsibility for setting the underlying rules of accounting in the United States. As a group, these rules are called Generally Accepted Accounting Principles, or GAAP for short.

[QUESTION]
176. In the U.S., public companies have to be audited by independent auditors using rules approved by the:
A) International Accounting Standards Board (IASB).
B) Public Company Accounting Oversight Board (PCAOB).
C) Financial Accounting Standards Board (FASB).
D) American Institute of Certified Public Accountants (AICPA)..

Answer: B
Difficulty: 2 Medium
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: Following rules approved by the Public Company Accounting Oversight Board (PCAOB) and other accounting bodies, these auditors report whether, beyond reasonable doubt, the financial statements represent what they claim to represent and whether they comply with GAAP.

Chapter 1: Business Decisions and Financial Accounting

[QUESTION]
177. Which of the following actions would be considered unethical?
A) A company does not distribute any of its profits to stockholders.
B) A company rounds the revenues and expenses that it reports on the income statement.
C) An unintentional mistake made by a new accountant.
D) Receiving a paycheck for double the amount due to you and not reporting it to your employer.

Answer: D
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Evaluate
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Decision-making
Feedback: It would be unethical to not report an overpayment of wages to your employer. Companies may retain profits, which help the company grow, which may cause the stock price to increase, benefiting stockholders. Rounding amounts reported on the financial statements is a common practice and does not lead to material misstatement. An unintentional mistake is not considered unethical.

[QUESTION]
178. What would a user of financial statements learn from reading the auditors' report?
A) Whether the financial statements present a fair picture of the company's financial results and are prepared in accordance with GAAP.
B) Whether or not it is a good time to purchase the stock.
C) How much the company plans to distribute as dividends.
D) Whether or not the company has plans for future expansion.

Answer: A
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: Auditors report whether, beyond reasonable doubt, the financial statements represent what they claim to represent and whether they comply with GAAP. The auditors' report does not include recommendations about stock purchases. The company's dividend policy and future plans are not part of the auditors' report.

Chapter 1: Business Decisions and Financial Accounting

[QUESTION]
179. To determine whether generally accepted accounting principles (GAAP) were followed in the preparation of financial statements, an examination of:
A) tax documents would be performed by the IRS.
B) the company's accounting records would be performed by the SEC.
C) the financial statements and related documents would be performed by an independent auditor.
D) the financial statements and related documents would be performed by the FASB.

Answer: C
Difficulty: 2 Medium
LO: 01-04
Topic: Useful Financial Information
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: A company's managers have primary responsibility for following GAAP. To provide additional assurance, some private companies and all public companies hire independent auditors to scrutinize their financial records. Auditors report whether, beyond reasonable doubt, the financial statements represent what they claim to represent and whether they comply with GAAP. The IRS, the SEC, and the FASB do not perform examinations to determine whether a company's financial statements have been prepared in accordance with GAAP.

[QUESTION]
180. Generally accepted accounting principles (GAAP) were (are) established by:
A) an Italian monk in 1494.
B) the U.S. Congress and the SEC.
C) the PCAOB.
D) the FASB on an ongoing basis.

Answer: D
Difficulty: 2 Medium
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Currently, the Financial Accounting Standards Board (FASB) has the primary responsibility for setting the underlying rules of accounting in the United States. As a group,

these rules are called Generally Accepted Accounting Principles, or GAAP for short.

[QUESTION]
181. Which of the following statements concerning financial reporting is not correct?
A) Accounting rules in the U.S. are called GAAP.
B) Accounting rules developed by the IASB are called IFRS.
C) Both GAAP and IFRS share the same goal, which is to ensure useful information to users of financial statements.
D) There are no differences between the accounting rules developed by FASB and those developed by IASB.

Answer: D
Difficulty: 2 Medium
LO: 01-04
Topic: Useful Financial Information
Blooms: Understand
AACSB: Analytic
AICPA BB: Global
AICPA FN: Reporting
Feedback: The accounting rules in the United States are similar, for the most part, to those used elsewhere in the world, but some important differences exist. The FASB is working alongside the International Accounting Standards Board (IASB) to eliminate these differences so that investors can more easily compare the financial statements of companies from different countries.

