

Horngren's Accounting: The Financial Chapters, 11e, Global Edition (Miller-Nobles)
Chapter 1 Accounting and the Business Environment

Learning Objective 1-1

1) Accounting is the information system that measures business activities, processes the information into reports, and communicates the results to decision makers.

Answer: TRUE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Why is Accounting Important? (H1)

2) Critical thinking and judgment skills are not necessary for accountants because technology has made the activities routine.

Answer: FALSE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Why is Accounting Important? (H1)

3) Accounting starts with economic activities that accountants review and evaluate using critical thinking and judgment to create useful information that helps individuals make good decisions.

Answer: TRUE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Why is Accounting Important? (H1)

4) Accounting is referred to as the language of business because it is the method of communicating business information to decision makers.

Answer: TRUE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Why is Accounting Important? (H1)

5) Managerial accounting focuses on information for external decision makers.

Answer: FALSE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

6) Investors primarily use managerial accounting information for decision-making purposes.

Answer: FALSE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

7) A creditor is a person who owes money to the business.

Answer: FALSE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

8) Local, state, and federal governments use accounting information to calculate income taxes.

Answer: TRUE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

9) Financial accounting focuses on information for decision makers outside of the business, such as creditors and taxing authorities.

Answer: TRUE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

10) Business owners use accounting information to set goals, evaluate progress toward those goals, and make adjustments when needed.

Answer: TRUE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

11) Outside investors would ordinarily use managerial accounting information to decide whether or not to invest in a business.

Answer: FALSE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

12) A creditor is any person who has an ownership interest in a business.

Answer: FALSE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

13) Different users of accounting information focus on the information they need to make the best choices.

Answer: TRUE

Diff: 1

LO: 1-1

AACSB: Interpersonal relations and teamwork

AICPA Functional: Reporting

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

14) Any person or business to whom a business owes money is called the business's creditor.

Answer: TRUE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

15) The primary objective of financial reporting is to provide information useful for making investment and lending decisions.

Answer: TRUE

Diff: 1

LO: 1-1

AICPA Functional: Reporting

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

16) Managerial accounting provides information to _____.

A) internal decision makers

B) outside investors and lenders

C) creditors

D) taxing authorities

Answer: A

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

17) The field of accounting that focuses on providing information for external decision makers is _____.

- A) managerial accounting
- B) financial accounting
- C) cost accounting
- D) nonmonetary accounting

Answer: B

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

18) The field of accounting that focuses on providing information for internal decision makers is _____.

- A) managerial accounting
- B) financial accounting
- C) nonmonetary accounting
- D) governmental accounting

Answer: A

Diff: 1

LO: 1-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Decision Makers: The Users of Accounting Information

19) Which of the following users would rely on managerial accounting information for decision-making purposes?

- A) potential investors
- B) creditors
- C) customers
- D) company managers

Answer: D

Diff: 1

LO: 1-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Decision Makers: The Users of Accounting Information

20) Which of the following is an external user of a business's financial information?

- A) customers
- B) cost accountant
- C) company manager
- D) the board of directors

Answer: A

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Decision Makers: The Users of Accounting Information

21) For each user of accounting information, identify if the user would use financial accounting (FA) or managerial accounting (MA).

User of Accounting Information	FA or MA
Business manager	
Creditor	
Investor	
Human resources director	
Internal Revenue Service	

Answer:

User of Accounting Information	FA or MA
Business manager	MA
Creditor	FA
Investor	FA
Human resources director	MA
Internal Revenue Service	FA

Diff: 1

LO: 1-1

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Decision Makers: The Users of Accounting Information

22) Financial analysts perform reviews of companies to ensure compliance to rules and regulations.

Answer: FALSE

Explanation: Auditors perform reviews of companies to ensure compliance to rules and regulations.

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Accounting Profession

23) Certified Public Accountants are licensed professional accountants who serve the general public.

Answer: TRUE

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Accounting Profession

24) _____ are professional accountants who serve the general public, not one particular company.

A) Certified public accountants

B) Certified financial accountants

C) Audit accountants

D) Controllers

Answer: A

Diff: 1

LO: 1-1

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Accounting Profession

Learning Objective 1-2

1) The Financial Accounting Standards Board is a U.S. governmental agency that oversees the creation and governance of accounting standards.

Answer: FALSE

Explanation: The Financial Standards Board is a private organization.

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Governing Organizations

2) Which of the following organizations is responsible for the creation and governance of accounting standards in the United States?

A) Financial Accounting Standards Board

B) Institute of Management Accountants

C) American Institute of Certified Public Accountants

D) Securities and Exchange Commission

Answer: A

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Governing Organizations

3) The guidelines for accounting information are called Generally Accepted Accounting Principles (GAAP).

Answer: TRUE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Generally Accepted Accounting Principles

4) GAAP refer to guidelines for accounting information in the United States. The acronym GAAP in this statement refers to _____.

A) Globally Accepted and Accurate Policies

B) Global Accommodation Accounting Principles

C) Generally Accredited Accounting Policies

D) Generally Accepted Accounting Principles

Answer: D

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Generally Accepted Accounting Principles

5) What are Generally Accepted Accounting Principles (GAAP)? Which entity is currently responsible for determining GAAP?

Answer: Generally Accepted Accounting Principles are the guidelines for accounting information, currently formulated by the Financial Accounting Standards Board (FASB). GAAP is the main U.S. accounting rule book.

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Generally Accepted Accounting Principles

6) As per the economic entity assumption, an organization and its owners should be seen as the same entity.

Answer: FALSE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

7) In a sole proprietorship, the owner is personally liable for the debts of the business.

Answer: TRUE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

8) The most that the owner of a sole proprietorship can lose, as a result of business debts or lawsuits, is the amount he/she has invested in the business.

Answer: FALSE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

9) Members of a limited-liability company (LLC) are not personally liable for the debts of the business.

Answer: TRUE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

10) A business can be organized as a sole proprietorship, partnership, corporation, or limited-liability company (LLC).

Answer: TRUE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

11) In a limited-liability company (LLC), the members are personally liable for the debts of the business.

Answer: FALSE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

12) In a corporation, the stockholders are personally liable for the debts of the company.

Answer: FALSE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

13) A corporation pays income taxes on its earnings.

Answer: TRUE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

14) A partnership is not taxed. Instead individual partners pay taxes on their share of the earnings.

Answer: TRUE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

15) The formation of a partnership firm requires a minimum of _____.

A) four partners

B) three partners

C) one partner

D) two partners

Answer: D

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

16) Which of the following is a major reason why corporate ownership is popular in the United States?

A) Stockholders have limited liability for the debts of the corporation.

B) Most corporations are small- or medium-sized.

C) The life of a corporation is limited by the death of the owner.

D) A corporation is usually managed by the owners.

Answer: A

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

17) Which of the following is a characteristic of a corporation?

A) A corporation is owned by stockholders.

B) Lenders of a corporation do not have the right to claim the corporation's assets to satisfy their obligations.

C) All shares of a corporation must be held by a single individual.

D) Each stockholder has the authority to commit the corporation to a binding contract through his/her actions.

Answer: A

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

18) The sole proprietorship form of business _____.

- A) enjoys an indefinite life
- B) has limited liability for the business's debts
- C) is a common form of organization for small businesses
- D) is a separate taxable entity from its owner

Answer: C

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

19) A corporation has which of the following sets of characteristics?

- A) subject to personal liability, not a separate taxable entity, terminates at the stockholder's death
- B) not taxed, two or more owners, an alternative organizational form to partnerships
- C) taxed on earnings, subject to personal liability, used primarily by professional organizations
- D) one or more stockholders, indefinite life, no personal liability

Answer: D

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

20) Corporations pay their own income tax on corporate income. Stockholders pay personal income tax on the dividends received from corporations. This is an example of _____.

- A) double taxation
- B) indefinite life
- C) personal liability
- D) a limited-liability company

Answer: A

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

21) Which of the following statements is true of the corporate form of business?

- A) A corporation is organized under state law as a separate legal entity.
- B) Changes in the ownership of stock has a negative effect on the continuity of the corporation.
- C) Any stockholder may commit the corporation to a contract.
- D) It is easy for stockholders to lodge an effective protest against management.

Answer: A

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

22) Which of the following statements is true of a sole proprietorship?

