Student name:__________

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) The term "recognition" means to report an economic event in the financial statements.

⊚ true
⊚ false

2) Companies that use accrual accounting recognize revenues and expenses at the time that cash is received or paid, respectively.

⊚ true
⊚ false

3) The term "accrual" describes an earnings event that is recognized before cash is received or paid.

⊚ true
⊚ false

4) A company may recognize a revenue or expense without a corresponding cash collection or payment in the same accounting period.

⊚ true
⊚ false

5) A payment to an employee in settlement of salaries payable decreases an asset and decreases stockholders' equity.

⊚ true
⊚ false

6) An increase in an expense may be accompanied by a decrease in a liability.

⊚ true
⊚ false

7) Accrual accounting usually fails to match expenses with revenues.

⊚ true
⊚ false

8) The matching concept leads accountants to select the recognition alternative that produces the lowest amount of net income.

⊚ true
⊚ false

9) The governance of a corporation includes the roles and responsibilities of the board of directors, managers, shareholders, and auditor.

⊚ true
⊚ false

10) The ethical standards for certified public accountants only require that such accountants comply with applicable laws and regulations.

⊚ true
⊚ false

11) Certified public accountants are obligated to act in a way that serves the public interest.

⊚ true

12) The bankruptcies of Enron and WorldCom both indicated the occurrence of major audit failures.

- ⊚ true
- ⊚ false

13) The Sarbanes-Oxley Act includes several significant reforms that affect the auditing profession, but it did not reduce an audit firm's ability to provide nonaudit services to its audit clients.

- ⊚ true
- ⊚ false

14) The internal controls of a business are designed to reduce the probability of occurrence of fraud.

- ⊚ true
- ⊚ false

15) Providing services to customers on account is an asset exchange transaction.

- ⊚ true
- ⊚ false

16) The collection of an account receivable is a claims exchange transaction.

- ⊚ true
- ⊚ false

17) The cash payment of interest is classified as a financing activity on the statement of cash flows.

⊚ true

⊚ false

18) Accrued interest expense is an asset use transaction.

⊚ true
⊚ false

19) Some claims exchange transactions increase liabilities and decrease stockholders' equity.

⊚ true
⊚ false

20) The primary difference between notes payable and accounts payable is that notes payable generally have longer terms and usually require interest charges.

⊚ true
⊚ false

21) Issuing a note is an asset use transaction.

⊚ true
⊚ false

22) The balance in accounts receivable represents the amount of cash the company is required to pay in the future.

⊚ true
⊚ false

23) Accounts receivable is an asset account on the balance sheet.

⊚ true
⊚ false

24) Accounts payable is reported on the income statement.

- ⊚ true
- ⊚ false

25) Sales on account decrease the balance in accounts receivable.

- ⊚ true
- ⊚ false

26) Expenses incurred on account increase the accounts receivable balance.

- ⊚ true
- ⊚ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

27) The balance of Accounts Receivable is shown on which of the following financial statements?

A) Income statement
B) Balance sheet
C) Statement of cash flow
D) None of these answer choices

	Balance Sheet			Income Statement			Statement of Cash Flows
	Assets	= Liabilities	+ Stockholders' Equity	Revenue	− Expense	= Net income	
A.	+		+				
B.	+		+	+		+	
C.	−		−		+	−	−OA
D.	+		+	+		+	+OA

A) Option A
B) Option B
C) Option C
D) Option D

29) Pizitz Company experienced a business event that affected its financial statements as indicated below.

Balance Sheet							Income Statement	Statement of Cash Flows
Ass ets	=	Liabi litie	+	Stockh olders' Equity	Rev enu	− Exp ens	= Net inc ome	
								+OA

Which of the following events could have caused these effects on the company's financial statements?

A) Collecting cash from customers as payment of accounts receivable
B) Earning cash for providing services to customers
C) Paid cash to purchase land
D) Purchased supplies on account

30) Stanley Company earns $8,000 of revenue on account in Year 1. Cash collections of receivables amount to $4,500 in Year 1 with the remainder being collected in Year 2. Which of the following shows how the recognition of revenue in Year 1 will affect the company's accounting equation?