[QUESTION]
182. What is the main goal of GAAP?
A) To help ensure that financial decisions are made in a professional and ethical manner.
B) To establish standards that help to prevent and detect fraudulent acts by management.
C) To ensure that the financial information produced by companies is useful to present and potential investors and other parties in making decisions.
D) To oversee the stock exchanges and financial reporting by public companies in the United States.

Answer: C
Difficulty: 01 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting

Feedback: Generally Accepted Accounting Principles (GAAP) are rules of financial accounting created by the Financial Accounting Standards Board for use in the United States. The main goal of GAAP is to ensure companies produce financial information that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the companies.

[QUESTION]
183. Which of the following statements concerning financial reporting is correct?
A) The FASB requires all financial decision makers to adhere to a code of professional conduct.
B) The Sarbanes-Oxley Act does not require businesses to maintain an audited system of internal control.
C) A fundamental characteristic of useful financial information is that it fully depicts the economic substance of business activities.
D) There is no attempt to eliminate the difference in accounting rules in the U.S. and elsewhere as this would prevent investors from comparing financial statements of companies from different countries.

Answer: C
Difficulty: 2 Medium
LO: 01-04
Topic: Useful Financial Information
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: Information is a faithful representation if it fully depicts the economic substance of business activities. The AICPA (rather than the FASB) requires its members to adhere to a code of professional conduct. The Sarbanes-Oxley Act does require companies to maintain an audited system of internal controls. The FASB is working alongside the International Accounting Standards Board (IASB) to eliminate these differences so that investors can more easily compare the financial statements of companies from different countries.

[QUESTION]
184. Faithful representation is a characteristic of external financial reporting that means:
A) the financial reports of a business are assumed to include the results of only that business's activities.
B) financial information can be compared across businesses because similar accounting methods are applied.
C) the results of business activities are reported using an appropriate monetary unit.
D) financial information depicts the economic substance of business activities.

Answer: D

Difficulty: 2 Medium
LO: 01-04
Topic: Useful Financial Information
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Financial information possesses the characteristic of representation faithfulness if it depicts the economic substance of business activities. The separate entity assumption means that only the activities of the business are included in its financial reports. Comparability refers to the ability of financial information to be compared across businesses because similar accounting methods have been applied. The unit of measure assumption states that the results of business activities are reported in an appropriate monetary unit.

[QUESTION]
185. Relevance is an objective of external financial reporting that means:
A) the financial reports of a business are assumed to include the results of only that business's activities.
B) financial information can be compared across businesses because similar accounting methods have been applied.
C) the financial information possesses a feature that allows it to influence a decision.
D) the financial information depicts the economic substance of business activities.

Answer: C
Difficulty: 2 Medium
LO: 01-04
Topic: Useful Financial Information
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting
Feedback: Information is relevant if it makes a difference in decision making and it is a faithful representation if it fully depicts the economic substance of business activities.

[QUESTION]
186. Financial statements are a key source of information useful to external users. The quality of relevance in financial information contributes to its usefulness. Along with relevance which of the following attributes is a primary element of useful financial information?
A) Eloquence
B) Assets
C) Ethicality
D) Faithful representation

Answer: D
Difficulty: 01 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Feedback: For financial information to be judged useful, it must possess two fundamental characteristics: relevance and faithful representation.

[QUESTION]
187. According to Generally Accepted Accounting Principles, which of the following is not a characteristic of useful financial information?
A) comparable
B) verifiable
C) timely
D) ethical

Answer: D
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Feedback: Useful financial information is comparable, verifiable, timely, and understandable.

[QUESTION]
188. Which of the following statements about the accounting standards used in other countries is correct?
A) U.S. GAAP is used worldwide.
B) IFRS are used by all countries.
C) More and more countries are using IFRS.
D) There are no plans to converge U.S. GAAP with IFRS.