- A) A sole proprietorship joins two or more individuals as co-owners.
- B) The sole proprietor is personally liable for the liabilities of the business.
- C) A sole proprietorship is taxed separately from the owner.
- D) A sole proprietorship has to pay business income taxes.

Answer: B

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

23) Which of the following is a characteristic of a limited-liability company (LLC)?

- A) An LLC's life is terminated at any member's choice or death.
- B) Each member of an LLC is liable only for his or her own actions.
- C) An LLC must have more than five members.
- D) The income of members from an LLC is not taxed.

Answer: B

Diff: 2

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

24) Caleb Brown has been the sole owner of a bicycle sales and repair shop for several years. Which of the following business types would limit Caleb's personal liability exposure to the entity's debts?

- A) partnership
- B) limited-liability company
- C) sole proprietorship
- D) limited-liability partnership

Answer: B

Diff: 2

LO: 1-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Economic Entity Assumption

25) David has decided to open an auto-detailing business. He will pick up an automobile from the client, take it to his parents' garage, detail it, and return it to the client. If he does all of the work himself and takes no legal steps to form a special organization, which type of business organization, in effect, has he chosen?

- A) a limited-liability company
- B) a partnership
- C) a corporation
- D) a sole proprietorship

Answer: D

Diff: 2

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

26) In a limited-liability company, the _____.

- A) members are personally liable to pay the entity's debts
- B) business pays income tax on earnings
- C) members are liable for each other's actions
- D) members pay income tax on their share of earnings

Answer: D

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

27) The taxable income of a sole proprietorship is _____.

- A) combined with the personal income of the proprietor
- B) not combined with the proprietor's personal income
- C) not taxable
- D) handled similarly to that of a corporation

Answer: A

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

28) Joshua Thomas Corporation manufactures and retails computer hardware. The president of the corporation bought a new car as a gift for his daughter and paid for it using cash from the business. Since the corporation paid for the car, it was recorded in its books as an asset. Which of the following concepts or principles of accounting did the corporation violate?

- A) monetary unit assumption
- B) economic entity assumption
- C) cost principle
- D) going concern assumption

Answer: B

Diff: 2

LO: 1-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Economic Entity Assumption

29) Which of the following statements is true of a corporation?

- A) Corporations pay the same variety of taxes as other forms of business.
- B) Although a corporation is a separate legal entity, it cannot be sued.
- C) Any stockholder of a corporation can commit the corporation to a binding contract.
- D) The owners of a corporation are called stockholders.

Answer: D

Diff: 2

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

30) The ultimate control of the corporation rests with the _____.

- A) board of directors
- B) stockholders
- C) chairperson
- D) chief operating officer

Answer: B

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Economic Entity Assumption

31) Johnson Company purchased land for \$70,000. The president of Johnson Company believes that the land is actually worth \$75,000. The land can be recorded at \$75,000.

Answer: FALSE

Explanation: The cost principle states that acquired assets are recorded at their actual cost.

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Cost Principle

32) Since cost is a reliable measure, the cost principle holds that the accounting records should continue reporting an asset at its historical cost over its useful life.

Answer: TRUE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Cost Principle

33) According to the _____, acquired assets should be recorded at the amount actually paid rather than at the estimated market value.

A) going concern assumption

B) economic entity concept

C) cost principle

D) monetary unit assumption

Answer: C

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Cost Principle

34) Lorna Smith decided to start her own CPA practice as a professional corporation, Smith CPA PC. Her corporation purchased an office building for \$35,000 that her real estate agent said was worth \$50,000 in the current market. The corporation recorded the building as a \$50,000 asset because Lorna believes that is the real value of the building. Which of the following concepts or principles of accounting is being violated?

A) cost principle

B) economic entity assumption

C) monetary unit assumption

D) going concern assumption

Answer: A

Diff: 1

LO: 1-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Cost Principle

35) Thirty years ago, Star Grocer Corporation purchased a building for its grocery store for \$30,000. Based on inflation estimates, the amount of the building has been adjusted in the accounting records. The building is now reported at \$75,000 in Star Grocer's financial statements. Which of the following concepts or principles of accounting is being violated?

- A) going concern assumption
- B) revenue realization concept
- C) economic entity assumption
- D) cost principle

Answer: D

Diff: 2

LO: 1-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Cost Principle

36) Ten years ago a corporation purchased a building for \$100,000. At that time, the corporation felt that the business was worth \$125,000. The current market value of the business is \$500,000. The building has been assessed at \$475,000 for property tax purposes. At which amount should the corporation record the building in its accounting records?

- A) \$100,000
- B) \$125,000
- C) \$475,000
- D) \$500,000

Answer: A

Diff: 2

LO: 1-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Cost Principle

37) A business purchases a building for \$250,000. The current market value is \$375,000. The assessment value is \$325,000. What value should the building be recorded at, and which accounting principle supports your answer?

Answer: The building should be recorded at the actual cost of \$250,000. This is supported by the cost principle.

Diff: 1

LO: 1-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Cost Principle

38) Under the going concern principle, accountants must provide proof that the business will remain in operations long enough to use existing resources for their intended purpose.

Answer: FALSE

Explanation: Accountants base going concern on assumptions. Actual proof is not needed to make this determination.

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Going Concern Assumption

39) As per the _____, the entity will remain in operation for the foreseeable future.

A) economic entity concept

B) monetary unit assumption

C) going concern assumption

D) cost principle

Answer: C

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Going Concern Assumption

40) Accountants assume that the dollar's purchasing power is stable.

Answer: TRUE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : The Monetary Unit Assumption

41) Genity Company records business transactions in dollars and disregards changes in the value of a dollar over time. Which of the following accounting assumptions does this represent?

A) economic entity assumption

B) going concern assumption

C) accounting period assumption

D) monetary unit assumption

Answer: D

Diff: 1

LO: 1-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : The Monetary Unit Assumption

42) International Financial Reporting Standards (IFRS) is the main U.S. accounting rule book and is currently created and governed by the Financial Accounting Standards Board.

Answer: FALSE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : International Financial Reporting Standards

43) A publicly traded company in the United States does not come under Securities and Exchange Commission regulations as long as it follows the rules of GAAP.

Answer: FALSE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : International Financial Reporting Standards

44) International Financial Reporting Standards are comparatively more specific and more rule-based than U.S. GAAP.

Answer: FALSE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : International Financial Reporting Standards

45) International Financial Reporting Standards _____ U.S. Generally Accepted Accounting Principles.

A) are the same as

B) are generally less specific than

C) are based less on principle than

D) leave less room for professional judgment than

Answer: B

Diff: 1

LO: 1-2

AACSB: Analytical thinking

AICPA Functional: Reporting

PE Question Type: Critical thinking

H2 : International Financial Reporting Standards

46) Which of the following statements, regarding International Financial Reporting Standards (IFRS), is correct?

- A) International Financial Reporting Standards are issued by the Financial Accounting Standards Board.
- B) The Securities and Exchange Commission is the private organization that oversees the creation and governance of International Financial Reporting Standards.
- C) International Financial Reporting Standards represent a set of global accounting standards that are generally more specific and based less on principle than U.S. Generally Accepted Accounting Principles.
- D) Companies who are incorporated in or do significant business in another country might be required to publish financial statements using International Financial Reporting Standards.

Answer: D

Diff: 1

LO: 1-2

AICPA Functional: Reporting

PE Question Type: Concept

H2 : International Financial Reporting Standards

47) The Public Company Accounting Oversight Board is a watchdog agency that monitors the work of independent accountants who audit public companies.

Answer: TRUE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Ethics in Accounting and Business

48) An examination of a company's financial statements and records is called an audit.

Answer: TRUE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Ethics in Accounting and Business

49) The Sarbanes-Oxley Act (SOX) requires companies to review internal control and take responsibility for the accuracy and completeness of their financial reports.

Answer: TRUE

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Ethics in Accounting and Business

50) The Sarbanes-Oxley Act (SOX) _____.

- A) requires independent accountants to take responsibility for the accuracy and completeness of the financial reports
- B) created the SEC
- C) ensures that financial scandals will no longer occur
- D) requires companies to take responsibility for the accuracy and completeness of their financial reports

Answer: D

Diff: 1

LO: 1-2

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Ethics in Accounting and Business

51) Which of the following organizations requires publicly owned companies to be audited by independent accountants (CPAs)?