	Balance Sheet				
	Assets	=	Liabilities	+	Stockholders' Equity
	Cash	+ Accounts Receivable	= Accounts Payable	+ Common stock	+ Retained Earnings
A.	4,500				4,500
B.		4,500			4,000
C.		8,000			8,000
D.	8,000				8,000

A) Option A
B) Option B
C) Option C
D) Option D

31) Leece Company experienced an accounting event that affected its financial statements as indicated below:

Balance Sheet					Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net income	
+ and −										+OA

Which of the following accounting events could have caused these effects on the company's financial statements?

A) Provided consulting services on account
B) Provided consulting services for cash
C) Collected cash in partial settlement of its account receivable
D) The information provided does not represent a completed event.

32) What happens when a company collects cash from accounts receivable?

A) The asset accounts receivable increases.
B) Stockholders' equity increases.
C) Liabilities decrease.
D) One asset increases and another asset decreases by an equal amount.

33) Stannous Company earns $10,000 of revenue on account in Year 1. Cash collections of receivables amount to $3,500 in Year 1 with the remainder being collected in Year 2. Which of the following shows how the collection of cash will affect the company's accounting equation in Year 1?

Balance Sheet				
Assets	=	Liabilities	+	Stockholders' Equity

ties

	Cash	+ Accounts Receivable	= Accounts Payable	+ Common Stock	+ Retained Earnings
A.	3,500	(3,500)			
B.	3,500				3,500
C.	10,000	10,000			(4,000)
D.		10,000			10,000

A) Option A
B) Option B
C) Option C
D) Option D

34) Frank Company earned $15,000 of cash revenue. Which of the following accurately reflects how this event affects the company's horizontal financial statements model?

	Balance Sheet			Income Statement			Statement of Cash Flows
	Assets	= Liabilities	+ Stockholders' Equity	Revenue	− Expense	= Net income	
A.	15,000		15,000				15,000 OA
B.	15,000		15,000	15,000		15,000	
C.	15,000		15,000	15,000		15,000	15,000 OA
D.	15,000	15,000		15,000		15,000	15,000 OA

A) Option A
B) Option B
C) Option C
D) Option D

35) Jackson Company paid $500 cash for salary expenses. Which of the following accurately reflects how this event affects the company's horizontal financial statements model?

	Balance Sheet			Income Statement			Statement of Cash Flows
	Assets =	Liabilities +	Stockholders' Equity	Revenue −	Expense =	Net income	
A.	500		(500)		500	(500)	
B	(500)		(500)		500	(500)	
C	(500)		(500)				
D	(500)		(500)		500	(500)	

A) Option A
B) Option B
C) Option C
D) Option D

36) Perez Company paid a $300 cash dividend. Which of the following accurately reflects how this event affects the company's horizontal financial statements model?

	Balance Sheet			Income Statement			Statement of Cash Flows
	Assets =	Liabilities +	Stockholders' Equity	Revenue −	Expense =	Net income	
A.	300		(300)		300	(300)	
B	(3		(300		30	(3	

.00) 0 00)
))
C (3 (300
.00)
)
D (3 (300
.00)

A) Option A
B) Option B
C) Option C
D) Option D

37) Garrison Company acquired $23,000 by issuing common stock. Which of the following accurately reflects how this event affects the company's horizontal financial statements model?

Balance Sheet | **Income Statement** | **Statement of Cash Flows**

Assets = Liabilities + Stockholders' Equity | **Revenue − Expense = Net income**

A 23 23,0
.,0 00

00
B 23 23,0 23 23
.,0 00 ,0 ,0
00 00 00
C 23 23,0 23
.,0 00 ,0
00 00
D 23 23,0 23 23
.,0 00 ,0 ,0
00 00 00

A) Option A
B) Option B
C) Option C
D) Option D

38) Tandem Company borrowed $32,000 of cash from a local bank. Which of the following accurately reflects how this event affects the company's horizontal financial statements model?

	Balance Sheet			Income Statement			Statement of Cash Flows
	Assets =	Liabilities +	Stockholders' Equity	Revenue −	Expense =	Net income	
A.	32,000		32,000				32,000 OA
B.	32,000		32,000	32,000		32,000	32,000 FA
C.	32,000	32,000		32,000			32,000 FA
D.	32,000	32,000					32,000 FA

A) Option A
B) Option B
C) Option C
D) Option D

39) Zimmerman Company sold land for $25,000 cash. The original cost of the land was $25,000. Which of the following accurately reflects how this event affects the company's horizontal financial statements model?

	Balance Sheet			Income Statement			Statement of Cash Flows
	Assets	= Liabilities	+ Stockholders' Equity	Revenue	− Expense	= Net income	

A 2.5,000

B (.25 (25 (25 ,000) ,000) ,000)

C 2.5,000 25,000 15,000

D 2.5,000 25,000 25,000

A) Option A
B) Option B
C) Option C
D) Option D

40) Reynolds Company experienced an accounting event that affected its financial statements as indicated below:

	Balance Sheet			Income Statement			Statement of Cash Flows
	Assets	= Liabilities	+ Stockholders' Equity	Revenue	− Expense	= Net income	
	+		+	+		+	+OA

Which of the following accounting events could have caused these effects on the elements of Reynolds' statements?

A) Paid a cash dividend.
B) Earned cash revenue.
C) Borrowed money from a bank.
D) The information provided does not represent a completed event.

41) Chico Company experienced an accounting event that affected its financial statements as indicated below:

Balance Sheet			Income Statement			Statement of Cash Flows
Assets =	Liabilities +	Stockholders' Equity	Revenue −	Expense =	Net income	
+		+				+FA

Which of the following accounting events could have caused these effects on the elements of Chico's financial statements?

A) Issued common stock
B) Earned cash revenue
C) Borrowed money from a bank
D) Paid a cash dividend

42) Delta Company experienced an accounting event that affected its financial statements as indicated below:

Balance Sheet			Income Statement			Statement of Cash Flows
Assets =	Liabilities +	Stockholders' Equity	Revenue −	Expense =	Net income	
−		−		+	−	−OA

Which of the following accounting events could have caused these effects on the elements of Delta’s statements?

A) Paid a cash dividend
B) Incurred a cash expense
C) Borrowed money from a bank
D) Earned cash revenue

43) Bledsoe Company acquired $28,000 cash by issuing common stock on January 1, Year 1. During Year 1, Bledsoe earned $9,800 of revenue on account. The company collected $8,600 cash from customers in partial settlement of its accounts receivable and paid $6,700 cash for operating expenses. Based on this information alone, what was the impact on total assets during Year 1?

A) Total assets increased by $39,700.
B) Total assets increased by $1,900.
C) Total assets increased by $31,100.
D) Total assets did not change.

44) Bledsoe Company acquired $17,000 cash by issuing common stock on January 1, Year 1. During Year 1, Bledsoe earned $8,500 of revenue on account. The company collected $6,000 cash from customers in partial settlement of its accounts receivable and paid $5,400 cash for operating expenses. Based on this information alone, what was the impact on total assets during Year 1?

A) Total assets increased by $20,100.
B) Total assets increased by $600.
C) Total assets increased by $26,100.
D) Total assets did not change.

45) Addison Company experienced an accounting event that affected its financial statements as indicated below:

B I	Statement of	n m
a n	Cash Flows	c e
l c		e S
a o		S t

h	a
e	t
e	e
t	m
	e
	n
	t

A	= Lia	+ Stoc	Re	− Ex	= Ne
s	bil	khol	ve	pe	t
s	iti	ders	nu	ns	in
e	es	'	e	e	co
t		Equi			me

s		ty		
+	+	+		+

Which of the following accounting events could have caused these effects on Addison's financial statements?

A) Issued common stock
B) Earned revenue on account
C) Earned cash revenue
D) Collected cash from customers in partial settlement of its accounts receivable.

46) In Year 1, Dale Company incurred $4,000 of utility expense on account. Dale paid cash for these expenses in Year 2. Which of the following shows how paying cash for Year 1's utility expense will affect Dale's accounting equation in Year 2?

Balance Sheet

Assets	=	Liabilities	+	Stockholders' Equity

C a s h	+ Acc oun ts Rec eiv	= Acc oun ts Pay abl	+ Co mm on st	+ Reta ined Earn ings
	abl e	e	oc k	
A. (4,000)		(4,000)		
B. 4,000		(4,000)		
C.	(4,000)			(4,000)

)

)

D (
.4
,
0
0
0

(4,0
00)

A) Option A
B) Option B
C) Option C
D) Option D

47) Which of the following shows how a payment made to settle an accrued expense, such as salaries payable, will affect a company's financial statements?

Balance Sheet					Income Statement			Statement of Cash Flows
Assets	=	Liabilities	+	Equity	Revenue	−	Expense	= Net income
a.	−	−		n/a	n/a		n/a	n/a −FA
b.	−	−		n/a	n/a		n/a	n/a n/a
c.	−	−		n/a	n/a		n/a	n/a −OA
d.	−	−		n/a	n/a		n/a	n/a −IA

A) Option A
B) Option B
C) Option C
D) Option D

48) During Year 1 China Enterprises experienced the following events.(1)Earned $10,000 of revenue on account(2)Incurred $9,000 of expenses on accountBased on this information, which of the following describes the combined effects of both events on the amount of total assets, net income and cash flow from operating activities shown on the Year 1 financial statements?

	Total Assets	Net Income	Net Cash Flow from Operating Activities
A	$ 1,000	$ 1,000	0
B	$10,000	$ 1,000	0
C	$10,000	$ 1,000	$1,000
D	$10,000	$10,000	$1,000

A) Option A
B) Option B
C) Option C

D) Option D

49) Which of the following correctly describes how accounts receivable will appear on the financial statements?

A) Asset on the balance sheet
B) Expense on the income statement
C) Liability on the balance sheet
D) Revenue on the income statement

50) Which of the following correctly describes how accounts payable will appear on the financial statements?

A) Expense on the income statement
B) Revenue on the income statement
C) Liability on the balance sheet
D) Asset on the balance sheet

51) Greg Company recognized revenue on account. Which of the following financial statements are affected by this accounting event?

A) Balance sheet
B) Income statement
C) Statement of cash flows
D) Income statement and the balance sheet

52) Amber Company recognized accrued salary expense. Which of the following financial statements are affected by this accounting event?

A) Statement of cash flows
B) Income statement
C) Balance sheet
D) Income statement and the balance sheet

53) Mary Company collected cash from an account receivable. Which of the following financial statements are affected by this accounting event?

A) Income statement and the statement of cash flows
B) Statement of changes in stockholders' equity
C) Balance sheet and the statement of cash flows
D) Income statement and the balance sheet

54) Paying cash to settle a salaries payable obligation will affect which section of the statement of cash flows?

A) Financing activities
B) Operating activities
C) Noncash activities
D) Investing activities

55) Which of the following choices accurately reflects how the recording of accrued salary expense affects the financial statements of a business?

	Balance Sheet			Income Statement			Statement of Cash Flows
	Assets =	Liabilities +	Stockholders' Equity	Revenue −	Expense =	Net income	
A.		+	−	−	+		
B.			+/−				
C.		+	−		+	−	
D.	+	+			+	−	−(

A) Option A
B) Option B
C) Option C
D) Option D

56) Janzen Company recorded employee salaries earned but not yet paid. Which of the following represents the effect of this transaction on the horizontal financial statements model?

Balance Sheet	Income Statement	Statement of Cash Flows
Assets = Liabilities + Stockholders' Equity	Revenue − Expense = Net income	

A.	+	+		+		+
B.		+	−		+	−
C.	−		−		+	−
D.		+	−		+	−

A) Option A
B) Option B
C) Option C
D) Option D

57) Revenue on account amounted to $4,800. Cash collections of accounts receivable amounted to $2,900. Expenses for the period were $2,500. The company paid dividends of $650. What was net income for the period?

A) $1,650
B) $400
C) $2,250
D) $2,300

58) Revenue on account amounted to $5,000. Cash collections of accounts receivable amounted to $2,300. Expenses for the period were $2,100. The company paid dividends of $450. What was net income for the period?

A) $1,200
B) $2,900
C) $2,850
D) $2,450

59) ABC Company ended Year 1 with the following account balances:**Cash 600, Common Stock 400, and Retained Earnings**

200. The following transactions occurred during Year 2:Issued common stock for $19,000 cash.ABC borrowed an additional $11,000 from Chris Bank.ABC earned $9,000 of revenue on account.ABC incurred $4,000 of operating expenses on account.Cash collections of accounts receivables were $6,000.ABC provided additional services to customers for $1,000 cash.ABC purchased land for $14,000.ABC used $3,000 in cash to make a partial payment on its accounts payable.ABC declared and paid a $200 dividend to the stockholdersOn December 31 ABC had accrued salaries of $4,000.What is the amount of net income (loss) reported on the December 31, Year 2 income statement?

A) $6,200
B) $5,800
C) $6,000
D) $2,000
E) None of these answer choices is correct

60) ABC Company ended Year 1 with the following account balances:**Cash 600, Common Stock 400, and Retained Earnings 200.**The following transactions occurred during Year 2:Issued common stock for $19,000 cash.ABC borrowed an additional $11,000 from Chris Bank.ABC earned $9,000 of revenue on account.ABC incurred $4,000 of operating expenses on account.Cash collections of accounts receivables were $6,000.ABC provided additional services to customers for $1,000 cash.ABC purchased land for $14,000.ABC used $3,000 in cash to make a partial payment on its accounts payable.ABC declared and paid a $200 dividend to the stockholdersOn December 31 ABC had accrued salaries of $4,000.What is the net cash flow from operating activities shown on the statement of cash flows for the year ending December 31, Year 2?

A) $4,000
B) $3,800
C) $6,000
D) None of these answer choices is correct.

61) ABC Company ended Year 1 with the following account balances:**Cash 600, Common Stock 400, and Retained Earnings 200.**The following transactions occurred during Year 2:Issued common stock for $19,000 cash.ABC borrowed an additional $11,000 from Chris Bank.ABC earned $9,000 of revenue on account.ABC incurred $4,000 of operating expenses on account.Cash collections of accounts receivables were $6,000.ABC provided additional services to customers for $1,000 cash.ABC purchased land for $14,000.ABC used $3,000 in cash to make a partial payment on its accounts payable.ABC declared and paid a $200 dividend to the stockholdersOn December 31 ABC had accrued salaries of $4,000.What is the amount of retained earnings that will be shown on the balance sheet prepared at the end of Year 2?

A) $2,000
B) $5,800
C) $6,000
D) $6,200

62) Recognizing an expense may be accompanied by which of the following?

A) An increase in liabilities
B) A decrease in liabilities
C) A decrease in revenue
D) An increase in assets

63) Which of the following statements is **true** regarding accrual accounting?

A) Revenue is recorded only when cash is collected.
B) Expenses are recorded when they are incurred.
C) Revenue is recorded in the period when it is earned.
D) Revenue is recorded in the period when it is earned and expenses are recorded when they are incurred.

64) Mize Company provided $45,500 of services on account, and collected $38,000 from customers during the year. The company also incurred $37,000 of expenses on account, and paid $32,400 against its payables. How do these events impact the elements of the horizontal financial statements model?

A) Total assets would increase.
B) Total liabilities would increase.
C) Total equity would increase.
D) All of these answer choices are correct.

65) The following account balances were drawn from the Year 1 financial statements of Grayson Company:

Cash	$4,700	**Accounts payable**	$1,400	**Expenses**	$7,400
Accounts receivable	$1,800	**Common stock**	?		
Land	$8,300	**Retained earnings, January 1**	$3,000		
		Revenue	$9,800		

What is the balance of the Common Stock account?

A) $10,400
B) $8,000
C) $600
D) $10,700

66) The following account balances were drawn from the Year 1 financial statements of Grayson Company:

Cash	$8,800	**Accounts payable**	$2,500	**Expenses**	$14,500
Accounts receivable	$3,000	**Common stock**	?		
Land	$16,000	**Retained earnings, January 1**	$5,400		
		Revenue	$19,000		

What is the balance of the Common Stock account?

A) $15,400
B) $19,900
C) $900
D) $20,800

67) Revenue on account amounted to $4,000. Cash collections of accounts receivable amounted to $3,700. Cash paid for operating expenses was $3,000. The amount of employee salaries accrued at the end of the year was $800. What was the net cash flow from operating activities?

A) $700
B) $800
C) $1,000
D) $4,400

68) Revenue on account amounted to $9,000. Cash collections of accounts receivable amounted to $8,100. Cash paid for operating expenses was $7,500. The amount of employee salaries accrued at the end of the year was $900. What was the net cash flow from operating activities?

A) $900
B) $600
C) $1,500
D) $8,700

69) Warren Enterprises began operations during Year 1. The company had the following events during Year 1:
The business issued $27,000 of common stock to its stockholders.The business purchased land for $19,000 cash.Services were provided to customers for $23,000 cash.Services were provided to customers for $12,000 on account.The company borrowed $23,000 from the bank.Operating expenses of $19,000 were incurred and paid in cash.Salary expense of $1,500 was accrued.A dividend of $11,000 was paid to the stockholders of Warren Enterprises.
What is the balance of the Retained Earnings account as of December 31, Year 1?

A) $12,000
B) $14,500
C) $35,000
D) $3,500

70) Warren Enterprises began operations during Year 1. The company had the following events during Year 1:The business issued $40,000 of common stock to its stockholders.The business purchased land for $24,000 cash.Services were provided to customers for $32,000 cash.Services were provided to customers for $10,000 on account.The company borrowed $32,000 from the bank.Operating expenses of $24,000 were incurred and paid in cash.Salary expense of $1,600 was accrued.A dividend of $8,000 was paid to the stockholders of Warren Enterprises.
What is the balance of the Retained Earnings account as of December 31, Year 1?

A) $10,000
B) $8,400
C) $16,400
D) $42,000

71) Rushmore Company provided services for $25,500 cash during Year 1. Rushmore incurred $19,000 of operating expenses on account during Year 1, and by the end of the year, $6,500 of that amount had been paid with cash. If these are the only accounting events that affected Rushmore during Year 1, which of the following statements is **true**?

A) The amount of net income shown on the income statement is $12,500.
B) The amount of net income shown on the income statement is $6,500.
C) The amount of net loss shown on the income statement is $6,500.
D) The amount of net cash flow from operating activities shown on the statement of cash flows is $13,000.

72) Rushmore Company provided services for $45,000 cash during Year 1. Rushmore incurred $36,000 of operating expenses on account during Year 1, and by the end of the year, $9,000 of that amount had been paid with cash. If these are the only accounting events that affected Rushmore during Year 1, which of the following statements is **true**?

A) The amount of net loss shown on the income statement is $9,000.

B) The amount of net income shown on the income statement is $27,000.

C) The amount of net income shown on the income statement is $9,000.

D) The amount of net cash flow from operating activities shown on the statement of cash flows is $18,000.

73) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $9,600 cash by issuing common stock.Provided $5,900 of services on account.Paid $2,500 cash for operating expenses.Collected $3,700 of cash from customers in partial settlement of its accounts receivable.Paid a $280 cash dividend to stockholders.What is the amount of net income that will be reported on the Year 1 income statement?

A) $2,200

B) $2,480

C) $2,760

D) $3,400

74) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $12,000 cash by issuing common stockProvided $4,600 of services on accountPaid $3,200 cash for operating expensesCollected $3,800 of cash from customers in partial settlement of its accounts receivablePaid a $200 cash dividend to stockholdersWhat is the amount of net income that will be reported on the Year 1 income statement?

A) $1,400

B) $800

C) $1,000

D) $1,200

75) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $7,200 cash by issuing common stock.Provided $3,500 of services on account.Paid

$1,900 cash for operating expenses.Collected $2,500 of cash from customers in partial settlement of its accounts receivable.Paid a $160 cash dividend to stockholders.What is the amount of net cash flows from operating activities that will be reported on the Year 1 statement of cash flows?

A) $1,600
B) $600
C) $320
D) $1,440

76) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $12,000 cash by issuing common stockProvided $4,600 of services on accountPaid $3,200 cash for operating expensesCollected $3,800 of cash from customers in partial settlement of its accounts receivablePaid a $200 cash dividend to stockholdersWhat is the amount of net cash flows from operating activities that will be reported on the Year 1 statement of cash flows?

A) $400
B) $600
C) $1,400
D) $1,200

77) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $7,000 cash by issuing common stock.Provided $3,300 of services on account.Paid $1,850 cash for operating expenses.Collected $2,400 of cash from customers in partial settlement of its accounts receivable.Paid a $150 cash dividend to stockholders.What is the amount of total assets that will be reported on the balance sheet as of December 31, Year 1?

A) $7,400
B) $7,550
C) $8,450
D) $8,300

78) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $12,000 cash by issuing common stockProvided

$4,600 of services on accountPaid $3,200 cash for operating expensesCollected $3,800 of cash from customers in partial settlement of its accounts receivablePaid a $200 cash dividend to stockholdersWhat is the amount of total assets that will be reported on the balance sheet as of December 31, Year 1?

A) $12,400
B) $12,600
C) $13,400
D) $13,200

79) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $7,200 cash by issuing common stock.Provided $3,500 of services on account.Paid $1,900 cash for operating expenses.Collected $2,500 of cash from customers in partial settlement of its accounts receivable.Paid a $160 cash dividend to stockholders.What is the balance of the retained earnings that will be reported on the balance sheet as of December 31, Year 1?

A) $8,640
B) $1,600
C) $7,800
D) $1,440

80) Nelson Company experienced the following transactions during Year 1, its first year in operation.Acquired $12,000 cash by issuing common stockProvided $4,600 of services on accountPaid $3,200 cash for operating expensesCollected $3,800 of cash from customers in partial settlement of its accounts receivablePaid a $200 cash dividend to stockholdersWhat is the balance of the retained earnings that will be reported on the balance sheet as of December 31, Year 1?

A) $1,200
B) $1,000
C) $1,400
D) $13,200

81) On December 31, Year 1, Gaskins Company owed $4,500 in salaries to employees who had worked during December but will not be paid until January, Year 2. If the year-end adjustment is properly recorded on December 31, Year 1, what will be the effect of this accrual on net income and cash flows from operating activities reported for Year 1?

A) No effect on net income; no effect on cash flow from operating activities
B) Decrease in net income; no effect on cash flow from operating activities
C) Increase in net income; decrease in cash flow from operating activities
D) No effect on net income; decrease in cash flow from operating activities

82) Which of the following are “matched” under the matching concept?

A) Expenses and revenues
B) Expenses and liabilities
C) Assets and stockholders’ equity
D) Assets and liabilities

83) Which of the following financial statements is impacted most significantly by the matching concept?

A) Balance sheet
B) Income statement
C) Statement of changes in stockholders' equity
D) Statement of cash flows

84) Which of the following is frequently used to describe the expenses that are matched in the same accounting period in which they are incurred?

A) Market expenses
B) Matching expenses
C) Period costs
D) Working costs

85) If retained earnings decreased during the year, and no dividends were paid, which of the following statements must be **true**?

A) Expenses for the year exceeded revenues.
B) The company did not have enough cash

to pay its expenses.

C) Total stockholders' equity decreased

D) Liabilities increased during the year.

86) What is the purpose of the accrual basis of accounting?

A) Recognize revenue when it is collected from customers.

B) Match assets with liabilities during the proper accounting period.

C) Recognize expenses when cash disbursements are made.

D) Recognizing revenue when it is earned and expenses when they are incurred, regardless of when cash changes hands.

87) Which of the following is not an element of the fraud triangle?

A) Reliance

B) Rationalization

C) Opportunity

D) Pressure

88) Which of the following is **not** a principle of the AICPA Code of Professional Conduct?

A) Integrity

B) Due Care

C) Internal Controls

D) Objectivity and Independence

89) Which of the following is **not** one of the common elements that are typically present when fraud occurs?

A) The capacity to rationalize

B) The existence of pressure leading to an incentive

C) The assistance of others

D) The presence of an opportunity

90) What is the term used to describe the policies and procedures that are designed to reduce the opportunities for fraud?

A) Internal controls
B) Asset source transactions
C) Accounting standards
D) Financial systems

91) What action did the U.S. Congress take because of the audit failures at Enron, WorldCom and other companies?

A) Required publicly-traded companies to be audited by a government agency
B) Passed the Sarbanes-Oxley Act
C) Required companies to begin preparing an additional financial statement
D) Passed an amendment to the Securities and Exchange Act

92) Which of the following is an asset source transaction?

A) Issued common stock
B) Paid a cash dividend to stockholders
C) Collected cash from customers in settlement of accounts receivable
D) Accrued salary expense

93) Which of the following is an asset use transaction?

A) Purchased land for cash
B) Paid cash for salary expense
C) Invested cash in an interest earning account
D) Accrued salary expense at the end of the period

94) Which of the following is an asset exchange transaction?

A) Issued common stock

B) Accrued salary expense at the end of the accounting period

C) Collected cash on accounts receivable

D) Earned cash revenue for services provided

95) If a company provides services to clients but has not yet collected any cash, how should that transaction be classified?

A) Claims exchange transaction

B) Asset use transaction

C) Asset source transaction

D) Asset exchange transaction

96) Which of the following would be included in the "cash flow from operating activities" section of the statement of cash flows?

A) Accrual of salary expense at year-end.

B) Purchase of land for cash.

C) Payments of cash dividends to the owners of the business.

D) Cash paid for interest on a note payable.

97) Chester Company began Year 2 with a note payable of $20,000 and interest payable of $800. During the year, the company accrued an additional $400 of interest expense, and paid off the note with interest. On the company's Year 2 statement of cash flows, cash flows for financing activities related to the note would be:

A) $1,200 outflow

B) $20,000 outflow

C) $20,400 outflow

D) $21,200 outflow

98) Which of the following describes the effects of a claims exchange transaction on a company's financial statements?

Balance Sheet				Income Statement					Statement of Cash Flows
Assets	=	Liabilities	+	Stockholders' Equity	Revenue	−	Expense	=	Net income

A.						+(
B.	+	+				+(
C.		+	−	+	−	
D.						+I

A) Option A
B) Option B
C) Option C
D) Option D

99) The Merry Maids provided cleaning services to Orange Company on account. Which of the following would describe the transaction's effect on the Orange Company's financial statements?

Balance Sheet							Income Statement				
Assets	=	Liabilities	+	Stockholders' Equity							
Accounts Receivable	=	Accounts Payable	+	Common Stock	+	Retained Earnings	Revenue	−	Expense	=	Net income
A.		+						−			
B.	+							+	+		
C.		+						−			
D.	+							+			

A) Option A
B) Option B
C) Option C
D) Option D

100) The Merry Maids

provided cleaning services to Orange Company on account. Which of the following would describe the transaction's effect on the Merry Maids' financial statements?

Balance Sheet				Income Statement		
Assets	Liabilities	Stockholders' Equity				
Accounts Receivable =	Accounts Payable +	Common Stock +	Retained Earnings	Revenue −	Expense =	Net income
A.		+				−
B. +					+	+
C.		+				−
D. +					+	

A) Option A
B) Option B
C) Option C
D) Option D

101) During Year 2, Fancy Foods Incorporated earned $104,000 of revenue on account. The beginning balance in accounts receivable was $26,000, and the ending balance was $4,000. Based solely on this information, what was the amount of cash collected from accounts receivable?

A) $74,000
B) $82,000
C) $126,000
D) $134,000

102) Fancy Foods Incorporated had an ending balance in accounts payable of $6,000. The company incurred $72,000 of operating expenses on account and paid $90,000 cash to settle accounts payable. Determine the beginning balance in accounts payable.

A) $12,000
B) $24,000
C) $96,000
D) $156,000

103) During Year 3, Fancy Foods Incorporated earned $54,000 of revenue on account. The beginning balance in accounts receivable was $5,000, and the ending balance was $10,000. Also, Fancy Foods Incorporated started the year with a beginning balance in accounts payable of $5,000. Fancy Foods' ending balance in account payable was $4,000. The company incurred $12,000 of operating expenses on account. Determine the amount of cash paid to settle accounts payable.

A) $13,000
B) $24,000
C) $96,000
D) $156,000

Answer Key for Business CH 2.

Test name: Introductory Financial Accounting

1) TRUE

2) FALSE

3) TRUE

4) TRUE

5) FALSE

6) FALSE

7) FALSE

8) FALSE

9) TRUE

10) FALSE

11) TRUE

12) TRUE

13) FALSE

14) TRUE

15) FALSE

16) FALSE

17) FALSE

18) FALSE

19) TRUE

20) TRUE

21) FALSE

22) FALSE

23) TRUE

24) FALSE

25) FALSE

26) FALSE

27) B

28) B

29) A

30) C

31) C

32) D

33) A

34) C

35) B

36) C

37) C

38) D

39) A

40) B

41) A

42) B

43) C

44) A

45) B

46) A

47) C

48) B

49) A

50) C

51) D

52) D

53) C

54) B

55) C

56) D

57) D

58) B

59) D

60) A

61) A

62) A

63) D

64) D

65) B

66) A

67) A

68) B

69) D

70) B

71) B

72) C

73) D

74) A

75) B

76) B

77) D

78) D

79) D

80) A

81) B

82) A

83) B

84) C

85) A

86) D

87) A

88) A
88) C

88) A
88) C

89) C

90) A

91) B

92) A

93) B

94) C

95) C

96) D

97) B

98) C

99) C

100) B

101) C

102) B

103) A