Answer: C
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Diversity

AICPA BB: Global
AICPA FN: Reporting
Feedback: GAAP are used in the U.S, while other countries have their own national set of accounting standards. Many countries permit or require the use of IFRS. The FASB is working alongside the International Accounting Standards Board (IASB) to eliminate these differences so that investors can more easily compare the financial statements of companies from different countries.

[QUESTION]
189. In a sense, __________ is to accountants and auditors what the criminal code is to lawyers and the public.
A) the SEC
B) faithful representation
C) U.S. GAAP
D) the basic accounting equation

Answer: C
Difficulty: 3 Hard
LO: 01-04
Topic: Useful Financial Information
Blooms: Understand
AACSB: Analytic
AICPA BB: Global
AICPA FN: Reporting
Feedback: U.S. GAAP is to accountants and auditors what the criminal code is to lawyers and the public.

[QUESTION]
190. When faced with an ethical dilemma, an accountant should:
A) Identify who will be affected by the situation, identify and evaluate the alternative courses of action, and choose the alternative that is the most ethical.
B) report the matter to the SEC.
C) report the matter to the IRS.
D) resign.

Answer: A
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research

Feedback: When faced with an ethical dilemma, an accountant should identify who will be affected by the situation, identify and evaluate the alternative courses of action, and choose the alternative that is the most ethical.

[QUESTION]
191. The Sarbanes-Oxley Act is a set of laws established to:
A) limit the amount of compensation received by executives in publicly traded companies.
B) strengthen corporate reporting in the United States.
C) enhance the conceptual framework of GAAP.
D) re-define the display of financial statements.

Answer: B
Difficulty: 01 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Knowledge Application
AICPA BB: Legal
AICPA FN: Decision Making
Feedback: The Sarbanes-Oxley Act is a set of laws established to strengthen corporate reporting in the United States.

[QUESTION]
192. Characteristics that make information useful do not include:
A) Relevant
B) Detailed
C) Consistent
D) Understandable

Answer: B
Difficulty: 01 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Feedback: For financial information to be judged useful, it must possess two fundamental characteristics: relevance and faithful representation. Information is relevant if it makes a difference in decision making and it is a faithful representation if it fully depicts the economic substance of business activities. The usefulness of financial information is enhanced when it is timely, verifiable, comparable, and understandable. Detailed information is not necessarily useful.

Chapter 1: Business Decisions and Financial Accounting

[QUESTION]
193. Information that always makes a difference in a decision is:
A) cash based.
B) audited.
C) provided by GAAP.
D) relevant.

Answer: D
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Decision Making
Source: LearnSmart
Feedback: Information is relevant if it makes a difference in decision making and it is a faithful representation if it fully depicts the economic substance of business activities.

[QUESTION]
194. Who has primary responsibility for making sure that a company's financial statements follow GAAP?
A) Management
B) Independent auditors (CPAs)
C) The Securities and Exchange Commission (SEC)
D) The Public Company Accounting Oversight Board (PCAOB)

Answer: A
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: A company's managers have primary responsibility for following GAAP. To provide additional assurance, some private companies and all public companies hire independent auditors to scrutinize their financial records.

[QUESTION]
195. What do independent auditors provide for companies who hire them?
A) Assurance that this year's financial statements are perfect

B) A guarantee that next year's operations will be profitable
C) Assurance that the financial statements follow Generally Accepted Accounting Principles
D) Assurance that the company's stock is a good investment

Answer: C
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: A company's managers have primary responsibility for following Generally Accepted Accounting Principles (GAAP). To provide additional assurance, some private companies and all public companies hire independent auditors to scrutinize their financial records.

[QUESTION]
196. The main goal of both U.S. GAAP and IFRS is to:
A) ensure that companies produce useful information for capital providers.
B) reduce the number of required financial statements.
C) prevent all fraud and ensure the amounts reported are precise to the penny.
D) ensure that companies become more profitable.

Answer: A
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: The main goal of GAAP and IFRS is to ensure companies produce financial information that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the companies.