- A) Securities and Exchange Commission (SEC)
- B) Public Company Accounting Oversight Board (PCAOB)
- C) Financial Accounting Standards Board (FASB)
- D) American Institute of Certified Public Accountants (AICPA)

Answer: A

Diff: 1

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Ethics in Accounting and Business

52) The Public Company Accounting Oversight Board (PCAOB) was created _____.

- A) by the Sarbanes-Oxley Act (SOX)
- B) to perform audits of public companies
- C) to make restitution to investors who were defrauded by the issuance of fraudulent financial reports
- D) to require auditors to take responsibility for the accuracy and completeness of financial reports

Answer: A

Diff: 2

LO: 1-2

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Ethics in Accounting and Business

Learning Objective 1-3

1) The left side of the accounting equation measures the amount that the business owes to creditors and to the stockholders.

Answer: FALSE

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Accounting Equation? (H1)

2) The total amount of assets a business possesses may or may not be equal to the total of liabilities and equity of the business.

Answer: FALSE

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Accounting Equation? (H1)

3) Which of the following is the correct accounting equation?

A) Assets + Liabilities = Equity

B) Assets = Liabilities + Equity

C) Assets + Revenues = Equity

D) Assets + Revenues = Liabilities + Expenses

Answer: B

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Accounting Equation? (H1)

4) The equity of Autumn Company is \$130,000 and the total liabilities are \$40,000. The total assets are _____.

A) \$260,000

B) \$80,000

C) \$90,000

D) \$170,000

Answer: D

Explanation: D) Assets = Liabilities + Equity

Assets = 130,000 + 40,000 = 170,000

Diff: 1

LO: 1-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : What is the Accounting Equation? (H1)

5) Sunlight Company has assets and equity that amount to \$220,000 and \$60,000, respectively. Liabilities total _____.

- A) \$60,000
- B) \$160,000
- C) \$220,000
- D) \$280,000

Answer: B

Explanation: B) $\text{Liabilities} = \text{Assets} - \text{Equity}$

$\text{Liabilities} = 220,000 - 60,000 = 160,000$

Diff: 1

LO: 1-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : What is the Accounting Equation? (H1)

6) The assets of Moon Company are \$150,000 and the total liabilities are \$20,000. The equity is _____.

- A) \$150,000
- B) \$170,000
- C) \$20,000
- D) \$130,000

Answer: D

Explanation: D) $\text{Equity} = \text{Assets} - \text{Liabilities}$

$\text{Equity} = 150,000 - 20,000 = 130,000$

Diff: 1

LO: 1-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : What is the Accounting Equation? (H1)

7) What is the accounting equation? Briefly explain each of the three parts.

Answer: $\text{Assets} = \text{Liabilities} + \text{Equity}$.

Assets are economic resources that are expected to benefit the business in the future. They are things of value that a business owns or has control of. Liabilities are debts that are owed to creditors. They are one source of claims against assets. Equity is the other source of claims against assets. Equity is the stockholders' claims against assets and is the amount of assets that is left over after the company has paid its liabilities. It represents the net worth of the corporation.

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : What is the Accounting Equation? (H1)

8) Assets are something of value that the business owns or has control of.

Answer: TRUE

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Assets

9) Assets are economic resources that have no future benefits for the business.

Answer: FALSE

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Assets

10) The economic resources of a business such as furniture, building, and land are its _____.

A) liabilities

B) revenues

C) assets

D) dividends

Answer: C

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Assets

11) Which of the following is true of assets?

A) Assets include cash, merchandise inventory, and accounts payable.

B) Assets are something of value the business owns or controls.

C) Assets do not need to provide future benefit to the business.

D) Assets can be recorded at the expected cost if acquired at a bargain.

Answer: B

Diff: 2

LO: 1-3

AACSB: Analytical thinking

AICPA Functional: Measurement

PE Question Type: Critical thinking

H2 : Assets

12) Define assets. Provide three examples of assets.

Answer: Assets are economic resources that are expected to benefit the business in the future. Assets are something the business owns or has control of. Examples include cash, merchandise inventory, furniture, and land.

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Assets

13) Liabilities represent creditors' claims on the business's assets.

Answer: TRUE

Diff: 1

LO: 1-3

AACSB: Interpersonal relations and teamwork

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Liabilities

14) A creditor who has loaned money to a business has a claim to some of the assets of the business until the debt is paid.

Answer: TRUE

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Liabilities

15) A debt that a business owes is called _____.

A) an asset

B) a liability

C) stockholders' equity

D) revenue

Answer: B

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Liabilities

16) Equity increases when revenues are earned.

Answer: TRUE

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

17) Equity decreases with expenses and revenues.

Answer: FALSE

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

18) Withdrawals are the expenses of a business.

Answer: FALSE

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

19) The four types of events that affect equity are owner's contributions, owner's withdrawals, revenues, and expenses.

Answer: TRUE

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

20) Owner's withdrawals represent increases in equity.

Answer: FALSE

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

21) Owner's contributions to a business are referred to as owner's capital.

Answer: TRUE

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

22) Jackson Plumbing Services earned \$500 by completing a job for Smith Company. The \$500 earned by Jackson Plumbing Services is its _____.

A) revenue

B) equity

C) gain

D) debt

Answer: A

Diff: 1

LO: 1-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Equity

23) The owners' claims to the assets of the business are called _____.

- A) return on assets
- B) expenses
- C) equity
- D) debt

Answer: C

Diff: 1

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

24) Vista Camera Services started the year with total assets of \$90,000 and total liabilities of \$65,000. The revenues and the expenses for the year amounted to \$120,000 and \$50,000, respectively. During the year, the owner did not make any additional contributions, but made withdrawals of \$55,000. What is the amount of owner's equity at the end of the year?

- A) \$50,000
- B) \$120,000
- C) \$40,000
- D) \$55,000

Answer: C

Explanation: C) Equity (ending balance) = Equity (beginning balance) + Contributions - Withdrawals + Revenues - Expenses

$$\text{Equity} = (\$90,000 - \$65,000) - \$55,000 + \$120,000 - \$50,000 = \$40,000$$

Diff: 3

LO: 1-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Equity

25) Gatto Production Services started the year with total assets of \$90,000 and total liabilities of \$40,000. The revenues and the expenses for the year amounted to \$130,000 and \$80,000, respectively. During the year, the owner did not make any additional contributions, but had withdrawals of \$55,000. Calculate Gatto's net income for the year.

- A) \$50,000
- B) \$130,000
- C) \$80,000
- D) \$90,000

Answer: A

Explanation: A) Net income = Revenues - Expenses

$$\text{Net income} = \$130,000 - \$80,000 = \$50,000$$

Diff: 2

LO: 1-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Equity

26) York Casting Services started the year with total assets of \$120,000 and total liabilities of \$60,000. The revenues and the expenses for the year amounted to \$150,000 and \$50,000, respectively. During the year, the owner did not make any additional contributions, but had withdrawals of \$75,000. Calculate the amount of increase or decrease in owner's equity for the year.

- A) a \$25,000 increase
- B) a \$85,000 increase
- C) a \$60,000 decrease
- D) a \$75,000 increase

Answer: A

Explanation: A) Equity (at the beginning of the year) = \$120,000 - \$60,000 = \$60,000

Equity (at the end of the year) = Equity (beginning balance) - Withdrawals + Revenues - Expenses

Equity (at the end of the year) = \$60,000 - \$75,000 + \$150,000 - \$50,000 = \$85,000

Change in owner's equity for the year = \$85,000 - \$60,000 = \$25,000 increase

Diff: 2

LO: 1-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Equity

27) The net income of Avid Camera Services is \$25,000. The beginning and ending owner's equity balances were \$34,000 and \$53,000, respectively. The owner made no additional contributions. Calculate the amount of owner's withdrawals.

- A) \$16,000
- B) \$6,000
- C) \$9,000
- D) \$8,000

Answer: B

Explanation: B)

Stockholders' Equity Beginning Balance	\$34,000
Add: Net Income	25,000
Less: Stockholders' Equity Ending Balance	<u>53,000</u>
Owner's Withdrawals	<u>\$6,000</u>

Diff: 2

LO: 1-3

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Equity

28) _____ are the owner's contributions of cash or other assets.