[QUESTION]
197. U.S. GAAP are:
A) another term for IFRS.
B) the accounting rules developed by the IASB for use in the United States.
C) the oversight board that supervises auditors .

D) the accounting rules developed by the FASB for use in the United States.

Answer: D
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Analytical Thinking
AICPA BB: Industry
AICPA FN: Reporting
Source: LearnSmart
Feedback: Currently, the Financial Accounting Standards Board (FASB) has the primary responsibility for setting the underlying rules of accounting in the United States. As a group, these rules are called Generally Accepted Accounting Principles, or GAAP for short.

[QUESTION]
198. Which of the following is the set of laws enacted by the government to strengthen corporate reporting in response to the Enron, WorldCom and other frauds?
A) Sarbanes-Oxley Act
B) Professional Code of Ethics
C) Internal Revenue Code
D) Securities and Exchange Commission Act

Answer: A
Difficulty: 1 Easy
LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Reflective Thinking
AICPA BB: Legal
AICPA FN: Reporting
Source: LearnSmart
Feedback: In response to frauds, the government introduced new laws through the Sarbanes-Oxley Act.

[QUESTION]
199. The Sarbanes-Oxley Act (SOX):
A) outlines the code of professional ethics for accountants.
B) is a set of laws established to strengthen corporate reporting.
C) requires all publicly-traded corporations to pay annual dividends.

Answer: B
Difficulty: 1 Easy

LO: 01-04
Topic: Useful Financial Information
Blooms: Remember
AACSB: Reflective Thinking
AICPA BB: Legal
AICPA FN: Reporting
Source: LearnSmart
Feedback: Sarbanes-Oxley Act (SOX) is a set of laws established to strengthen corporate reporting in the United States.

PROBLEMS

[QUESTION]
200. The table shows financial data for Purrfect Pets, Inc. as of June 30, Year 3.

Accounts Receivable	$419,200
Retained Earnings	117,900
Inventories	58,400
Other Assets	69,400
Accounts Payable	349,200
Equipment	118,500
Cash	732,600
Common Stock	662,100
Notes Payable	268,900

Required:
Prepare a balance sheet using these data.

Answer:

Purrfect Pets, Inc.
Balance Sheet
June 30, Year 3

Assets	
Cash	$ 732,600
Accounts Receivable	419,200
Inventories	58,400
Equipment	118,500
Other Assets	69,400
Total Assets	$1,398,100
Liabilities	
Accounts Payable	$ 349,200

Notes Payable	268,900
Total Liabilities	618,100
Stockholders' Equity	
Common Stock	662,100
Retained Earnings	117,900
Total Stockholders' Equity	780,000
Total Liabilities and Stockholders' Equity	$1,398,100

Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Analyze
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting

[QUESTION]
201. The following partially completed balance sheet is missing numerical data.

Purrfect Pets, Inc. Balance Sheet September 30, Year 3	
Assets	
Cash	$743,800
Accounts Receivable	Unknown
Inventories	54,900
Equipment	119,300
Other Assets	71,400
Total Assets	Unknown
Liabilities	
Accounts Payable	$342,500
Notes Payable	Unknown
Total Liabilities	607,600
Stockholders' Equity	
Common Stock	662,100
Retained Earnings	Unknown
Total Stockholders' Equity	789,400
Total Liabilities and Stockholders' Equity	Unknown

Required:

Chapter 1: Business Decisions and Financial Accounting

Fill in the missing amounts in the balance sheet.

Purrfect Pets, Inc. Balance Sheet September 30, Year 3	
Assets	
Cash	$743,800
Accounts Receivable	
Inventories	54,900
Equipment	119,300
Other Assets	71,400
Total Assets	
Liabilities	
Accounts Payable	$342,500
Notes Payable	
Total Liabilities	607,600
Stockholders' Equity	
Common Stock	662,100
Retained Earnings	
Total Stockholders' Equity	789,400
Total Liabilities and Stockholders' Equity	

Answer:

Purrfect Pets, Inc.
Balance Sheet
September 30, Year 3

Assets	
Cash	$ 743,800
Accounts Receivable	407,600
Inventories	54,900
Property, Plant and Equipment	119,300
Other Assets	71,400
Total Assets	$1,397,000
Liabilities	
Accounts Payable	$ 342,500
Notes Payable	265,100
Total Liabilities	607,600
Stockholders' Equity	
Common Stock	662,100

Retained Earnings	127,300
Total Stockholders' Equity	789,400
Total Liabilities and Stockholders' Equity	$1,397,000

Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Analyze
AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting

[QUESTION]
202. A list of Year 3 revenues and expenses for Green Thumb, Inc. is provided below.

Advertising and Promotion Expenses	$ 262,500
Income Tax Expense	56,500
Interest Expense	43,900
Other Expenses	122,400
Other Selling & Administrative Expenses	350,800
Sales Revenue	1,865,300
Salaries and Wages Expense	724,800

Required:

Part a. Calculate the net income for the Green Thumb, Inc. for Year 3.
Part b. Prepare a statement of retained earnings for Green Thumb, Inc. for Year 3. Assume the company had retained earnings of $162,000 as of January 1, Year 3, and paid out $46,000 in dividends during Year 3.

Answer:
Part a
Net income = Revenues – Expenses
= $1,865,300 – $262,500 – $56,500 – $43,900 – $122,400 – $350,800 – $724,800 = $304,400
Part b

GREEN THUMB, INC.
Statement of Retained Earnings
For the Year Ended December 31, Year 3

Retained Earnings, January 1, Year 3	$162,000
Add: Net Income	304,400
Subtract: Dividends	(46,000)
Retained Earnings, December 31, Year 3	$420,400

Chapter 1: Business Decisions and Financial Accounting

Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Create
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting

[QUESTION]
203. Each of the following independent companies is missing numerical data.

Required:
Use your knowledge of the financial statement equations and their interrelationships to fill in the missing amounts.

Company	**Total Revenues**	**Total Expenses**	**Net Income (Loss)**	**Total Assets**	**Total Liabilities**	**Stockholders' Equity**
Alpha Co.	$60,000	$	$20,000	$	$33,000	$66,000
Bravo, Inc.		100,000	(30,000)	130,000		38,000
Charlie Co.	30,000	10,000		60,000	40,000	

Answer:

Company	**Total Revenues**	**Total Expenses**	**Net Income (Loss)**	**Total Assets**	**Total Liabilities**	**Stockholders' Equity**
Alpha Co.	$60,000	**$40,000**	$20,000	**$99,000**	$33,000	$66,000
Bravo, Inc.	**70,000**	100,000	(30,000)	130,000	**92,000**	38,000
Charlie Co.	30,000	10,000	**20,000**	60,000	40,000	**20,000**

Difficulty: 2 Medium
LO: 01-02
Topic: The Basic Accounting Equation
Topic: Financial Statements
Blooms: Analyze
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting

[QUESTION]
204. Use the following Year 3 data to prepare the annual income statement for Kvass, Inc.

Other Selling & Administrative Expenses	$1,050,300
Other Expenses	247,600
Sales Revenue	4,885,300
Advertising and Promotion Expenses	552,500
Salaries and Wages Expense	2,524,400
Income Tax Expense	166,500
Interest Expense	113,900

Answer:

KVASS, INC.
Income Statement
For the Year Ended December 31, Year 3

Revenues	
Sales Revenue	$4,885,300
Expenses	
Salaries and Wages Expense	2,524,400
Advertising and Promotion Expenses	552,500
Other Selling & Administrative Expenses	1,050,300
Interest Expense	113,900
Income Tax Expense	166,500
Other Expenses	247,600
Total Expenses	4,655,200
Net Income	$ 230,100

Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Create
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting

[QUESTION]
205. Following is a list of financial statement items and amounts for Tim Burr's Tree Service as of 12/31/X3, the end of its first year in operation.