- A) Assets
- B) Owner's Withdrawals
- C) Owner's Capital
- D) Liabilities

Answer: C

Diff: 2

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

29) Which of the following is true of owner's equity?

- A) Owner's Equity decreases with drawings.
- B) Owner's Equity increases with purchase of assets.
- C) Owner's Equity decreases with collection of revenue.
- D) Owner's Equity increases with payment on account.

Answer: A

Diff: 2

LO: 1-3

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Equity

Learning Objective 1-4

1) A transaction is any event that affects the financial position of the business and can be easily estimated.

Answer: FALSE

Explanation: A transaction is any event that affects the financial position of the business and can be measured reliably.

Diff: 1

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Analyze a Transaction? (H1)

2) Accountants record _____.

- A) economic recessions
- B) estimated future transactions
- C) a transaction or any event that affects the financial position of the business and can be measured with faithful representation
- D) the \$20,000 increase in value of a building that actually cost \$50,000 but could be sold for \$70,000

Answer: C

Diff: 1

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Analyze a Transaction? (H1)

3) John contributed \$6,000 to the business by opening a bank account in the name of the business, United Internists. This transaction results in an increase in the assets of the business.

Answer: TRUE

Diff: 1

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

4) For an accounting equation to balance, a transaction must affect both sides of the equation.

Answer: FALSE

Diff: 1

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Transaction Analysis for Smart Touch Learning

5) Mary Williams contributed \$50,000 cash to form BCD Company. As a result of this transaction, assets and revenues will increase.

Answer: FALSE

Explanation: Assets and equity will increase.

Diff: 1

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Transaction Analysis for Smart Touch Learning

6) A business purchased office supplies on account. As a result of this transaction, expenses and liabilities will increase.

Answer: FALSE

Explanation: Assets and liabilities increase.

Diff: 1

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Transaction Analysis for Smart Touch Learning

7) A lawyer provides legal services for clients who do not pay immediately. There is no effect on the counting equation until the client pays for the services.

Answer: FALSE

Explanation: Assets and revenues are increased.

Diff: 1

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Transaction Analysis for Smart Touch Learning

8) A lawyer provides legal services for clients who do not pay immediately. As a result of this transaction, assets and revenues increase.

Answer: TRUE

Diff: 1

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Transaction Analysis for Smart Touch Learning

9) An accounting firm collected cash on account. As a result of this transaction, assets and revenues increase.

Answer: FALSE

Explanation: The asset Cash increases and the asset Accounts Receivable decreases.

Diff: 1

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Transaction Analysis for Smart Touch Learning

10) An accounting firm collected cash on account. As a result of this transaction, total assets, liabilities, and equity are all unchanged.

Answer: TRUE

Explanation: The asset Cash increases and the asset Accounts Receivable decreases. Liabilities and equity are not affected.

Diff: 1

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Transaction Analysis for Smart Touch Learning

11) Bubble Wraps Company receives cash from the owner, John Trent. The two accounts involved in this transaction are _____.

A) Accounts Payable and Cash

B) Cash and Owner's Capital

C) Owner's Capital and Accounts Payable

D) Owner's Capital and Accounts Receivable

Answer: B

Diff: 1

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

12) Lush Lawns Company earned \$1,000 for lawn mowing services rendered. The customer promised to pay at a later time. Which of the following accounts increased as a result of this transaction?

- A) Accounts Payable
- B) Supplies
- C) Cash
- D) Accounts Receivable

Answer: D

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

13) The owner makes a withdrawal from Aventis Company. How does this transaction affect the accounting equation?

- A) The assets, liabilities, and equity remain the same.
- B) The assets decrease and equity decreases.
- C) The assets increase and liabilities decrease.
- D) The assets decrease and equity increases.

Answer: B

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

14) Hamilton Lawn Services incurred \$800 as a repair expense and paid for it in cash. This transaction will _____.

- A) decrease the stockholders' equity
- B) increase the assets of the business
- C) increase the liabilities of the business
- D) decrease the liabilities of the business

Answer: A

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

15) Harris Landscaping Services incurred \$500 as a labor expense and promised to pay the labor agency within 30 days. Which of the following accounts will increase as a result of this transaction?

- A) Accounts Receivable
- B) Cash
- C) Accounts Payable
- D) Owner's Capital

Answer: C

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

16) Wallace Repair Company incurred \$1,500 as a labor expense and promised to pay the labor agency within 30 days. Which of the following will decrease as a result of this transaction?

- A) Assets
- B) Owner's equity
- C) Liabilities
- D) Revenues

Answer: B

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

17) Marsh Supply Services paid \$350 cash to a materials supplier, the amount owed from the previous month. Which of the following accounts decreases?

- A) Accounts Receivable
- B) Accounts Payable
- C) Owner's Capital
- D) Office Supplies

Answer: B

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

18) Fitch Supply Services received \$1,000 cash from a customer; the amount was owed to the business from the previous month. What is the effect of this transaction on the accounting equation?

- A) Accounts Receivable increases and Service Revenue increases
- B) Cash increases and Accounts Receivable decreases
- C) Cash increases and Service Revenue increases
- D) Cash increases and Accounts Payable decreases

Answer: B

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

19) Homeward Supply Services received \$1,000 cash from a customer; the amount was owed to the business from the previous month. Which of the following accounts will decrease as a result of this transaction?

- A) Cash
- B) Revenue
- C) Accounts Payable
- D) Accounts Receivable

Answer: D

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

20) Ace, Inc. had the following transactions during June:

Performed services for \$4,000 on account; received cash on account, \$8,000; paid \$900 for repair expense; paid \$1,800 to a supplier that it owed from the previous month. What is the combined effect on Cash of the June transactions?

- A) \$5,300 increase
- B) \$5,300 decrease
- C) \$8,000 increase
- D) \$2,700 decrease

Answer: A

Explanation: A) Cash = \$8,000 - \$900 - \$1,800 = \$5,300 increase

Diff: 3

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

21) Venus, Inc. paid \$5,000 on accounts payable. How does this transaction affect the accounting equation of Venus?

- A) assets decrease by \$5,000 and equity increases by \$5,000
- B) assets decrease by \$5,000 and liabilities decrease by \$5,000
- C) assets increase by \$5,000 and equity decreases by \$5,000
- D) assets increase by \$5,000 and liabilities increase by \$5,000

Answer: B

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

22) Myers Landscaping Company performs lawn mowing services for its customers. Payments for the current month's services are expected to be received next month. How does this transaction affect the accounting equation of Myers Landscaping?

- A) liabilities increase and equity decreases
- B) assets and equity increase
- C) assets and equity decrease
- D) liabilities and equity increase

Answer: B

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

23) Zetom Company receives a bill from one of its suppliers for services received and will pay the supplier next month. How does the receipt of the bill from the supplier affect the accounting equation of Zetom?

- A) assets and equity decrease
- B) liabilities increase and equity decreases
- C) assets and liabilities increase
- D) liabilities and equity increase

Answer: B

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

24) Bliss Company settles a liability by making a payment in cash. How does paying this liability affect the accounting equation of the business?

- A) assets and liabilities decrease
- B) liabilities decrease and equity increases
- C) assets and liabilities increase
- D) assets increase and equity decreases

Answer: A

Diff: 2

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Transaction Analysis for Smart Touch Learning

25) Murphy Company had originally purchased land for \$35,000. It later sold it for \$35,000 in cash. Which of the following is true of the effect of the sale of land on the accounting equation?

- A) assets increase and liabilities decrease by \$35,000
- B) assets and equity increase by \$70,000
- C) assets increase by \$35,000; equity increases by \$35,000
- D) the amount of total assets remains the same

Answer: D

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

26) Accord Company purchased land for \$120,000 by making a cash payment of \$38,000 and promising to pay the remaining amount in a later accounting period. What is the net effect of this transaction on Accord's accounting equation?

- A) assets increase by \$120,000 and liabilities decrease by \$38,000
- B) assets increase by \$120,000 and liabilities decrease by \$82,000
- C) assets and equity increase by \$82,000
- D) assets and liabilities increase by \$82,000

Answer: D

Diff: 3

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

27) Exchange Company collected \$14,000 from one of its customers, the amount owed from the previous month. How does this affect the accounting equation for Exchange?