Required:
Use this information to prepare the Income Statement, Statement of Retained Earnings, and Balance Sheet.

Accounts Receivable	$40,000

Accounts Payable	30,000
Cash	10,000
Common Stock	20,000
Notes Payable	10,000
Equipment	50,000
Sales Revenue	100,000
Fuel Expense	10,000
Rent Expense	15,000
Advertising Expense	5,000
Salaries and Wages Expense	20,000
Retained Earnings	Unknown
Dividends	10,000

Answer:

Tim Burr's Tree Service
Income Statement
For the Year Ended December 31, Year 3

Revenues	
Sales Revenue	$100,000
Expenses	
Fuel Expense	10,000
Rent Expense	15,000
Advertising Expense	5,000
Wage Expense	20,000
Total Expenses	50,000
Net Income	$ 50,000

Tim Bur's Tree Service
Statement of Retained Earnings
For the Year Ended December 31, Year 3

Retained Earnings, January 1, Year 3	$ 0
Add: Net Income	50,000
Subtract: Dividends	(10,000)
Retained Earnings, December 31, Year 3	$40,000

Tim Burr's Tree Service
BALANCE SHEET

December 31, Year 3	
Assets	
Cash	$ 10,000
Accounts Receivable	40,000
Equipment	50,000
Total Assets	$100,000
Liabilities	
Accounts Payable	$ 30,000
Notes Payable	10,000
Total Liabilities	40,000
Stockholders' Equity	
Common Stock	20,000
Retained Earnings	40,000
Total Equity	60,000
Total Liabilities and Stockholders' Equity	$100,000

Feedback: Total Liabilities and Stockholders' Equity = Assets $100,000 – Liabilities $40,000 = $60,000
Stockholders' Equity $60,000 = Common stock $20,000 + Retained Earnings
Retained Earnings = $40,000 (which also matches the statement of retained earnings)
Difficulty: 3 Hard
LO: 01-02
Topic: Financial Statements
Blooms: Create
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting

MATCHING

[QUESTION]
206. Choose the appropriate letter to match the characteristics with the type of company. A given characteristic may match more than one type of company.

CHARACTERISTIC
1. ________ Issues shares of stock that are traded on a stock exchange such as the NYSE
2. ________ The owners of the business are personally liable for the debts of the company
3. ________ Shares of stock must be purchased directly from current owners
4. ________ Can raise more financial capital by selling stock to the greatest number of investors
5. ________ The easiest form of business to start

6. ________ The business ceases to exist upon the departure of one of the owners
7. ________ The owners pay taxes on the profits of the business

TYPE OF COMPANY
A. Partnership
B. Publicly traded corporation
C. Privately traded corporation
D. Sole Proprietorship

Answer:
1. B
2. A and D
3. C
4. B
5. D
6. A
7. A and D

Difficulty: 2 Medium
LO: 01-01
Topic: Organizational Forms
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting

[QUESTION]
207. Choose the appropriate letter to match the description of the business activity with the category.

BUSINESS ACTIVITY
1. ____ The purchase of a new line of assembly equipment
2. ____ Company payment of a dividend
3. ____ The purchase of office supplies
4. ____ The purchase of advertising time by the company
5. ____ The building of a new factory
6. ____ Company repayment of a bank loan

CATEGORY
A. Operating activity
B. Investing activity
C. Financing activity

Answer:

Chapter 1: Business Decisions and Financial Accounting

1. B
2. C
3. A
4. A
5. B
6. C

Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting

[QUESTION]
208. Choose the appropriate letter to match the terms to the blanks below to complete the relevant equation for each financial statement.