- A) assets increase by \$14,000; liabilities decrease by \$14,000
- B) assets increase by \$14,000; assets decrease by \$14,000
- C) assets increase by \$14,000; liabilities increase by \$14,000
- D) assets increase by \$14,000; equity increases by \$14,000

Answer: B

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

28) Star Homes Company just recorded a transaction in its books. If this transaction increased the total liabilities by \$10,000, then _____.

- A) assets must increase, or equity must decrease by \$10,000
- B) either assets or equity must decrease by \$10,000
- C) both assets and equity must each decrease by \$5,000
- D) assets must decrease by \$10,000

Answer: A

Diff: 3

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Transaction Analysis for Smart Touch Learning

29) Which of the following can be an effect of a transaction that increased an asset of a business for the accounting equation to balance?

- A) there is an equal decrease in another asset
- B) there is an equal decrease in equity
- C) there is an equal decrease in a liability account
- D) both liabilities and equity decrease

Answer: A

Diff: 2

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Transaction Analysis for Smart Touch Learning

30) Reliable Waterworks provides plumbing services. Transactions of Reliable Waterworks during the first year of operations are given below.

- a) The owner, Steve Sharon, contributed \$11,000 cash to form the business.
- b) Paid \$1,400 for equipment to be used for plumbing repairs.
- c) Borrowed \$15,000 from a local bank and deposited the money in the checking account.
- d) Paid \$100 in rent for the year.
- e) Paid \$400 for plumbing supplies to be used on various jobs next year.
- f) Completed a plumbing repair for a law firm and received \$3,200.

Calculate the amount of total assets at the end of the first year. Assume the plumbing supplies of \$3,200 are left at the end of the year.

- A) \$1,800
- B) \$1,400
- C) \$26,000
- D) \$29,100

Answer: D

Explanation: D)

Cash (\$11,000 + \$15,000 + \$3,200 - \$1,400 - \$100 - \$400)	\$27,300
Equipment	1,400
Supplies	<u>400</u>
Total assets	<u>\$29,100</u>

Diff: 3

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

31) Merchant Company provides plumbing services. Transactions of Merchant during the first year of operations are given below.

- a) The owner, Carol Merchant, contributed \$10,000 cash to form the business.
- b) Paid \$1,200 cash for equipment to be used for plumbing repairs.
- c) Borrowed \$11,000 from a local bank and deposited the money in the checking account.
- d) Paid \$400 rent for the year.
- e) Purchased \$400 of office supplies by cash.
- f) Completed a plumbing repair project for a local lawyer and received \$3,300 cash.

Calculate the amount of total liabilities at the end of the first year.

- A) \$11,000
- B) \$10,000
- C) \$19,800
- D) \$3,300

Answer: A

Explanation: A) Borrowings from bank = \$11,000

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

32) Crusoe Waterworks Company provides plumbing services. Transactions of Crusoe Waterworks during the first year of operations are given below.

- a) The owner, Robin Crusoe, invested \$5,000 cash in the company. The cash was deposited in the business checking account.
- b) Paid \$4,000 cash for equipment to be used for plumbing repairs.
- c) Borrowed \$26,000 from a local bank and deposited the money in the checking account.
- d) Paid \$700 rent for the year.
- e) Purchased \$1,500 of office supplies on account.
- f) Completed a plumbing repair project for a local lawyer and received \$3,400 cash.

Calculate the amount of total owner's equity after recording the transactions. Assume office supplies of \$1,500 are left at the end of the year.

- A) \$7,700
- B) \$3,400
- C) \$5,000
- D) \$26,000

Answer: A

Explanation: A) $\text{Equity (ending)} = \text{Owner's contribution} - \text{Owner's withdrawals} + \text{Revenues} - \text{Expenses}$
 $\text{Stockholders' Equity} = \$5,000 + \$3,400 - \$700 = \$7,700$

Diff: 3

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

33) Glendale Company had the following transactions in August:

Earned \$5,000 of revenues on account; collected \$2,000 from a customer for services provided last month; incurred \$500 of repair expense and paid cash; paid \$300 for rent that it owed from the previous month.

What is the net income in August?

- A) \$500
- B) \$2,000
- C) \$6,500
- D) \$4,500

Answer: D

Explanation: D) $\text{Net income} = \text{Revenue} - \text{Expenses} = \$5,000 - \$500 = \$4,500$.

Diff: 3

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

34) _____ represent the right to receive cash in the future from customers for goods sold or for services performed.

- A) Accounts Receivable
- B) Accounts Payable
- C) Equity
- D) Expenses

Answer: A

Diff: 1

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Transaction Analysis for Smart Touch Learning

35) _____ represents a short-term liability created by purchasing "on account."

- A) Accounts Receivable
- B) Notes Payable
- C) Accounts Payable
- D) Expenses

Answer: C

Diff: 1

LO: 1-4

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Transaction Analysis for Smart Touch Learning

36) Indicate the effects on the accounting equation of the following business transactions of Smith Service Company for b) to d) below. Use proper account titles. Transaction a) is answered as a guide.

a) Received cash from the owner, Don Smith as an investment in the business.

Answer: Increase asset (Cash); Increase equity (D. Smith, Capital)

b) Purchased equipment; signed a note payable.

c) Performed services for a customer on account.

d) At the end of the first month, paid office rent.

Answer:

b) Increase asset (Equipment); Increase liability (Note Payable)

c) Increase asset (Accounts Receivable); Increase equity (Service Revenue)

d) Decrease equity (Rent Expense); Decrease asset (cash)

Diff: 1

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

37) Indicate the effects on the accounting equation of the following business transactions of Mayflower Service Company for b) to d) below. Use proper account titles. Transaction a) is answered as a guide.

a) Received cash from the owner, Don Jones as an investment in the business.

Answer: Increase asset (Cash); Increase equity (D. Jones, Capital)

b) Received cash from a customer on accounts receivable.

c) The owner withdrew cash from the business.

d) Paid cash on accounts payable.

Answer:

b) Increase asset (Cash); Decrease asset (Accounts Receivable)

c) Decrease asset (Cash); Decrease equity (D. Jones, Drawing)

d) Decrease asset (Cash); Decrease liability (Accounts Payable)

Diff: 1

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

38) Analyze each of the following transactions in terms of their effects on the accounting equation of Hawkins Delivery Service. Enter the correct amounts in the columns of the spreadsheet.

- The owner, James Hawkins contributes \$75,000 to form the business.
- The business purchases \$750 of office supplies on account.
- The business pays cash to purchase a delivery van for \$25,000.
- Services are performed for clients and \$5,000 cash is received.
- Cash is paid for office rent expense, \$800 and utilities expense, \$400.
- The owner withdrew \$1,000 from the company.

			Assets=		Liabilities	+	Equity		
	Accounts	Office	Delivery	Accounts	J. Hawkins,	J. Hawkins,	Service	Rent	Utilities
Cash	Receivable	Supplies	Van	=	Payable	Capital	Revenue	Expense	Expense

-
-
-
-
-
-

Answer:

		Assets=		Liabilities	+		Equity			
Cash	Accounts Receivable	Office Supplies	Delivery Van	=	Accounts Payable	J. Hawkins, Capital	J. Hawkins, Withdrawals	Service Revenue	Rent Expense	Utilities Expense
a)+75,000				=		+75,000				
b)		+750		=	+750					
c)(25,000)			+25,000	=						
d)+5,000				=				+5,000		
e)(1,200)				=					(800)	(400)
f)(1,000)				=			(1,000)			
52,800		750	25,000	=	750	75,000	(1,000)	5,000	(800)	(400)

Diff: 2

LO: 1-4

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Transaction Analysis for Smart Touch Learning

Learning Objective 1-5

1) Financial statements are business documents used to communicate information needed to make business decisions.

Answer: TRUE

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Prepare Financial Statements? (H1)

2) Which of the following statements best defines financial statements?

A) Financial statements are the information systems that record monetary and nonmonetary business transactions.

B) Financial statements are the verbal statements made to business news organizations by chief financial officers.

C) Financial statements are documents that report on a business in monetary terms, providing information to help people make informed business decisions.

D) Financial statements are plans and forecasts for future time periods based on information from past financial periods.

Answer: C

Diff: 2

LO: 1-5

AACSB: Analytical thinking

AICPA Functional: Reporting

PE Question Type: Critical thinking

H2 : How Do You Prepare Financial Statements? (H1)

3) Which of the following is the correct order of preparation of financial statements?

A) Income statement → statement of owner's equity → balance sheet → statement of cash flows

B) Statement of owner's equity → balance sheet → income statement → statement of cash flows

C) Balance sheet → statement of owner's equity → income statement → statement of cash flows

D) Balance sheet → income statement → statement of owner's equity → statement of cash flows

Answer: A

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Prepare Financial Statements? (H1)

4) Prepare an income statement and a statement of owner's equity for the month of May. Also, prepare a balance sheet as of May 31, 2017, for McGuire Company. The financial transactions of McGuire Company for the month of May, their first month of operations, are as follows:

- On May 1, 2017, the owner, Thomas McGuire contributed \$20,000 cash to establish the business.
- On May 3, the company borrowed \$5,000 from a creditor and executed a note payable with the principal and interest to be due in one year.
- On May 7, the company purchased \$15,000 of equipment for cash.
- On May 8, McGuire Company rendered service to a client and earned \$3,000 in cash.
- On May 12, the company incurred a repair expense of \$1,800 and promised to pay the repair contractor the following month.
- On May 18, the company rendered service to a new client in the amount of \$8,000 on account, as the client promised to pay the following month.
- At the end of May, McGuire withdrew \$1,500 from the business.

Answer: McGuire Company
 Income Statement
 Month Ended May 31, 2017

Revenues:		
Service Revenue		\$11,000
Expenses:		
Repair Expense	<u>\$1,800</u>	
Total Expenses		<u>1,800</u>
Net Income		<u>\$9,200</u>

McGuire Company
 Statement of Owner's Equity
 Month Ended May 31, 2017

T. McGuire, Capital, May 1, 2017	\$0
Owner contribution	20,000
Net Income for the month	<u>9,200</u>
	29,200
Owner withdrawal	<u>(1,500)</u>
T. McGuire, Capital, May 31, 2017	<u>\$27,700</u>

McGuire Company
 Balance Sheet
 May 31, 2017

Assets		Liabilities	
Cash	\$11,500	Accounts Payable	\$1,800
Accounts Receivable	8,000	Notes Payable	<u>5,000</u>
Equipment	15,000	Total Liabilities	6,800
		Owner's Equity	
		T. McGuire, Capital, May 31, 2107	27,700
		Total Owner's Equity	<u>27,700</u>
Total Assets	<u>\$34,500</u>	Total Liabilities and Owner's Equity	<u>\$34,500</u>

Note:

Calculation of cash balance, May 31, 2017:

Owner's contribution	\$20,000
Borrowing from creditor	5,000
Service fees received	<u>3,000</u>
Receipts	28,000
Less payments:	
Purchase of equipment	(15,000)
Owner's withdrawal	<u>(1,500)</u>
Cash balance, May 31, 2017	<u>\$11,500</u>

Diff: 3

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : How Do You Prepare Financial Statements? (H1)

5) Prepare an income statement and a statement of owner's equity for the month of June. Also, prepare a balance sheet at June 30. The transactions of Magna Designer Company for the first month of their operations are as follows:

- On June 1, 2017, the owner Carlos Magna Designer contributed \$25,000 cash to establish the business.
- The company rendered services to three clients on account with total revenues earned of \$9,000.
- It then incurred an advertising expense on four different websites and promised to pay a total of \$1,200 at a later date.
- On June 13, Magna Designer purchased \$1,000 worth of office supplies for cash. (The supplies are not used by June 30.)
- On June 22, it received \$2,000 on account from a client and deposited it into the business account.
- On June 23, it incurred \$1,300 for a legal expense and paid cash.
- On June 30, Magna Designers made a payment of \$500 to one of the websites that it owed for advertising provided earlier in the month.
- No owner withdrawals were paid during the month.

Answer: Magna Designer Company
 Income Statement
 Month Ended June 30, 2017

Revenues:		
Service Revenue		\$9,000
Expenses:		
Advertising Expense	\$1,200	
Legal Expense	<u>1,300</u>	
Total Expenses		<u>2,500</u>
Net Income		<u>\$6,500</u>

 Magna Designer Company
 Statement of Owner's Equity
 Month Ended June 30, 2017

C. Magna, Capital, June 1, 2017	\$0
Owner's contribution	25,000
Net income for the month	<u>6,500</u>
	31,500
Owner's withdrawals	<u>0</u>
C. Magna, Capital, June 30, 2017	<u>\$31,500</u>

 Magna Designer Company
 Balance Sheet
 June 30, 2017

Assets		Liabilities	
Cash	\$24,200	Accounts Payable	\$700
Account Receivable	7,000		
Office Supplies	1,000		
		Owner's Equity	
		C. Magna, Capital, June 30, 2017	<u>31,500</u>
		Total Stockholders' Equity	<u>31,500</u>
Total Assets	<u>\$32,200</u>	Total Liabilities and Owner's Equity	<u>\$32,200</u>

Note:

Calculation of cash balance, June 30, 2017

Owner's contribution	\$25,000
Service fees received	<u>2,000</u>
Receipts	27,000
Less payments:	
Legal expense	(1,300)
Office supplies	(1,000)
Advertising expenses	<u>(500)</u>
Cash balance, June 30, 2017	<u>\$24,200</u>

Diff: 3

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : How Do You Prepare Financial Statements? (H1)

6) The income statement also is called the statement of financial position.

Answer: FALSE

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Income Statement

7) The income statement presents a summary of an entity's revenues and expenses for a period of time.

Which of the following statements is true of an income statement?

A) There is net income when total expenses are greater than total revenues.

B) There is a net loss when total expenses are less than total revenue.

C) There is a net loss when total expenses are greater than total liabilities.

D) There is net income when total revenues are greater than total expenses.

Answer: D

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Income Statement

8) Which of the following financial statements reports expenses in decreasing order of their amounts, by stating the largest expense first?

A) Statement of cash flows

B) Income statement

C) Statement of owner's equity

D) Balance sheet

Answer: B

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Income Statement

9) Best Plumbing Company provides plumbing services. Selected transactions of Best Plumbing Company are described as follows:

- a) Received a \$9,000 cash contribution from the owner, June Sharon.
- b) Paid \$6,000 cash for equipment to be used for plumbing repairs.
- c) Borrowed \$9,000 from a local bank and deposited the money in the checking account.
- d) Paid \$800 rent for the year.
- e) Paid \$200 cash for plumbing supplies to be used next year.
- f) Completed a plumbing repair project for a local lawyer and received \$6,000 cash.

Calculate the net income. Assume plumbing supplies of \$200 are left.

- A) \$600
- B) \$5,800
- C) \$6,000
- D) \$5,200

Answer: D

Explanation: D) Net income = Revenues - Expenses

Net income = \$6,000 - \$800 = \$5,200

Diff: 3

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Income Statement

10) Following is a list of account balances of Morris Mowing Services as of December 31 of the first year of operations.

Accounts Receivable	\$4,000
Accounts Payable	4,000
Salaries Expense	7,000
Repairs Expense	800
Truck	10,000
Equipment	12,000
Notes Payable	27,900
Cash	10,000
Supplies Expense	12,000
Service Revenue	27,900
Gasoline Expense	7,000
Salaries Payable	1,500

Calculate the net income.

- A) \$1,100
- B) \$32,000
- C) \$1,000
- D) \$33,000

Answer: A

Explanation: A)

Service Revenue	\$27,900
Salaries Expense	(7,000)
Repairs Expense	(800)
Supplies Expense	(12,000)
Gasoline Expense	(7,000)
Net income	<u>\$1,100</u>

Diff: 2

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Income Statement

11) The total assets and the total liabilities of Smart Financial Services are shown below. The company did not receive any new contributions from the owner and did not issue any withdrawals during the year.

	Assets	Liabilities
Beginning of year	\$415,000	\$295,000
End of year	430,000	305,000

What was the amount of net income for the year?

A) \$15,000

B) \$10,000

C) \$5,000

D) \$25,000

Answer: C

Explanation: C) Calculations:

	Assets	Liabilities
End of year total	\$430,000	\$305,000
Less: beginning of year total	<u>(415,000)</u>	<u>(295,000)</u>
Increase or (decrease)	<u>\$15,000</u>	<u>\$10,000</u>

Net increase or (decrease) = \$15,000 - \$10,000 = \$5,000

Diff: 3

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Income Statement

12) Jeffery Company has just completed operations for the year ended December 31, 2016. This is the second year of operations for the company. The following data have been assembled for the business.

Accounts Payable	\$12,200	Office Expense	\$6,500
Accounts Receivable	14,500	Rent Expense	9,600
Cash	8,200	J. Jeffery, Capital, Jan. 1, 2016	8,300
Owner's Contribution	9,000	Salaries Expense	36,000
Owner's Withdrawals	13,500	Service Revenue	84,000
Equipment	15,000	Utilities Expense	6,200
Insurance Expense	4,000		

Prepare the income statement. Use a proper heading.

Answer: Jeffery Company
 Income Statement
 Year Ended December 31, 2016

Revenues:		
Service Revenue		\$84,000
Expenses:		
Insurance Expense	\$4,000	
Office Expense	6,500	
Rent Expense	9,600	
Salaries Expense	36,000	
Utilities Expense	<u>6,200</u>	
Total Expenses		<u>62,300</u>
Net Income		<u>\$21,700</u>

Diff: 3

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Income Statement

13) By looking at a statement of owner's equity, the effect of owner's withdrawals on the ending balance of the capital account can be determined.

Answer: TRUE

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Statement of Retained Earnings

14) The balance of owner's equity at the beginning of the year and the end of the year was \$40,000 and \$63,000, respectively. The company received no new contributions during the year. Owner's withdrawals were \$20,000. What was the net income or loss for the year?

- A) net income of \$83,000
- B) net loss of \$83,000
- C) net loss of \$43,000
- D) net income of \$43,000

Answer: D

Explanation: D)

Owner's equity at the end of the year	\$63,000
Add: Owner's withdrawals	<u>20,000</u>
	\$83,000
Less: Owner's equity at the beginning of the year	<u>(40,000)</u>
Net income	<u>\$43,000</u>

Diff: 2

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Statement of Retained Earnings

15) The net income of Edwards Corporation amounted to \$75,000 for this year. The beginning balance of owner's equity was \$30,000 and the ending balance was \$72,000. The company received no new contributions during the year. What was the amount of the owner's withdrawals during the year?

- A) \$72,000
- B) \$33,000
- C) \$147,000
- D) \$30,000

Answer: B

Explanation: B)

Edwards, Capital, beginning balance	\$30,000
Add:	
Owner's contributions during the year	0
Net income	75,000
Less: Edwards, Capital, ending balance	<u>(72,000)</u>
Owner's withdrawals	<u>\$33,000</u>

Diff: 2

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Statement of Retained Earnings

16) Which of the following transactions will affect the balance of Owner's Equity?

- A) received cash in advance for services to be provided later
- B) paid rent expense for the month
- C) purchased land for cash
- D) collection on account

Answer: B

Diff: 2

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Statement of Retained Earnings

17) In a statement of owner's equity, decreases in owner's equity result from _____.

- A) owner's contributions
- B) net losses
- C) net income
- D) revenues earned

Answer: B

Diff: 2

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Statement of Retained Earnings

18) The amount of net income is transferred from _____ to _____.

- A) the income statement; the statement of owner's equity
- B) the balance sheet; the statement of cash flows
- C) the balance sheet; the income statement
- D) the income statement; the statement of expenditures

Answer: A

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Statement of Retained Earnings

19) Which of the following appears on both the income statement and statement of owner's equity?

- A) Ending owner's capital
- B) Total revenues
- C) Net income
- D) Owner's withdrawals

Answer: C

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Statement of Retained Earnings

20) Which of the following financial statements shows the amounts distributed to the owner?

- A) Income statement
- B) Statement of owner's equity
- C) Budgeted balance sheet
- D) Balance sheet

Answer: B

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Statement of Retained Earnings

21) Marisol Company has just completed operations for the year ended December 31, 2016. This is the second year of operations for the company. The following data have been assembled for the business.

Accounts Payable	\$12,200	Office Expense	\$6,500
Accounts Receivable	14,500	Rent Expense	9,600
Cash	8,200	A. Marisol, Capital, Jan. 1, 2016	8,300
Owner's contribution	9,000	Salaries Expense	36,000
Owner's withdrawals	13,500	Service Revenue	84,000
Equipment	15,000	Utilities Expense	6,200
Insurance Expense	4,000		

Prepare the statement of retained earnings. Use a proper heading.

Answer: Marisol Company
Statement of Owner's Equity
Year Ended December 31, 2016

A. Marisol, Capital, January 1, 2016	\$8,300
Owner's contributions	9,000
Net Income for the month	<u>21,700</u>
	39,000
Owner's withdrawals	<u>(13,500)</u>
A. Marisol, December 31, 2016	<u>\$25,500</u>

Diff: 3

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Statement of Retained Earnings

22) The balance sheet of a business summarizes an entity's revenues and expenses.

Answer: FALSE

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Balance Sheet

23) The heading of a balance sheet will show the date as a specific date, not a period of time.

Answer: TRUE

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Balance Sheet

24) The balance sheet is a snapshot of the entity. Which of the following is included on the balance sheet?

A) Revenues

B) Expenses

C) Assets

D) Owner's withdrawals

Answer: C

Diff: 1

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Balance Sheet

25) Which financial statement includes a specific date in its heading?

A) Statement of owner's equity

B) Statement of cash flows

C) Income statement

D) Balance sheet

Answer: D

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Balance Sheet

26) Which of the following financial statements reports that total assets are equal to total liabilities plus total stockholders' equity?

A) Statement of owner's equity

B) Statement of cash flows

C) Income statement

D) Balance sheet

Answer: D

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Balance Sheet

27) Which of the following appears on both the statement of owner's equity and the balance sheet?

- A) Ending capital account
- B) Total assets
- C) Total revenues
- D) Net income

Answer: A

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Balance Sheet

28) Which of the following financial statements lists the entity's assets, liabilities, and stockholders' equity as of a specific date?

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

Answer: A

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Balance Sheet

29) Following is an extract of account balances of Wilson Mowing Services as of December 31 of the first year of operation.

Accounts Receivable	\$7,000
Accounts Payable	4,000
Salaries Expense	6,000
Repairs Expense	500
Truck	8,000
Equipment	10,000
Notes Payable	8,100
Cash	7,300
Supplies Expense	1,400
Service Revenue	35,000
Gasoline Expense	3,800
Salaries Payable	300

What is the amount of total assets at the end of the year?

A) \$15,000

B) \$32,300

C) \$18,000

D) \$25,300

Answer: B

Explanation: B)

Accounts Receivable	\$7,000
Truck	8,000
Equipment	10,000
Cash	<u>7,300</u>
Total assets	<u>\$32,300</u>

Diff: 2

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Balance Sheet

30) Following is a list of account balances of Suburban Lawn Services as of December 31 of the first year of operation.

Accounts Receivable	\$5,000
Accounts Payable	7,000
Salaries Expense	4,000
Repairs Expense	900
Truck	10,000
Equipment	12,000
Notes Payable	8,100
Cash	7,200
Supplies Expense	1,100
Service Revenue	32,000
Gasoline Expense	3,300
Salaries Payable	500

What is the amount of total liabilities at the end of the year?

A) \$15,600

B) \$24,900

C) \$21,600

D) \$15,100

Answer: A

Explanation: A)

Accounts Payable	\$7,000
Notes Payable	8,100
Salaries Payable	<u>500</u>
Total liabilities	<u>\$15,600</u>

Diff: 2

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Balance Sheet

31) Felix Company has just completed operations for the year ended December 31, 2016. This is the second year of operations for the company. The following data have been assembled for the business.

Accounts Payable	\$12,200	Office Expense	\$6,500
Accounts Receivable	14,500	Rent Expense	9,600
Cash	8,200	C. Felix, Capital, Jan. 1, 2016	8,300
Owner's contributions	9,000	Salaries Expense	36,000
Owner's withdrawals	13,500	Service Revenue	84,000
Equipment	15,000	Utilities Expense	6,200
Insurance Expense	4,000		

Prepare the balance sheet. Use a proper heading.

Answer: Felix Company
Balance Sheet
December 31, 2016

Assets		Liabilities	
Cash	\$8,200	Accounts Payable	\$12,200
Accounts Receivable	14,500	Total Liabilities	<u>12,200</u>
Equipment	15,000		
		Owner's Equity	
		C. Felix, Capital, Dec. 31, 2016**	<u>25,500</u>
		Total Stockholders' Equity	<u>25,500</u>
Total Assets	<u>\$37,700</u>	Total Liabilities and Owner's Equity	<u>\$37,700</u>

** Calculation of Capital: Beg. balance + owner's contributions + net income - owner's withdrawals = Ending balance 8,300 + 9,000 + 21,700 - 13,500 = 25,500

Diff: 3

LO: 1-5

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Balance Sheet

32) Financial statements are prepared after an entity's transactions are analyzed and recorded. Which of the following reports is one of the required financial statements?

- A) Statement of cash flows
- B) Statement of return on assets
- C) Statement of dividends
- D) Expense statement

Answer: A

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Statement of Cash Flows

33) Which of the following financial statements reports cash receipts and cash payments during a period of time?

- A) Statement of cash flows
- B) Balance sheet
- C) Cash receipts budget
- D) Statement of owner's equity

Answer: A

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Statement of Cash Flows

34) Which of the following financial statements reports an increase or decrease in net cash during the time period covered?

- A) Income statement
- B) Statement of owner's equity
- C) Statement of cash flows
- D) Cash budget

Answer: C

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Statement of Cash Flows

35) Which of the following will be categorized as an operating activity on the statement of cash flows?

- A) Cash received by selling old equipment
- B) Cash paid for purchase of new machinery
- C) Cash paid for purchase of office supplies
- D) Cash received as a contribution from the owner

Answer: C

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Statement of Cash Flows

36) Which of the following will be categorized as a financing activity on the statement of cash flows?

- A) Cash received by selling old equipment
- B) Cash paid for purchase of new machinery
- C) Cash paid for purchase of office supplies
- D) Cash received as a contribution from the owner

Answer: D

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Statement of Cash Flows

37) Which of the following will be categorized as an investing activity on the statement of cash flows?

- A) Purchase of land with a mortgage
- B) Cash paid for purchase of new machinery
- C) Cash paid for purchase of office supplies
- D) Cash received as a contribution from the owner

Answer: B

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Statement of Cash Flows

38) Which of the following is shown on the balance sheet as well as the statement of cash flows?

- A) Owner's equity (ending balance)
- B) Net income
- C) Total assets (ending balance)
- D) Cash (ending balance)

Answer: D

Diff: 1

LO: 1-5

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Statement of Cash Flows

Learning Objective 1-6

1) The income statement shows whether or not a business can generate enough cash to pay its liabilities.

Answer: FALSE

Diff: 1

LO: 1-6

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

2) The balance sheet shows whether or not a business is earning profits.

Answer: FALSE

Diff: 1

LO: 1-6

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

3) The statement of owner's equity informs users about how much of the earnings were kept and reinvested in the company.

Answer: TRUE

Diff: 1

LO: 1-6

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

4) The relative proportion of economic resources and obligations would be shown by the balance sheet.

Answer: TRUE

Diff: 2

LO: 1-6

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

5) The statement of cash flows informs users about how much of the earnings were kept and reinvested in the company.

Answer: FALSE

Diff: 1

LO: 1-6

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

6) The balance sheet helps analyze the business performance in terms of profitability.

Answer: FALSE

Diff: 1

LO: 1-6

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

7) Which of the following financial statements is used to analyze the economic resources, debt, and overall financial position of a company?

A) income statement

B) balance sheet

C) statement of cash flows

D) statement of owner's equity

Answer: B

Diff: 1

LO: 1-6

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

8) The explanation of why the net income differs from the change in cash balance for the period is explained in the _____.

A) income statement

B) balance sheet

C) statement of owner's equity

D) statement of cash flows

Answer: D

Diff: 1

LO: 1-6

AICPA Functional: Measurement

PE Question Type: Concept

H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

9) Which of the following financial statements would be most useful if an analyst wants to know the likelihood of repayment of business debts?

- A) income statement
- B) balance sheet
- C) statement of owner's equity
- D) statement of cash flows

Answer: B

Diff: 2

LO: 1-6

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

10) Which of the following financial statements would be most useful if an analyst wants to know the profitability of a company?

- A) income statement
- B) balance sheet
- C) statement of owner's equity
- D) statement of cash flows

Answer: A

Diff: 2

LO: 1-6

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

11) The return on assets is calculated by _____.

- A) subtracting net income from average total assets
- B) adding net income and average total assets
- C) dividing net income by average total assets
- D) multiplying net income and average total assets

Answer: C

Diff: 2

LO: 1-6

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Return on Assets (ROA)

12) Which of the following formulae is used to calculate average total assets for the return on assets ratio?

- A) $\text{Average total assets} = (\text{Beginning total assets} + \text{Ending total assets}) \times 2$
- B) $\text{Average total assets} = (\text{Beginning total assets} - \text{Ending total assets}) \times 2$
- C) $\text{Average total assets} = (\text{Beginning total assets} - \text{Ending total assets}) / 2$
- D) $\text{Average total assets} = (\text{Beginning total assets} + \text{Ending total assets}) / 2$

Answer: D

Diff: 2

LO: 1-6

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Return on Assets (ROA)

13) Assume MetAmbit Company had a net income of \$2,200 for the year ending December 2016. Its beginning and ending total assets were \$34,500 and \$18,500, respectively. Calculate MetAmbit's return on assets (ROA). (Round your percentage answer to two decimal places.)

A) 6.38%

B) 11.89%

C) 8.30%

D) 4.15%

Answer: C

Explanation: C) Return on assets (ROA) = $\$2,200 / [(\$34,500 + \$18,500) / 2] = 8.30\%$

Diff: 2

LO: 1-6

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Return on Assets (ROA)

14) Johnson Repair Service had net income for the year of \$125,000. In addition, the balance sheet reports the following balances:

	Jan. 1, 2016	Dec. 31, 2016
Accounts Receivable	\$5,600	\$14,200
Accounts Payable	12,000	9,500
Building	125,000	125,000
Cash	37,500	35,000
Office Furniture	25,000	50,000
Office Supplies	3,200	1,500
Notes Payable	60,000	75,000
Total Owner's Equity	124,300	141,200

Calculate the return on assets (ROA) for Johnson Repair Service for the year ending December 31, 2016.

Answer:

Total Assets	1/1/2016	12/31/2016
Accounts Receivable	\$5,600	\$14,200
Building	125,000	125,000
Cash	37,500	35,000
Office Furniture	25,000	50,000
Office Supplies	3,200	1,500
Total Assets	<u>\$196,300</u>	<u>\$225,700</u>

Return on Assets = Net Income / Average total assets

Average total assets = (Beginning total assets + Ending total assets) / 2

Return on Assets = \$125,000 [(\$196,300 + 225,700) / 2]
 = \$125,000 / 211,000
 = 5.9%

Diff: 2

LO: 1-6

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Return on Assets (ROA)

15) Frazier Service Company had a net income of \$14,500 for the year ending December 31, 2016. The total assets on January 1, 2016 were \$28,000. The total assets on December 31, 2016 were \$16,000. Calculate Frazier's return on assets (ROA). Show your computations and label your work. Round your answer to one decimal place.

Answer: Return on Assets = Net Income / Average total assets

Average total assets = (Beginning total assets + Ending total assets) / 2

$$\begin{aligned}\text{Return on Assets} &= \$14,500 / [(\$28,000 + \$16,000) / 2] \\ &= \$14,500 / \$220,000 \\ &= 6.59\%\end{aligned}$$

Diff: 2

LO: 1-6

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2 : Return on Assets (ROA)

16) What is the calculation for return on assets (ROA)? What does ROA measure?

Answer: Return on Assets = Net income / Average total assets.

ROA measures how profitably a company uses its assets.

Diff: 1

LO: 1-6

AICPA Functional: Measurement

PE Question Type: Concept

H2 : Return on Assets (ROA)