FINANCIAL STATEMENT EQUATION

Balance Sheet	______ = ______ + ______
Income Statement	______ = ______ – ______
Statement of Retained Earnings	______ = ______ + ______ – ______
Statement of Cash Flows	______ = ______ + ______ + ______ + ______

TERM

A.	Cash at beginning of year
B.	Net cash flow from operating activities
C.	Balance of retained earnings from previous year
D.	Net cash flow from investing activities
E.	Liabilities
F.	Net cash flow from financing activities
G.	Balance of retained earnings at end of year
H.	Net income
I.	Revenue
J.	Assets
K.	Stockholders' equity
L.	Expenses
M.	Cash at end of year
N.	Dividends paid

Answer:
Balance Sheet: J = E + K
Income Statement: H = I – L
Statement of Retained Earnings: G = C + H – N
Statement of Cash Flows: M = B + D + F + A
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Apply
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting

[QUESTION]
209. Each item in the statement of retained earnings can appear on another financial statement. Choose the appropriate letter to match the item in the statement of retained earnings with the related financial statement.

ITEM ON STATEMENT OF RETAINED EARNINGS
1. ____ Retained earnings, January 1, Year 3
2. ____ Net income for Year 3
3. ____ Dividends for Year 3
4. ____ Retained earnings, December 31, Year 3

FINANCIAL STATEMENT
A. Balance sheet at end of Year 3
B. Statement of cash flows for Year 3
C. Income statement for Year 2
D. Balance sheet at end of Year 2
E. Income statement for Year 3

Answer:
1. D
2. E
3. B
4. A
Difficulty: 2 Medium
LO: 01-02
Topic: Financial Statements
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management

Chapter 1: Business Decisions and Financial Accounting

AICPA FN: Reporting

[QUESTION]
210. Choose the appropriate letter to match the term and the definition. (There are more definitions than terms.)

TERM
1._____ Investors
2._____ Audit
3._____ Balance Sheet
4._____ Operating Activities
5._____ Unit of Measure Assumption
6._____ Retained Earnings
7._____ Investing Activities
8._____ Income Statement

DEFINITION
A. An example of an internal user of financial statements.
B. A financial statement showing a company's assets, liabilities and stockholders' equity.
C. When a company acquires money from investors.
D. A financial statement that summarizes a company's past and current cash situation.
E. An example of external users of financial statements.
F. The idea that the financial statements of a company include the results of only that company's business activities.
G. Activities directly related to running the business to earn profit.
H. A financial statement that shows a company's revenues and expenses.
I. Borrowing money from lenders.
J. The total amount of profits that are kept by the company.
K. The idea that a company should report its financial data in the relevant currency.
L. A procedure by which independent evaluators assess the accounting procedures and financial reports of a company.
M. Transactions with lenders (borrowing and repaying cash) and stockholders (selling company stock and paying dividends).

Answer:
1. E
2. L
3. B
4. G
5. K
6. J
7. M

8. H
Difficulty: 2 Medium
LO: 01-01
LO: 01-02
LO: 01-04
Topic: Accounting for Business Decisions
Topic: Financial Statements
Topic: Useful Financial Information
Blooms: Understand
AACSB: Analytic
AICPA BB: Resource Management
AICPA FN: Reporting

[QUESTION]
211. Match the acronym with the description that best reflects it. (There are more descriptions than acronyms.)

ACRONYM
1._____ SEC
2._____ GAAP
3._____ PCAOB
4._____ FASB
5._____ IASB
6._____ SOX
7._____ AICPA

DESCRIPTION
A. The Board that establishes international accounting standards.
B. This organization regulates activities associated with the stock market such as the reporting of financial data by publicly owned companies.
C. The U.S. agency that must approve mergers between very large publicly owned corporations.
D. The national professional organization of accountants.
E. A set of laws established to strengthen corporate reporting in the United States.
F. The U.S. Board that approves the rules for auditing publicly owned companies.
G. Rules of financial accounting created by the FASB for use in the United States.
H. The organization that establishes business laws in the U.S.
I. The U.S. agency that certifies foreign accounting firms to practice in the U.S.
J. The Board that establishes the accounting rules that govern American publicly owned corporations.

Answer:
1. B

Chapter 1: Business Decisions and Financial Accounting

2. G
3. F
4. J
5. A
6. E
7. D

Difficulty: 2 Medium
LO: 01-04
Topic: Useful Financial Information
Blooms: Understand
AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting