**CHAPTER 1**

## INTRODUCTION TO FINANCIAL STATEMENTS

CHAPTER LEARNING OBJECTIVES

1. ***Identify the forms of business organization and the uses of accounting information.*** A sole proprietorship is a business owned by one person. A partnership is a business owned by two or more people associated as partners. A corporation is a separate legal entity for which evidence of ownership is provided by shares of stock. Internal users are managers who need accounting information to plan, organize, and run business operations. The primary external users are investors and creditors. Investors (stockholders) use accounting information to decide whether to buy, hold, or sell shares of a company’s stock. Creditors (suppliers and bankers) use accounting information to assess the risk of granting credit or loaning money to a business. Other groups who have an indirect interest in a business are taxing authorities, customers, labor unions, and regulatory agencies.

2. ***Explain the three principal types of business activity.*** Financing activities involve collecting the necessary funds to support the business. Investing activities involve acquiring the resources necessary to run the business. Operating activities involve putting the resources of the business into action to generate a profit.

3. ***Describe the four financial statements and how they are prepared.*** An income statement presents the revenues and expenses of a company for a specific period of time. A retained earnings statement summarizes the changes in retained earnings that have occurred for a specific period of time. A balance sheet reports the assets, liabilities, and stockholders’ equity of a business at a specific date. A statement of cash flows summarizes information concerning the cash inflows (receipts) and outflows (payments) for a specific period of time. Assets are resources owned by a business. Liabilities are the debts and obligations of the business. Liabilities represent claims of creditors on the assets of the business. Stockholders’ equity represents the claims of owners on the assets of the business. Stockholders’ equity is subdivided into two parts: common stock and retained earnings. The basic accounting equation is Assets = Liabilities + Stockholders’ Equity. Within the annual report, the management discussion and analysis provides management’s interpretation of the company’s results and financial position as well as a discussion of plans for the future. Notes to the financial statements provide additional explanation or detail to make the financial statements more informative. The auditor’s report expresses an opinion as to whether the financial statements present fairly the company’s results of operations and financial position.

\*4. ***Explain the career opportunities in accounting.*** Accounting offers many different jobs in fields such as public and private accounting, governmental, and forensic accounting. Accounting is a popular major because there are many different types of jobs, with unlimited potential for career advancement

Difficulties:

Easy: 143

Medium: 101

Hard: 12

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TRUE-FALSE STATEMENTS

1. A business organized as a separate legal entity and owned by stockholders is a partnership.

Ans: F, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Partnership, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

2. Corporate stockholders have no personal liability for the debts of the corporation.

Ans: T, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

3. The liability of corporate stockholders is limited to the amount of their investment.

Ans: T, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

4. The majority of U.S. business is transacted by partnerships.

Ans: F, LO: 1, Bloom: K, Section: Business Organization and Accounting Information Uses, Subsection: Partnership, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

5. Sole proprietorships in the United States generate more revenue than the other two forms of business enterprise.

Ans: F, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Sole Proprietorship, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

6. Owners of business firms are the only people who need accounting information.

Ans: F, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Users and Uses of Financial Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

7. Some users of accounting information are internal to the company while others are external.

Ans: T, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Users and Uses of Financial Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

8. Management of a business enterprise is the major external user of accounting information.

Ans: F, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

9. External users of accounting information include managers who plan, organize, and run a business.

Ans: F, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

10. The accounting information needs and questions of external users vary considerably.

Ans: T, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

11. Accounting communicates financial information about a business to both internal and external users.

Ans: T, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Users and Uses of Financial Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

12. Two primary external users of accounting information are investors and creditors.

Ans: T, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

13. Financing activities for corporations include borrowing money and selling shares of their own stock.

Ans: T, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

14. Investing activities involve collecting the necessary funds to support the business.

Ans: F, LO: 2, Section: The Three Types of Business Activity, Subsection: Investing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

15. The purchase of equipment is an example of a financing activity.

Ans: F, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

16. Assets are resources owned by a business that provide future services or benefits to the business.

Ans: T, LO: 2, Section: The Three Types of Business Activity, Subsection: Investing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

17. Payments by the business to its owners are operating activities.

Ans: F, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

18. The economic resources owned by a business are called stockholders’ equity.

Ans: F, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

19. Operating activities involve putting the resources of the business into action to generate a profit.

Ans: T, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

20. A business is usually involved in only two types of activities—financing and investing.

Ans: F, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

21. Net income for the period is determined by subtracting expenses and dividends from revenues.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

22. A different set of financial statements is usually prepared for each user.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

23. The heading for an income statement prepared for the year ending December 31, 2025 will include the line “As of December 31, 2025.”

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

24. Net income is another term for revenue.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

25. Cash is another term for stockholders’ equity.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

26. The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments of a company for a specific period of time.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Statement of Cash Flows, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

27. The balance sheet reports assets and claims to those assets at a specific point in time.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

28. The basic accounting equation states that Assets = Liabilities.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

29. One way of stating the accounting equation is Assets + Liabilities = Stockholders’ Equity.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

30. The accounting equation can be expressed as Assets - Stockholders’ Equity = Liabilities.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Easy, Minutes: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

31. The accounting equation can be expressed as Assets - Liabilities = Stockholders’ Equity.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

32. If the assets of a business total $150,000 and liabilities total $105,000, then its stockholders’ equity totals $45,000.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $150,000 – $105,000 = $45,000

Total assets – Total liabilities

33. If the assets owned by a business total $100,000 and liabilities total $65,000, then stockholders’ equity totals $25,000.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $100,000 - $65,000 = $35,000

Total assets – Total liabilities

34. Claims of creditors and owners on the assets of a business are called liabilities.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

35. Creditors’ rights to assets supersede owners’ rights to the assets.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

36. All publicly traded U.S. companies must provide their stockholders with an annual report each year.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Elements of an Annual Report, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

37. Information in the notes to the financial statements has to be quantifiable (numeric).

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Notes to the Financial Statements, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

38. An auditor is an accounting professional who conducts an independent examination of a company’s financial statements.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Auditor’s Report, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Professional Demeanor, IMA: Reporting and Control

39. The auditor’s report states the auditor’s opinion as to the fairness of the presentation of the financial position and results of operations and their conformance with generally accepted accounting principles.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Auditor’s Report, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Professional Demeanor, IMA: Reporting and Control

40. The management discussion and analysis (MD&A) section of an annual report covers various financial aspects of a company.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Management Discussion and Analysis, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

41. Explanatory notes and supporting schedules are an optional part of an annual report.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Elements of an Annual Report, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

42. Examples of notes are descriptions of the significant accounting policies and methods used in preparing the statements, explanations of contingencies, and various statistics.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Notes to the Financial Statements Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

43. The demand for accountants was increased by passage of the Sarbanes-Oxley Act (SOX) which significantly increased the accounting and internal control requirements for corporations.

Ans: T, LO: 4, Section: Career Opportunities in Accounting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

MULTIPLE CHOICE QUESTIONS

44. The sole proprietorship form of business organization

a. must have at least two owners in most states.

b. generally receives favorable tax treatment relative to a corporation.

c. combines the records of the business with the personal records of the owner.

d. is classified as a separate legal entity.

Ans: B, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Sole Proprietorship, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

45. A business organized as a corporation

a. is not a separate legal entity in most states.

b. requires that stockholders be personally liable for the debts of the business.

c. is owned by its stockholders.

d. has tax advantages over a proprietorship or partnership.

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

46. The partnership form of business organization

a. is a separate legal entity.

b. is a common form of organization for service-type businesses.

c. enjoys an unlimited life.

d. has limited liability.

Ans: B, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Partnership, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

47. Which of the following is **not** one of the three forms of business organization?

a. Corporation

b. Partnership

c. Proprietorship

d. Investors

Ans: D, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Forms of Business Organization, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

48. The main forms of business organizations include all of the following except

a. limited liability corporation.

b. partnership.

c. sole proprietorship.

d. corporation.

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Forms of Business Organization, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

49. Most business enterprises in the United States are

a. proprietorships and partnerships.

b. partnerships.

c. corporations.

d. government units.

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Sole Proprietorship, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

50. A business organized as a separate legal entity is a

a. corporation.

b. proprietor.

c. government unit.

d. partnership.

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

51. Which of the following is **not** an advantage of the corporate form of business organization?

a. No personal liability

b. Easy to transfer ownership

c. Favorable tax treatment

d. Easy to raise funds

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

52. An advantage of the corporate form of business is that

a. it has limited life.

b. its owner’s personal resources are at stake.

c. its ownership is easily transferable via the sale of shares of stock.

d. it is simple to establish.

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

53. Which of the following has the advantage of enabling a business to raise funds most easily?

a. Entity

b. Sole proprietorship

c. Corporation

d. Partnership

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

54. Which of the following is an advantage of corporations relative to partnerships and sole proprietorships?

a. Reduced legal liability for investors

b. Harder to transfer ownership

c. Lower taxes

d. Most common form of organization

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Forms of Business Organization, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

55. Which of the following set of characteristics describes a corporation?

a. Shared control, tax advantages, increased skills and resources

b. Simple to set up and maintains control with founder

c. Easier to transfer ownership and raise funds, no personal liability

d. Harder to raise funds and gives owner control

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

56. A small neighborhood barber shop that is operated by its two owners would likely be organized as a

a. joint venture.

b. partnership.

c. corporation.

d. proprietorship.

Ans: B, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Partnership, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

57. A local retail shop has been operating as a sole proprietorship. The business is growing and now the owner wants to incorporate. Which of the following is **not** a reason for this owner to incorporate?

a. Ability to raise capital for expansion

b. Desire to limit the owner’s personal liability

c. The prestige of operating as a corporation

d. The ease in transferring shares of the corporation’s stock

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

58. All of the following are advantages for organizing a business as a sole proprietorship **except**

a. a sole proprietorship is a simple form of business to set up.

b. a sole proprietorship gives the owner control of the business.

c. a sole proprietorship receives more favorable tax treatment.

d. a sole proprietorship allows for an easy transfer of ownership through stock sales.

Ans: D, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Sole Proprietorship, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

59. Jack and Jill form a partnership. Jack runs the business in New York, while Jill vacations in Hawaii. During the time Jill is away from the business, Jack increases the debts of the business by $20,000. Which of the following statements is **true**regarding this debt?

a. Only Jack is personally liable for the debt, since he has been the managing partner during that time.

b. Only Jill is personally liable for the debt of the business, since Jack has been working and she has not.

c. Both Jack and Jill are personally liable for the business debt.

d. Neither Jack nor Jill is personally liable for the business debt, since the partnership is a separate legal entity.

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Sole Proprietorship, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

60. Hybrid forms of business organization include

a. limited liability companies.

b. sole proprietorships.

c. partnerships

d. all of these are hybrid forms of business organization.

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Hybrid Forms of Organization, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

61. Hybrid forms of business organization

a. are not allowed in many states.

b. account for the majority of U.S. business transactions.

c. combine the tax advantages of corporations with the limited liability advantage of partnerships.

d. combine the tax advantages of partnerships with the limited liability advantage of corporations.

Ans: D, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Hybrid Forms of Organization, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

62. Which one of the following questions is **most** likely asked by an internal human resources director for the company?

a. Which product line is most profitable?

b. What price for our product will maximize the company income?

c. What average pay raise is affordable for employees this year?

d. Should any product lines be eliminated?

Ans: C, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Internal Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

63. Which of the following are reports that accounting provides to internal users?

a. Forecasts of cash needs for next year only

b. Financial comparisons of operating activity alternatives only

c. Both forecasts of cash needs and financial comparisons

d. Neither forecasts of cash needs nor financial comparisons

Ans: C, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Internal Users, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

64. Which of the following is the **best** description of an internal user of accounting information?

a. Investors who use accounting information to decide whether to buy or sell stock

b. Creditors, such as banks, that use accounting information to evaluate the risk of lending money

c. Labor unions who use accounting information to examine the ability of the company to pay increased wages and benefits

d. Managers who use accounting information to plan, organize, and run a business

Ans: D, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Internal Users, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

65. An external user of accounting information like the Internal Revenue Service is most commonly known as a

a. taxing authority.

b. labor union.

c. customer.

d. regulatory agency.

Ans: A, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

66. Types of data analytics include all of the following except

a. prescriptive.

b. predictive.

c. authoritative.

d. diagnostic.

Ans: C, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Data Analytics, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

67. Predictive analytics can be used to answer the question

a. “What is likely to happen?”.

b. “Why did it happen?”.

c. “What should we do about it?”.

d. “What happened?”.

Ans: A, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Data Analytics, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

68. Prescriptive analytics can be used to answer the question

a. “What is likely to happen?”.

b. “Why did it happen?”.

c. “What should we do about it?”.

d. “What happened?”.

Ans: C, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Data Analytics, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

69. Descriptive analytics can be used to answer the question

a. “What is likely to happen?”.

b. “Why did it happen?”.

c. “What should we do about it?”.

d. “What happened?”.

Ans: D, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Data Analytics, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

70. Diagnostic analytics can be used to answer the question

a. “What is likely to happen?”.

b. “Why did it happen?”.

c. “What should we do about it?”.

d. “What happened?”.

Ans: B, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Data Analytics, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

71. Which of the following statements is **not** true regarding the Sarbanes-Oxley Act (SOX)?

a. The Act calls for increased oversight responsibilities for boards of directors.

b. The Act has resulted in increased penalties for financial fraud by top management.

c. The Act calls for decreased independence of outside auditors reviewing corporate financial statements.

d. The goal of the Act is to decrease the likelihood of unethical corporate behavior.

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Ethics in Financial Reporting, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Ethics, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

72. Which of the following is **not** a step for solving an ethical dilemma?

a. Identify the alternatives and weigh the impact of each alternative on various stakeholders.

b. Certify the ethical accuracy of the financial information.

c. Identify and analyze the principal elements in the situation.

d. Recognize the ethical situation and issues involved.

Ans: B, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Ethics in Financial Reporting, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Ethics, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Professional Behavior, IMA: Reporting and Control

73. What is the first step in solving an ethical dilemma?

a. Weigh the impact of alternative solutions on various stakeholders.

b. Identify the alternative solutions.

c. Identify the stakeholders.

d. Recognize an ethical situation and the issues involved.

Ans: D, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Ethics in Financial Reporting, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Ethics, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Professional Behavior, IMA: Reporting and Control

74. Which of the following is the most appropriate definition of accounting?

a. The information system that identifies, records, and communicates the economic events of an organization to interested users.

b. A means of collecting information.

c. The interconnected network of subsystems necessary to operate a business.

d. Electronic collection, organization, and communication of vast amounts of information.

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Users and Uses of Accounting Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

75. Which of the following would **not** be considered an internal user of accounting data for the Amazon?

a. President of the company

b. Production manager

c. Merchandise inventory clerk

d. President of the employees' labor union

Ans: D, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Internal Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

76. Which of the following groups uses accounting information primarily to insure that the entity is operating within prescribed rules?

a. Investors

b. Regulatory agencies

c. Labor Unions

d. Management

Ans: B, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Professional Behavior, IMA: Reporting and Control

77. The users of accounting information charged with achieving the goals of the business are its

a. auditors.

b. investors.

c. managers.

d. creditors.

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Internal Users, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: Industry/Sector Perspective, AICPA AC: None, AICPA PC: Decision Making, IMA: Reporting and Control

78. Which external group uses accounting information to determine whether the company can pay its obligations?

a. Investors in common stock

b. Marketing managers

c. Creditors

d. Chief Financial Officer

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

79. Which external group uses accounting information to determine whether the company’s operating performance might result in a stock price increase?

a. Investors in common stock

b. Marketing managers

c. Creditors

d. Chief Financial Officer

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

80. Which of the following groups uses accounting information to determine whether a marketing proposal will be cost effective?

a. Investors in common stock

b. Marketing managers

c. Creditors

d. Chief Financial Officer

Ans: B, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Project Management, IMA: Reporting and Control

81. Which of the following would **not** be considered an external user of accounting data for the Tesla Corporation?

a. Internal Revenue Service agent

b. Management

c. Creditors

d. Customers

Ans: B, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

82. Which of the following would **not** be considered an internal user of Patagonia’s accounting data?

a. The president of the company

b. The controller of the company

c. Creditor of the company

d. Salesperson of the company

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Internal Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

83. Which of the following is an example of a primary user of Walmart’s accounting information with a direct financial interest in the business?

a. Taxing authority

b. Creditor

c. Regulatory agency

d. Labor union

Ans: B, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

84. Which of the following is a user of accounting information with an indirect financial interest in a business?

a. A financial adviser

b. Management

c. Investor

d. Creditor

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

85. Which of the following is **not** considered an external user of accounting information?

a. Finance directors

b. Regulatory agencies

c. Creditors

d. Stockholders

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

86. Which type of corporate information about Target Corporation is readily available to investors?

a. Financial comparison of operating alternatives

b. Marketing strategies for a product that will be introduced in eighteen months

c. Forecasts of cash needs for the upcoming year

d. Amount of net income retained in the business

Ans: D, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

87. Which of the following statements concerning users of accounting information is **incorrect**?

a. Management is considered an internal user.

b. Present creditors are considered external users.

c. Regulatory authorities are considered internal users.

d. Taxing authorities are considered external users.

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Users and Uses of Financial Information, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

88. External users of GameStop’s financial information want answers to all of the following questions **excep**t:

a. Is the company earning satisfactory income?

b. Will the company be able to pay its debts as they come due?

c. Will the company be able to afford employee pay raises this year?

d. How does the company compare in profitability with competitors?

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

89. Which type of corporate financial information is **not** available to investors?

a. Dividend history

b. Forecast of cash needs for the upcoming year

c. Cash provided by investing activities

d. Beginning cash balance

Ans: B, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

90. The liability created by Old Navy when it purchases cleaning supplies on credit from a supplier is termed a(n)

a. account payable.

b. account receivable.

c. revenue.

d. expense.

Ans: A, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

91. The right to receive money in the future is called a(n)

a. account payable.

b. account receivable.

c. liability.

d. revenue.

Ans: B, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

92. Which of the following is **not** a principal type of business activity?

a. Operating

b. Investing

c. Financing

d. Delivering

Ans: D, LO: 2, Section: The Three Types of Business Activity, Subsections: Financing Activities, Investing Activities, Operating Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

93. Borrowing money is an example of a(n)

a. delivering activity.

b. financing activity.

c. investing activity.

d. operating activity.

Ans: B, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

94. Issuing shares of stock in exchange for cash is an example of a(n)

a. delivering activity.

b. investing activity.

c. financing activity.

d. operating activity.

Ans: C, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

95. Debt securities sold to investors that must be repaid at a particular date some years in the future are called

a. accounts payable.

b. notes receivable.

c. taxes payable.

d. bonds payable.

Ans: D, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

96. Which of the following activities involves obtaining the necessary funds to support the business?

a. Operating

b. Investing

c. Financing

d. Delivering

Ans: C, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Medium Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

97. Which one of the following represents the typical order of occurrence of the three business activities for a new company?

a. Financing, investing, operating

b. Investing, financing operating

c. Operating, investing, financing

d. Financing, operating, investing

Ans: A, LO: 2, Section: The Three Types of Business Activity, Subsection: NA, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

98. Buying assets needed to operate a business is an example of a(n)

a. delivering activity.

b. financing activity.

c. investing activity.

d. operating activity.

Ans: C, LO: 2, Section: The Three Types of Business Activity, Subsection: Investing Activities, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

99. Which activities involve acquiring the resources to run the business?

a. Delivering

b. Financing

c. Investing

d. Operating

Ans: C, LO: 2, Section: The Three Types of Business Activity, Subsection: Investing Activities, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

100. Which activities involve putting the resources of the business into action to generate a profit?

a. Delivering

b. Financing

c. Investing

d. Operating

Ans: D, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

101. Where can an investor find information about operating activities in a company’s financial statements?

1. On the statement of cash flows only
2. On the income statement only
3. On the statement of cash flows and the income statement
4. On all four financial statements

Ans: C, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

102. The statement of cash flows would disclose the payment of a dividend

a. nowhere on the statement.

b. in the operating activities section.

c. in the investing activities section.

d. in the financing activities section.

Ans: D, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

103. Buying and selling products are examples of

a. operating activities.

b. investing activities.

c. financing activities.

d. delivering activities.

Ans: A, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

104. Which of the following would not be considered an asset of Target Corporation?

a. Cash

b. Buildings

c. Land

d. Common Stock

Ans: D, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

105. Expenses are incurred

a. only on rare occasions.

b. to produce assets.

c. to produce liabilities.

d. to generate revenues.

Ans: D, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

106. The cost of assets consumed or services used is also known as a(n)

a. revenue.

b. expense.

c. liability.

d. asset.

Ans: B, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

107. Resources owned by a business are referred to as

a. stockholders’ equity.

b. liabilities.

c. assets.

d. revenues.

Ans: C, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

108. The best definition of assets is the

a. cash owned by the company.

b. collections of resources belonging to the company and the claims on these resources.

c. owners’ investment in the business.

d. resources belonging to a company that have future benefit to the company.

Ans: D, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

109. Debts and obligations of a business are referred to as

a. assets.

b. equities.

c. liabilities.

d. expenses.

Ans: C, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

110. Suppose that Forever 21 Company recorded the following cash transactions for the year:

Paid $135,000 for salaries.

Paid $60,000 to purchase office equipment.

Paid $15,000 for utilities.

Paid $6,000 in dividends.

Collected $275,000 from customers.

What was Forever 21’s net cash provided by operating activities?

a. $125,000

b. $65,000

c. $140,000

d. $119,000

Ans: A, LO: 3, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $275,000 − $135,000 − $15,000 = $125,000

(Cash coll. – sal. paid – util. paid)

111. Suppose that Ralph Lauren Company recorded the following cash transactions for the

year:

Paid $180,000 for salaries.

Paid $80,000 to purchase office equipment.

Paid $20,000 for utilities.

Paid $8,000 in dividends.

Collected $350,000 from customers.

What was Ralph Lauren’s net cash provided by operating activities?

a. $150,000

b. $70,000

c. $170,000

d. $142,000

Ans: A, LO: 3, Bloom: AP, Section: The Three Types of Business Activity, Subsection: Operating Activities, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $350,000 − $180,000 − $20,000 = $150,000

(Cash coll. – sal. paid – util. paid)

112. When expenses exceed revenues, which of the following is **true**?

a. a net loss results

b. a net income results

c. assets equal liabilities

d. assets are increased

Ans: A, LO: 3, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

113. Which of the following is an asset?

a. Mortgage payable

b. Investments

c. Common stock

d. Retained earnings

Ans: B, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

114. Which of the following is **not** a liability?

a. Unearned Service Revenue

b. Accounts Payable

c. Accounts Receivable

d. Interest Payable

Ans: C, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

115. Which of the following is an investing activity for Target?

a. Issuing shares of stock for cash

b. Purchasing inventory

c. Paying warehouse workers’ salaries

d. Purchasing computer equipment

Ans: D, LO: 2, Section: The Three Types of Business Activity, Subsection: Investing Activities, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

116. Which of the following is an investing activity for Patagonia?

a. Purchasing materials to make clothing

b. Paying for social media advertising

c. Purchasing manufacturing equipment

d. Paying executive salaries

Ans: C, LO: 2, Section: The Three Types of Business Activity, Subsection: Investing Activities, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

117. Liabilities

a. are future economic benefits.

b. are debts and obligations.

c. possess service potential.

d. are things of value owned by a business.

Ans: B, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

118. Liabilities of a company are owed to its

a. debtors.

b. owners.

c. creditors.

d. stockholders.

Ans: C, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

119. Stockholders’ equity can be described as claims of

a. creditors on total assets.

b. owners on total assets.

c. customers on total assets.

d. debtors on total assets.

Ans: B, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

120. Payments to stockholders are called

a. expenses.

b. liabilities.

c. dividends.

d. assets.

Ans: C, LO: 2, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

121. Which of the following financial statements is divided into major categories of operating, investing, and financing activities?

a. The income statement

b. The balance sheet

c. The retained earnings statement

d. The statement of cash flows

Ans: D, LO: 3, Bloom: K, Section: The Four Financial Statements, Subsection: Statement of Cash Flows, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

122. The retained earnings statement shows all of the following **except**:

a. the amounts of changes in retained earnings during the period.

b. the causes of changes in retained earnings during the period.

c. the time period following the one shown for the income statement.

d. beginning retained earnings on the first line of the statement.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: K, Difficulty: Medium , Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

123. Ending retained earnings for a period is equal to beginning

a. Retained earnings + Net income + Dividends.

b. Retained earnings – Net income – Dividends.

c. Retained earnings + Net income – Dividends.

d. Retained earnings – Net income + Dividends.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting and Control

124. Suppose that American Eagle Company's records show the following for the month of

January:

Total retained earnings at January 1 $ 432,000

Total retained earnings at January 31 450,000

Total revenues 2,160,000

Total dividends declared 140,000

How much are total expenses for January?

a. $2,002,000

b. $2,318,000

c. $1,984,000

d. None of the answer choices are correct.

Ans: A, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: AP, Difficulty: Hard, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $432,000 + $2,160,000 - $140,000 - $450,000 = $2,002,000

(Beg. RE + Revenues – Div. – End. RE)

125. Suppose that at the beginning of January 2025, Walgreens had a balance in its Retained Earnings account totaling $42,000. At the end of the year, the balance totaled $47,000. If $11,000 of dividends were declared and paid during the year, what was 2025 net income?

a. $5,000

b. $16,000

c. $53,000

d. $6,000

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: AP, Difficulty: Hard, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $47,000 + $11,000 - $42,000 = $16,000

(End,. RE + Div. – Beg.RE)

126. Which of the following items will be reported on the Retained Earnings Statement?

a. Cash received from customers

b. Amounts received from issuing stock

c. Amounts owed to creditors

d. Profits earned by a company

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

127. Which one of the following is **not** the correct date format for the respective financial

statement?

a. A balance sheet as of May 31, 2025

b. A Retained Earnings Statement as of May 31, 2025

c. An income statement for the month ended May 31, 2025

d. A statement of cash flows for the month ended May 31, 2025

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Retained Earnings Statement, Balance Sheet, Statement of Cash Flows, Bloom: AP, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

128. Which of the following statements is **true**?

a. Amounts received from issuing stock are revenues.

b. Amounts paid out as dividends are not expenses.

c. Amounts paid out as dividends are reported on the income statement.

d. Amounts received from issued stock are reported on the income statement.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

129. Dividends are reported on the

a. income statement.

b. retained earnings statement.

c. balance sheet.

d. income statement and balance sheet.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

130. Dividends declared and paid

a. increase assets.

b. increase expenses.

c. decrease revenues.

d. decrease retained earnings.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

131. The financial statement that summarizes the changes in retained earnings for a specific period of time is the

a. balance sheet.

b. income statement.

c. statement of cash flows.

d. retained earnings statement.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

132. To show how successfully its business performed during a period of time, Home Depot reports its revenues and expenses in the

a. balance sheet.

b. income statement.

c. statement of cash flows.

d. retained earnings statement.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

133. Net income results when

a. Assets > Liabilities.

b. Revenues = Expenses.

c. Revenues > Expenses.

d. Revenues < Expenses.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

134. Net income will result during a time period when

a. assets exceed liabilities.

b. assets exceed revenues.

c. expenses exceed revenues.

d. revenues exceed expenses.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

135. Retained earnings at the end of the period is equal to

a. retained earnings at the beginning of the period plus net income minus liabilities.

b. retained earnings at the beginning of the period plus net income minus dividends.

c. net income.

d. assets plus liabilities.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

136. Which of the following financial statements is concerned with the company at a point in time?

a. Balance sheet

b. Income statement

c. Retained earnings statement

d. Statement of cash flows

Ans: A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

137. The company’s policy toward dividends and growth could best be determined by examining the

a. balance sheet.

b. income statement.

c. retained earnings statement.

d. statement of cash flows.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

138. An income statement

a. summarizes the changes in retained earnings for a specific period of time.

b. reports the changes in assets, liabilities, and stockholders’ equity over a period of time.

c. reports the assets, liabilities, and stockholders’ equity at a specific date.

d. presents the revenues and expenses for a specific period of time.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

139. If Amazon’s retained earnings account increases from the beginning of the year to the end of the year, then

a. net income is less than dividends.

b. a net loss is less than dividends.

c. additional investments are less than net losses.

d. net income is greater than dividends.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

140. Target’s retained earnings statement would **not** show

a. the retained earnings beginning balance.

b. revenues and expenses.

c. dividends.

d. the ending retained earnings balance.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

141. If the retained earnings account decreases from the beginning of the year to the end of the year, then

a. net income is less than dividends.

b. there was a net income and no dividends.

c. additional investments are less than net losses.

d. net income is greater than dividends.

Ans: A, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting and Control

142. Which financial statement is prepared first?

a. Balance sheet

b. Income statement

c. Retained earnings statement

d. Statement of cash flows

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

143. An income statement shows

a. revenues, liabilities, and stockholders’ equity.

b. expenses, dividends, and stockholders’ equity.

c. revenues, expenses, and net income.

d. assets, liabilities, and stockholders’ equity.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

144. In a study session, a classmate makes this statement “Dividends are listed as expenses on the income statement.” What is your **best** response to this statement?

a. I’ve been struggling with that concept and I feel that dividends should be shown on the balance sheet as assets.

b. You are right. Revenues and expenses are shown on the income statement. Dividends are a cost of generating revenues and that makes them an expense. Why else would a corporation pay dividends?

c. Dividends represent a portion of corporate profits paid to the shareholders. They belong on the retained earnings statement.

d. Dividends are deducted from retained earnings on the balance sheet.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

145. Suppose that Uber Company began the year with retained earnings of $380,000. During the year, the company recorded revenues of $500,000, expenses of $380,000, and paid dividends of $40,000. What was Uber’s retained earnings balance at the end of the year?

a. $540,000

b. $460,000

c. $840,000

d. $500,000

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $380,000 + ($500,000 − $380,000) − $40,000 = $460,000

(Beg.R/E + (rev.- exp.) – div.)

146. Kardashian Company began the year 2025 with retained earnings of $670,000. During the year, the company sold additional shares of stock for $1,000,000, recorded revenues of $600,000, expenses of $380,000, and paid dividends of $140,000. What was Kardashian’s retained earnings balance at the end of 2025?

a. $1,030,000

b. $750,000

c. $1,130,000

d. $600,000

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $670,000 + ($600,000 − $380,000) − $140,000 = $750,000

(Beg .R/E + (rev.- exp.) – div.)

147. A1 Company began the year with retained earnings of $100,000. During 2025, the company issued $80,000 of common stock for cash. The company recorded revenues of $740,000, expenses of $640,000, and paid dividends of $40,000. What was A1’s net income for the year 2025?

a. $60,000

b. $140,000

c. $100,000

d. $180,000

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $740,000 − $640,000 = $100,000

(Rev. – exp.)

148. Ace Company began the year by issuing $120,000 of common stock for cash. The company recorded revenues of $1,100,000, expenses of $960,000, and paid dividends of $60,000. What was Ace’s net income for the year?

a. $80,000

b. $200,000

c. $140,000

d. $260,000

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $1,100,000 − $960,000 = $140,000

(Rev. – exp.)

149. Acme Corporation began the year with retained earnings of $310,000. During the year, the company issued $420,000 of common stock, recorded expenses of $1,200,000, and paid dividends of $80,000. If Acme’s ending retained earnings was $330,000, what was the company’s revenue for the year?

a. $1,220,000

b. $1,300,000

c. $1,640,000

d. $1,720,000

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: AN, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $330,000 + $80,000 + $1,200,000 − $310,000 = $1,300,000

(End. R/E + div. paid + exp. – beg. R/E)

150. A1 Supply Corporation began 2025 with total stockholders’ equity of $1,270,000, including retained earnings of $930,000. During the year, the company issued $1,260,000 of common stock, recorded expenses of $3,600,000, and paid dividends of $240,000. If A1 Supply’s ending retained earnings was $990,000, what was the company’s revenue for 2025?

a. $3,660,000

b. $3,900,000

c. $4,920,000

d. $5,160,000

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: AN, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $990,000 + $240,000 + $3,600,000 − $930,000 = $3,900,000

(End. R/E + div. paid + exp. – beg. R/E)

15 1. A balance sheet shows

a. revenues, liabilities, and stockholders’ equity.

b. expenses, dividends, and stockholders’ equity.

c. revenues, expenses, and dividends.

d. assets, liabilities, and stockholders’ equity.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

152. The accounting equation may be expressed as

a. Assets = Stockholders’ Equity – Liabilities.

b. Assets = Liabilities + Stockholders’ Equity.

c. Assets + Liabilities = Stockholders’ Equity.

d. Assets + Stockholders’ Equity = Liabilities.

Ans: B, Section: The Four Financial Statements, Subsection: Balance Sheet, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

153. Which of the following is **not** a satisfactory statement of the accounting equation?

a. Assets = Stockholders’ Equity – Liabilities

b. Assets = Liabilities + Stockholders’ Equity

c. Assets - Liabilities = Stockholders’ Equity

d. Assets - Stockholders’ Equity = Liabilities

Ans: A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

154. Ace Repair Shop started the year with total assets of $300,000 and total liabilities of $240,000. During the year, the business recorded $630,000 in revenues, $330,000 in expenses, and dividends of $60,000. Assuming that no common stock was sold during the year, stockholders’ equity at the end of the year was

a. $360,000.

b. $300,000.

c. $240,000.

d. $270,000.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: ($300,000 − $240,000) + ($630,000 − $330,000) − $60,000 = $300,000

[Beg. tot. assets – beg. tot. liab.) + (rev. - exp.) – div.]

155. Ace Repair Shop started the year with total assets of $300,000 and total liabilities of $240,000. During the year, the business recorded $630,000 in revenues, $330,000 in expenses, and dividends of $60,000. The net income reported by Ace Repair Shop for the year was

a. $240,000.

b. $300,000.

c. $180,000.

d. $570,000.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $630,000 − $330,000 = $300,000

(Rev. – exp.)

156. Acme Inc. started the month of June 2025 with total assets of $210,000 and total liabilities of $120,000. During June, the business recorded $330,000 in revenues, $165,000 in expenses, and dividends of $60,000. Assuming that no common stock was sold during the year, stockholders’ equity at the end of June was

a. $180,000.

b. $165,000.

c. $195,000.

d. $105,000.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: ($210,000 − $120,000) + ($330,000 − $165,000) − $60,000 = $195,000

[Beg. tot. assets – beg. tot. liab.) + (rev. - exp.) – div.]

157. Acme Inc. started the month of June 2025 with total assets of $210,000 and total liabilities of $120,000. During June, the business recorded $330,000 in revenues, $165,000 in expenses, and dividends of $60,000. The net income reported by Acme for the month of June was

a. $120,000.

b. $150,000.

c. $195,000.

d. $165,000.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $330,000 − $165,000 = $165,000

(Rev. – exp.)

158. If total liabilities increased by $90,000 and stockholders’ equity increased by $30,000 during a period of time, then total assets must change by what amount and direction during that same period?

a. $120,000 decrease

b. $120,000 increase

c. $150,000 increase

d. $180,000 increase

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting and Control

Solution: $90,000 + $30,000 = $120,000

(Tot. liab. inc. + st. eq. inc.)

159. The total liabilities of Acme Construction Co. decreased by $90,000 during the month of August 2025. Stockholders’ equity increased by $30,000 during this period. By what amount and in what direction must total assets have changed during August?

a. $120,000 increase

b. $60,000 decrease

c. $60,000 increase

d. $90,000 decrease

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting and Control

Solution: ($90,000) + $30,000 = ($60,000)

(Tot. liab. dec. + st. eq. inc.)

160. During September 2025, Ace Diner’s total liabilities decreased by $75,000 and its stockholders’ equity increased by $15,000. The company’s total assets must change by what amount and in what direction during that same period?

a. $60,000 decrease

b. $60,000 increase

c. $75,000 increase

d. $90,000 increase

Ans: A, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting and Control

Solution: ($75,000) + $15,000 = ($60,000)

(Tot. liab. dec. + st. eq. inc.)

161. A1 Company’s total liabilities decreased by $105,000 and its stockholders’ equity decreased by $35,000 during a period of time. By what amount and in what direction must the company’s total assets have changed during that same period?

a. $140,000 increase

b. $70,000 decrease

c. $140,000 decrease

d. $70,000 decrease

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting and Control

Solution: ($105,000) + ($35,000) = ($140,000)

(Tot. liab. dec. + st. eq. dec.)

162. If total liabilities increased by $69,000 during a period of time and stockholders’ equity decreased by $27,000 during the same period, then the amount and direction (increase or decrease) of the period’s change in total assets is a(n)

a. $69,000 increase.

b. $96,000 increase.

c. $42,000 decrease.

d. $42,000 increase.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting and Control

Solution: $69,000 − $27,000 = $42,000 increase.

(Tot. liab. inc. - st. eq. dec.)

163. The balance sheet

a. summarizes the changes in retained earnings for a specific period of time.

b. reports the changes in assets, liabilities, and stockholders’ equity over a period of time.

c. reports the assets, liabilities, and stockholders’ equity at a specific date.

d. presents the revenues and expenses for a specific period of time.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

164. The retained earnings statement

a. summarizes the changes in retained earnings for a specific period of time.

b. reports the changes in assets, liabilities, and stockholders’ equity over a period of time.

c. reports the assets, liabilities, and stockholders’ equity at a specific date.

d. presents the revenues and expenses for a specific period of time.

Ans: A, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

165. Common stock is reported on the

a. statement of cash flows.

b. retained earnings statement.

c. income statement.

d. balance sheet.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

166. Stockholders’ equity is comprised of

a. common stock and dividends.

b. common stock and retained earnings.

c. dividends and retained earnings.

d. net income and retained earnings.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

167. Acme Corporation began the month of May with $58,000 of obligations and $180,000 of economic resources. Stockholders’ equity increased by $22,000 during May because the company paid $123,000 of dividends and generated net income totaling $145,000. How much is total stockholders’ equity at the end of May?

a. $33,000

b. $144,000

c. $122,000

d. $111,000

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting and Control

Sol: $180,000 - $58,000 = $122,000; $122,000 + $22,000 = $144,000

(Assets – Liabilities = Beg. equity + Increase in equity = End. Equity)

168. Stockholders’ equity

a. is usually equal to cash on hand.

b. is equal to liabilities and retained earnings.

c. includes retained earnings and common stock.

d. is shown on the income statement.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

169. Retained earnings is

a. the stockholders’ claim on total assets.

b. equal to cash.

c. equal to revenues.

d. the amount of net income kept in the corporation for future use.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

170. Which financial statement would best indicate whether the company relies on debt or stockholders’ equity to finance its assets?

a. Statement of cash flows

b. Retained earnings statement

c. Income statement

d. Balance sheet

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting and Control

171. The primary purpose of the statement of cash flows is to report

a. a company's investing transactions.

b. a company's financing transactions.

c. information about cash receipts and cash payments of a company.

d. the net increase or decrease in cash.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Statement of Cash Flows, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

172. Claims of owners are called

a. dividends.

b. stockholders’ equity.

c. liabilities.

d. income payable.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Statement of Cash Flows, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

173. Which of the following is **not** a common way that managers use the balance sheet?

a. To analyze the balances of assets, liabilities, and stockholders’ equity throughout the accounting period

b. To determine if the cash balance is sufficient for future needs

c. To analyze the balance between debt and common stock financing

d. To analyze the balance of accounts receivable on the last day of the accounting period

Ans: A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

174. Why are financial statement users interested in the statement of cash flows?

a. It is the easiest financial statement to evaluate.

b. It provides information about an important company resource.

c. It is the first statement that is presented to users.

d. It helps users decide whether assets such as office equipment should be replaced.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Statement of Cash Flows, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

175. Why should the income statement be prepared first?

a. The statement of cash flows should be prepared first because it determines the sources of cash. That information is then used in preparing the income statement.

b. Net income from the income statement flows into the retained earnings statement. The ending retained earnings balance then flows into the balance sheet.

c. The income statement does not have to be prepared first. Financial statements can be prepared in any order.

d. None of these answer choices are correct.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

176. Which one of the following statements is true concerning the interrelationships of financial

statements?

1. Net income on the income statement equals the cash balance at the end of the period on the balance sheet.
2. The ending balance of retained earnings on the Retained Earnings Statement is equal to net income on the income statement.
3. The amount of net income on the income statement is added to the beginning retained earnings balance on the Retained Earnings Statement.
4. The amount of cash used during the period on the statement of cash flows is equal to total expenses on the income statement.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

177. Ace Company compiled the following financial information as of December 31, 2025:

Service revenue $840,000

Common stock 180,000

Equipment 240,000

Operating expenses 750,000

Cash 210,000

Dividends 60,000

Supplies 30,000

Accounts payable 120,000

Accounts receivable 90,000

Retained earnings, 1/1/2025 240,000

Ace’s total assets on December 31, 2025 are

a. $1,410,000.

b. $1,020,000.

c. $480,000.

d. $570,000.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $240,000 + $210,000 + $30,000 + $90,000 = $570,000

(Equip. + cash + sup. + A/R)

178. Ace Company compiled the following financial information as of December 31, 2025:

Service revenue $840,000

Common stock 180,000

Equipment 240,000

Operating expenses 750,000

Cash 210,000

Dividends 60,000

Supplies 30,000

Accounts payable 120,000

Accounts receivable 90,000

Retained earnings, 1/1/2025 240,000

Ace’s retained earnings balance on December 31, 2025 is

a. $240,000.

b. $330,000.

c. $270,000.

d. $ 30,000.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $240,000 + ($840,000 − $750,000) − $60,000 = $270,000

(Beg. R/E + (ser. rev. – oper. exp.) – div.)179. Ace Company compiled the following financial information as of December 31, 2025:

Service revenue $840,000

Common stock 180,000

Equipment 240,000

Operating expenses 750,000

Cash 210,000

Dividends 60,000

Supplies 30,000

Accounts payable 120,000

Accounts receivable 90,000

Retained earnings, 1/1/2025 240,000

Ace’s stockholders’ equity on December 31, 2025 is

a. $420,000.

b. $450,000.

c. $270,000.

d. $510,000.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $180,000 + [$240,000 + ($840,000 − $750,000) − $60,000] = $450,000

(Com. st. + beg. R/E + (ser. rev. – oper. exp.) – div.)

180. A1 Supply Company compiled the following financial information as of December 31, 2025:

Service revenue $1,120,000

Common stock 240,000

Equipment 320,000

Salaries and wages expense 400,000

Rent expense 100,000

Depreciation expense 500,000

Cash 280,000

Dividends 80,000

Supplies 40,000

Accounts payable 160,000

Accounts receivable 120,000

Retained earnings, 1/1/2025 320,000

A1’s total assets at December 31, 2025 are

a. $1,880,000.

b. $1,360,000.

c. $640,000.

d. $760,000.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $320,000 + $280,000 + $40,000 + $120,000 = $760,000

(Equip. + cash + sup. + A/R)

181. A1 Supply Company compiled the following financial information as of December 31, 2025:

Service revenue $1,120,000

Common stock 240,000

Equipment 320,000

Salaries and wages expense 400,000

Rent expense 100,000

Depreciation expense 500,000

Cash 280,000

Dividends 80,000

Supplies 40,000

Accounts payable 160,000

Accounts receivable 120,000

Retained earnings, 1/1/2025 320,000

A1’s retained earnings balance at December 31, 2025 is

a. $320,000.

b. $440,000.

c. $360,000.

d. $40,000.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $320,000 + ($1,120,000 − $400,000 - $100,000 - $500,000) − $80,000 = $360,000

(Beg. R/E + (ser. rev. – salaries and wages exp.- rent exp. – depreciation exp.) – div.)

182. A1 Supply Company compiled the following financial information as of December 31, 2025:

Service revenue $1,120,000

Common stock 240,000

Equipment 320,000

Salaries and wages expense 400,000

Rent expense 100,000

Depreciation expense 500,000

Cash 280,000

Dividends 80,000

Supplies 40,000

Accounts payable 160,000

Accounts receivable 120,000

Retained earnings, 1/1/2025 320,000

A1’s total stockholders’ equity at December 31, 2025 is

a. $560,000.

b. $600,000.

c. $360,000.

d. $680,000.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $240,000 + [$320,000 + ($1,120,000 − $400,000 - $100,000 - $500,000) − $80,000] = $600,000

(Com. st. + beg. R/E + (ser. rev – salaries and wages exp.- rent exp. – depreciation exp.) – div.)

183. The heading on the statement of cash flows identifies all of the following **except**

a. the preparer of the statement.

b. the company

c. the time period covered by the statement.

d. the type of statement.

Ans: A, LO: 3, Section: The Four Financial Statements, Subsection: Statement of Cash Flows, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

184. All of the following are interrelationships that are important to understand when preparing financial statements **except**

a. the net income from the income statement is used in the retained earnings statement.

b. the ending retained earnings from the retained earnings statement is used in the stockholders’ equity section of the balance sheet.

c. the cash on the balance sheet should be equal to the cash at the end of the period on the statement of cash flows.

d. all of the payments on the balance sheet should be equal to the cash payments for operating activities on the statement of cash flows.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

185. Acme Services Corporation had the following accounts and balances:

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $30,000 | Equipment | $35,000 |
| Accounts receivable | 5,000 | Land | 35,000 |
| Buildings | 70,000 | Unearned service revenue | 10,000 |
| Cash | 15,000 | Total stockholders' equity | ? |

If Acme pays $5,000 of Accounts Payable in cash, total stockholders' equity would be

a. $135,000.

b. $120,000.

c. $170,000.

d. $130,000.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AN, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: ($5,000 + $70,000 + ($15,000 - $5,000) + $35,000 + $35,000) − [($30,000 - $5,000) + $10,000] = $120,000

[A/R + Bldg. bal. + (cash bal. – A/P pd.) + equip. + land] – [(A/P bal – A/P pd.) + un. ser. rev.]

186. Suppose that Old Navy had the following accounts and balances:

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $30,000 | Equipment | $35,000 |
| Accounts receivable | 5,000 | Land | 35,000 |
| Buildings | 40,000 | Unearned service revenue | 10,000 |
| Cash | 15,000 | Total stockholders' equity | ? |

If Old Navy paid $10,000 of Accounts Payable in cash, total liabilities and stockholders' equity would be

a. $90,000.

b. $78,000.

c. $80,000.

d. $120,000.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AN, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $5,000 + $40,000 + ($15,000 - $10,000) + $35,000 + $35,000 = $120,000

[A/R + Bldg. bal. + (Cash bal. – A/P pd.) + equip. + land] = Total assets = Total liabilities and stockholders’ equity

187. Suppose that Ben & Jerry’s had the following accounts and balances:

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $30,000 | Equipment | $35,000 |
| Accounts receivable | 5,000 | Land | 35,000 |
| Buildings | ? | Unearned service revenue | 10,000 |
| Cash | 15,000 | Total stockholders' equity | ? |

If total stockholders’ equity is $95,000, what is the balance of the Buildings account?

a. $35,000

b. $135,000

c. $145,000

d. $45,000

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AN, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: ($30,000 + $10,000 + $95,000) − ($5,000 + $15,000 + $35,000 + $35,000) = $45,000

(A/P + un. ser. rev. + tot. st. eq.) – (A/R + cash + equip. + land)

188. Acme Construction Company had the following accounts and balances:

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $30,000 | Equipment | $35,000 |
| Accounts receivable | 5,000 | Land | 35,000 |
| Buildings | 75,000 | Unearned service revenue | 10,000 |
| Cash | 15,000 | Total stockholders' equity | ? |

If the equipment was sold for $35,000, what would be the total of stockholders' equity?

a. $65,000

b. $90,000

c. $115,000

d. $125,000

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AN, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $5,000 + $75,000 + ($15,000 + $35,000) + $35,000 − ($30,000 + $10,000) = $125,000

(A/R + Bldg. bal. + cash + equip. + land) - (A/P + un. ser. rev.)

189. A1 Services Corporation had the following accounts and balances:

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $30,000 | Equipment | $35,000 |
| Accounts receivable | 5,000 | Land | 35,000 |
| Buildings | ? | Unearned service revenue | 10,000 |
| Cash | 15,000 | Total stockholders' equity | ? |

If the balance of the Buildings account was $85,000, what would be the total of liabilities and stockholders' equity?

a. $170,000

b. $175,000

c. $135,000

d. $125,000

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AN, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $5,000 + $85,000 + $15,000 + $35,000 + $35,000 = $175,000

(A/R + Bldg. bal. + cash + equip. + land)

190. Notes to the financial statements include all of the following **except**

a. descriptions of significant accounting policies used.

b. explanations of uncertainties.

c. projected accounting information.

d. statistics needed to understand the statements.

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Notes to the Financial Statements, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

191. The management discussion and analysis (MD&A) section of the annual report covers all of the following aspects **except** the

a. ability of the company to pay near-term obligations.

b. certification criteria of the company's auditors.

c. company's ability to fund operations and expansion.

d. results of the company operations.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Management Discussion and Analysis , Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

192. An annual report includes all of the following **except**

a. management discussion and analysis section.

b. notes to the financial statements.

c. an auditor’s report.

d. a list of all customers.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Elements of an Annual Report Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

193. Which of the following clarifies information presented in the financial statements, as well as expanding upon it where additional detail is needed?

a. Auditor’s report

b. Management discussion and analysis section

c. Notes to the financial statements

d. President’s state of the company report

Ans: C, LO: 3, Section: The Four Financial Statements, Subsection: Notes to the Financial Statements, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

194. The information needed to determine whether a company is using accounting methods similar to those of its competitors is found in the

a. auditor’s report.

b. balance sheet.

c. management discussion and analysis section.

d. notes to the financial statements.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Notes to the Financial Statements, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

195. In Target’s annual report, where would a financial statement reader find out if the company’s financial statements give a fair depiction of its financial position and operating results?

a. Notes to the financial statements

b. Management discussion and analysis section

c. Balance sheet

d. Auditor’s report

Ans: D, Section: The Four Financial Statements, Subsection: Auditor’s Report, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

196. Management’s views on the company’s short-term debt paying ability, expansion financing, and results of operations are found in the

a. auditor’s report.

b. management discussion and analysis section.

c. notes to the financial statements.

d. president’s state of the company report.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Elements of an Annual Report, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

197. Which of the following statements is true?

a. Publicly traded U.S. companies must provide an annual report to their shareholders when operating conditions change significantly.

b. An unqualified independent auditor’s report must be included in the annual report.

c. Notes to the financial statements do not need to be included in the annual report because that information is only for internal users.

d. A company’s annual report normally includes the financial statements with notes, a management and discussion analysis section, and the independent auditor’s report.

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Elements of an Annual Report, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

198. Notes to the financial statements

a. are optional.

b. help clarify information presented in the financial statements.

c. are generally brief and few in number.

d. need not be read in detail if an unqualified opinion accompanies the financial statements.

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Notes to the Financial Statements, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

199. Based on the following data, what are total assets?

Accounts payable………………………………………………………. $62,000

Accounts receivable……………………………………………………. 50,000

Cash……………………………………………………………………… 70,000

Inventory…………………………………………………………………. 138,000

Buildings…………………………………………………………………. 160,000

Bonds payable…………………………………………………………... 500,000

Supplies………………………………………………………………….. 8,000

Notes payable…………………………………………………………… 56,000

Equipment……………………………………………………………….. 340,000

a. $822,000

b. $766,000

c. $758,000

d. $708,000

Ans: B, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $50,000 + $70,000 + $138,000 + $160,000 + $8,000 + $340,000 = $766,000

(Total liab. – Total SE)

200. Based on the following data, what are total liabilities?

Accounts payable……………………………………………………….. $ 62,000

Accounts receivable…………………………………………………….. 50,000

Cash………………………………………………………………………. 70,000

Inventory………………………………………………………………….. 138,000

Buildings………………………………………………………………….. 160,000

Bonds payable…………………………………………………………… 500,000

Supplies…………………………………………………………………... 8,000

Notes payable……………………………………………………………. 56,000

Equipment………………………………………………………………... 340,000

a. $618,000

b. $562,000

c. $556,000

d. $118,000

Ans: A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $62,000 + $500,000 + $56,000 = $618,000

(Acc. Pay. + Bonds Pay. + Notes Pay.)

201. Based on the following data and assuming that the common stock account balance is $48,000, what is the balance in retained earnings?

Accounts payable……………………………………………………….. $ 62,000

Accounts receivable…………………………………………………….. 50,000

Cash………………………………………………………………………. 70,000

Inventory………………………………………………………………….. 138,000

Buildings………………………………………………………………….. 160,000

Bonds payable…………………………………………………………… 500,000

Supplies…………………………………………………………………... 8,000

Notes payable……………………………………………………………. 56,000

Equipment………………………………………………………………… 340,000

a. $218,000

b. $162,000

c. $148,000

d. $100,000

Ans: D, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $50,000 + $70,000 + $138,000 + $160,000 + $8,000 + $340,000 = $766,000; $62,000 + $500,000 + $56,000 = $618,000; $766,000 - $618,000 - $48,000 = $100,000

(Total assets – Total liab. – Com. Stk.)

BRIEF EXERCISES

Be. 202

Indicate in the space by letter whether each statement below applies to a sole proprietorship (S), partnership (P), or corporation (C). More than one answer may be appropriate.

a. Simple to establish

b. Shared control

c. Easy to transfer ownership

d. No personal liability

e. Tax advantage

f. Easier to raise funds

Ans: N/A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Forms of Business Organization, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 202

a. S & P d. C

b. P & C e. S & P

c. C f. C

Be. 203

Indicate in the space provided by each item whether it would appear on the statement of cash flows as a(n): (O) operating activity, (I) investing activity, or (F) financing activity.

a. Cash receipts from customers

b. Issuance of common stock for cash

c. Payment of cash dividends

d. Cash purchase of equipment

e. Cash payments to suppliers

f. Sale of old machine for cash

Ans: N/A, LO: 2, Section: The Four Financial Statements, Subsections: Statement of Cash Flows, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 203

a. O d. I

b. F e. O

c. F f. I

Be. 204

Ace Company had the following transactions during April. Indicate in the space provided by each item whether it would be reflected in the statement of cash flows as a(n): (O) operating activity, (I) investing activity, or (F) financing activity.

a. Collected cash from customers in exchange for services performed

b. Borrowed money from the High Country Bank

c. Purchased equipment for cash

d. Purchased goods for resale by paying cash

e. Paid cash to employees

f. Repaid loan to High Country Bank

Ans: N/A, LO: 2, Section: The Four Financial Statements, Subsections: Statement of Cash Flows, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 204

a. O d. O

b. F e. O

c. I f. F

Be. 205

Use the following information to calculate for the year ended December 31, 2025 (a) net income (net loss), (b) ending retained earnings, and (c) total assets.

Supplies $ 1,500 Service revenue $19,000

Operating expenses 10,000 Cash 15,000

Accounts payable 11,000 Dividends 6,000

Accounts receivable 4,000 Notes payable 1,000

Common stock 10,000 Equipment 9,500

Retained earnings (beginning) 5,000

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Interrelationships of Statements, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 205

(a) $9,000 (b) $8,000 (c) $30,000

(Ser. rev. – Oper. exp.) (Beg. ret. earn. + Net inc. – dividends) (Sup. + Acc. rec. + Cash + Equip.)

($19,000 – $10,000) ($5,000 + $9,000 [from (a)] - $6,000) ($1,500 + $4,000 + $15,000 + $9,500)

Be. 206

Use the following information to calculate for the year ended December 31, 2025: (a) net income (net loss), (b) ending retained earnings, and (c) total liabilities.

Prepaid insurance $ 1,000 Service revenue $18,000

Operating expenses 12,000 Cash 15,000

Accounts payable 9,000 Dividends 1,000

Accounts receivable 3,000 Notes payable 1,000

Common stock 9,000 Equipment 13,000

Retained earnings (beginning) 5,000 Bonds payable 50,000

Equipment 50,000

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Interrelationships of Statements, , Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 206

(a) $6,000 (b) $10,000 (c) $60,000

(Ser. rev. – Oper. exp.) (Beg. ret. earn. + Net inc. – dividends) (Acc. pay. + Notes pay. + Bonds pay)

($18,000 - $12,000) ($5,000 + $6,000 [from (a)] - $1,000) ($9,000 + 1,000 + $50,000)

Be. 207

Listed below in alphabetical order are the balance sheet items of Acme Company at December 31, 2025. Prepare a balance sheet and include a complete heading.

Accounts payable $11,000

Accounts receivable 15,000

Buildings 65,000

Cash 11,000

Common stock 80,000

Equipment 10,000

Land 31,000

Retained earnings 41,000

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 207

ACME COMPANY

Balance Sheet

December 31, 2025

ASSETS

Cash $ 11,000

Accounts receivable 15,000

Equipment 10,000

Buildings 65,000

Land 31,000

Total assets $132,000

LIABILITIES AND STOCKHOLDERS’ EQUITY

Liabilities

Accounts payable $ 11,000

Stockholders’ equity

Common stock $80,000

Retained earnings 41,000 121,000

Total liabilities and stockholders’ equity $132,000

Be. 208

Listed below in alphabetical order are selected financial statement items of Ace Service Company at December 31, 2025, its first period of operations. Prepare the assets section of Ace Company’s balance sheet at that date.

Accounts payable $ 7,000

Accounts receivable 5,000

Buildings 95,000

Cash 9,000

Common stock 100,000

Insurance expense 2,000

Land 35,000

Equipment 40,000

Rent expense 12,000

Retained earnings (beginning) -0-

Service revenue 50,000

Supplies 500

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 208

ACE SERVICE COMPANY

Balance Sheet (partial)

December 31, 2025

ASSETS

Cash $ 9,000

Supplies 500

Accounts receivable 5,000

Equipment 40,000

Buildings 95,000

Land 35,000

Total assets $184,500

Be. 209

Indicate in the space provided by each item whether it would appear on the income statement (IS), balance sheet (BS), or retained earnings statement (RE):

a. Service Revenue g.\_\_\_ Accounts Receivable

b. Utilities Expense h.\_\_\_ Common Stock

c. Cash i. Equipment

d. Accounts Payable j. Advertising Expense

e. Supplies k.\_\_\_ Dividends

f. Salaries and Wages Expense l. Notes Payable

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Income Statement, Retained Earnings Statement, Balance Sheet, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 209

a. IS g. BS

b. IS h. BS

c. BS i. BS

d. BS j. IS

e. BS k. RE

f. IS l. BS

Be. 210

Ryan Seacrest was reviewing his company’s activities at the end of the year (2025) and decided to prepare a retained earnings statement. At the beginning of the year, his assets were $530,000, liabilities were $140,000, and common stock was $120,000. The net income for the year was $250,000. Dividends of $220,000 were paid during the year.

Prepare a retained earnings statement in good form.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Interrelationships of Statements, , Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 210

RYAN SEACREST COMPANY

Retained Earnings Statement

For the Year Ended December 31, 2025

Retained Earnings, Beginning $270,000\*

Add: Net Income 250,000

520,000

Less: Dividends 220,000

Retained Earnings, Ending $300,000

\*(Assets – liab. – com. stock) = ($530,000 - $140,000 - $120,000) = $270,000

Be. 211

At January 1, 2025, the assets of Ace Construction Company were $1,030,000 and liabilities were $740,000. The balance in common stock was $150,000. During 2025, Ace earned revenue of $190,000 and had expenses of $110,000. Dividends of $50,000 were paid during the year. The company also purchased equipment in exchange for a $35,000 note payable.

Prepare a retained earnings statement in good form.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Retained Earnings Statement, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 211

ACE CONSTRUCTION COMPANY

Retained Earnings Statement

For the Year Ended December 31, 2025

Retained Earnings, Beginning $140,000\*

Add: Net Income ($190,000 - $110,000) 80,000

220,000

Less: Dividends 50,000

Retained Earnings, Ending $170,000

\*(Assets – liab. – com. stock) = ($1,030,000 - $740,000 - $150,000) = $140,000

Be. 212

From the following list of selected accounts taken from the records of Grey Sloan Memorial Clinic, identify those that would appear on the balance sheet.

a. Common Stock f. Accounts Payable

b. Service Revenue g. Cash

c. Land h. Advertising Expense

d. Salaries and Wages Expense i. Supplies

e. Notes Payable j. Utilities Expense

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Balance Sheet, Bloom: C, Difficulty: Easy, Min: 5, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 212

a, c, e, f, g, i

Be. 213

Determine the missing items.

**Assets = Liabilities + Stockholders’ Equity**

$80,000 $56,000 (a)

(b) $28,000 $34,000

$84,000 (c) $55,000

Ans: N/A, LO: 5, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 213

a. $24,000 b. $62,000 c. $29,000

(Assets – Liab.) (Liab. + Stock. Equity) (Assets – Stock. Equity)

($80,000 - $56,000) ($28,000 + $34,000) ($84,000 - $55,000)

Be. 214

Determine the missing items.

**Assets = Liabilities + Stockholders’ Equity**

$66,000 $50,000 (a)

(b) $18,000 $30,000

$54,000 (c) $40,000

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 214

a. $16,000 b. $48,000 c. $14,000

(Assets – Liab.) (Liab. + Stock. Equity) (Assets – Stock. Equity)

($66,000 - $50,000) ($18,000 + $30,000) ($54,000 - $40,000)

Be. 215

Identify which of the following accounts appear on a balance sheet.

1. Service revenue
2. Cash
3. Common stock
4. Accounts payable
5. Rent expense
6. Supplies
7. Land

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 215

(b), (c), (d), (f), (g)

Be. 216

For the items listed below, fill in the appropriate code letter to indicate whether the item is an asset, liability, stockholders’ equity, or income statement item.

Code

Asset A

Liability L

Stockholders’ Equity SE

Income Statement IS

1. Rent Expense 6. Cash

2. Equipment 7. Accounts Receivable

3. Accounts Payable 8. Retained Earnings

4. Common Stock 9. Service Revenue

5. Insurance Expense 10. Notes Payable

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Income Statement, Balance Sheet, Bloom: C, Difficulty: Easy, Min: 5, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 216

1. IS 6. A

2. A 7. A

3. L 8. SE

4. SE 9. IS

5. IS 10. L

Be. 217

Classify each of these items as an asset (A), liability (L), or stockholders’ equity (SE).

\_\_\_\_\_ 1. Accounts receivable

\_\_\_\_\_ 2. Accounts payable

\_\_\_\_\_ 3. Common stock

\_\_\_\_\_ 4. Supplies

\_\_\_\_\_ 5. Retained earnings

\_\_\_\_\_ 6. Cash

\_\_\_\_\_ 7. Notes payable

\_\_\_\_\_ 8. Equipment

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Easy, Min: 5, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 217

1. A 5. SE

2. L 6. A

3. SE 7. L

4. A 8. A

Be. 218

At the beginning of the year, Gant Company had total assets of $660,000 and total liabilities of $300,000. Answer the following questions viewing each situation as being independent of the others.

(1) If total assets increased $225,000 during the year, and total liabilities decreased $100,000, what is the amount of stockholders’ equity at the end of the year?

(2) During the year, total liabilities increased $215,000 and stockholders’ equity decreased $130,000. What is the amount of total assets at the end of the year?

1. If total assets decreased $60,000 and stockholders’ equity increased $150,000 during the year, what is the amount of total liabilities at the end of the year?

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 218

Total Assets Total Liabilities Stockholders’ Equity

(1) Beginning $660,000 $300,000

Change 225,000 (100,000)

Ending $885,000 - $200,000 = $685,000 (1)

(End. Tot. Assets – End. Tot. Liab.)

Total Assets Total Liabilities Stockholders’ Equity

(2) Beginning $660,000 $300,000 $360,000

Change 215,000 (130,000)

Ending $745,000 (2) = $515,000 + $230,000

(End. Tot. Liab + End. Stock. Equity.)

Total Assets Total Liabilities Stockholders’ Equity

(3) Beginning $660,000 $300,000 $360,000

Change (60,000) 150,000

Ending $600,000 = $ 90,000 (3) + $510,000

(End. Tot. Assets – End. Stock. Equity.)

Be. 219

A1 Carpet Cleaning has the following balance sheet items:

Buildings Notes Payable

Accounts Payable Common Stock

Cash Retained Earnings

Supplies Equipment

Accounts Receivable Land

Identify which items are (1) Assets

(2) Liabilities

(3) Stockholders’ Equity

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 219

(1) Assets—Buildings, Cash, Supplies, Accounts Receivable, Equipment, Land

(2) Liabilities—Accounts Payable, Notes Payable

(3) Stockholders’ Equity—Common Stock, Retained Earnings

Be. 220

On June 1, 2025, Ace Supply Company prepared a balance sheet that showed the following:

Assets (no cash) $125,000

Liabilities 75,000

Stockholders’ Equity 50,000

Shortly thereafter, all of the assets were sold for cash.

How would the balance sheet appear immediately after the sale of the assets for cash for each of the following cases?

Cash Received for Balances Immediately After Sale

the Assets Assets – Liabilities = Stockholders’ Equity

Cash A $135,000 $\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_

Cash B 120,000 \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_

Cash C 105,000 \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AN, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 220

Cash Received for Balances Immediately After Sale

the Assets Assets - Liabilities = Stockholders’ Equity

Cash A $135,000 $135,000 $75,000 $60,000 (Assets – Liab.)

Cash B 120,000 120,000 75,000 45,000 (Assets – Liab.)

Cash C 105,000 105,000 75,000 30,000 (Assets – Liab.)

Be. 221

Compute the missing amount in each category of the accounting equation.

Assets Liabilities Stockholders’ Equity

(a) $243,000 $ ? $ 91,000

(b) $183,000 $ 75,000 $ ?

(c) $ ? $212,000 $310,000

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AN, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 221

(a) $152,000: ($243,000 - $91,000 = $152,000). (Assets – Stock. Equity = Liabilities)

(b) $108,000: ($183,000 - $75,000 = $108,000). (Assets – Liab. = Stock. Equity)

(c) $522,000: ($212,000 + $310,000 = $522,000). (Liab. + Stock Equity = Assets)

Be. 222

Compute the missing amount in each category of the accounting equation.

Assets Liabilities Stockholders’ Equity

(a) $1,060,000 $ ? $900,000

(b) $85,000 $ 35,000 $ ?

(c) $ ? $21,000 $42,000

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AN, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 222

(a) $160,000: ($1,060,000 - $900,000 = $160,000). (Assets – Stock. Equity = Liabilities)

(b) $50,000: ($85,000 - $35,000 = $50,000). (Assets – Liab. = Stock. Equity)

(c) $63,000: ($21,000 + $42,000 = $63,000). (Liab. + Stock Equity = Assets)

EXERCISES

Ex. 223

Prepare an income statement and a retained earnings statement, for the month of October 2025 and a balance sheet at October 31, 2025 for the medical practice of Meredith Grey, MD, from the items listed below.

Retained earnings (October 1) $15,000

Common stock 30,000

Accounts payable 6,000

Equipment 29,000

Service revenue 23,000

Dividends 6,000

Insurance expense 3,500

Cash 11,000

Utilities expense 700

Supplies 2,800

Salaries and wages expense 9,000

Accounts receivable 10,000

Rent expense 2,000

MEREDITH GREY, MD

Income Statement

For the Month Ended October 31, 2025

Revenues $

Expenses $

Total expenses

Net income $ t

Ex. 223 (Cont.)

MEREDITH GREY, MD

Retained Earnings Statement

For the Month Ended October 31, 2025

Retained Earnings, October 1 $

Add:

Less:

$ t

MEREDITH GREY , MD

Balance Sheet

October 31, 2025

Assets

$

Total assets

$ t

Liabilities and Stockholders’ Equity

Liabilities

$

Stockholders’ Equity

$

Total liabilities and stockholders’ equity $ t

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Interrelationships of Statements, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 223

MEREDITH GREY, MD

Income Statement

For the Month Ended October 31, 2025

Revenues

Service revenue $23,000

Expenses

Salaries and wages expense $9,000

Insurance expense 3,500

Rent expense 2,000

Utilities expense 700

Total expenses 15,200

Net income $ 7,800

MEREDITH GREY, MD

Retained Earnings Statement

For the Month Ended October 31, 2025

Retained Earnings, October 1 $15,000

Add: Net income 7,800

22,800

Less: Dividends 6,000

Retained Earnings, October 31 $16,800

MEREDITH GREY, MD

Balance Sheet

October 31, 2025

Assets

Cash $11,000

Accounts receivable 10,000

Supplies 2,800

Equipment 29,000

Total assets $52,800

Liabilities and Stockholders’ Equity

Liabilities

Accounts payable $ 6,000

Stockholders’ Equity

Common stock $30,000

Retained earnings 16,800 46,800

Total liabilities and stockholders’ equity $52,800

Ex. 224

Use the following accounts and information to prepare, in good form, an income statement and a retained earnings statement, for the month of August and a balance sheet at August 31, 2025 for Acme Industries.

Accounts payable $ 1,100 Dividends $ 3,000

Accounts receivable 5,400 Insurance expense 1,200

Equipment 63,000 Supplies 1,400

Cash 18,600 Notes payable 3,300

Service revenue 25,700 Rent expense 3,400

Common stock 52,000 Salaries and wages expense 12,000

Retained earnings (beginning) 25,900

ACME INDUSTRIES

Income Statement

For the Month Ended August 31, 2025

Revenues

$

Expenses

$

Total expenses

Net income $ t

ACME INDUSTRIES

Retained Earnings Statement

For the Month Ended August 31, 2025

Retained Earnings, August 1 $

Add:

Less:

Retained Earnings, August 31 $ t

Ex. 224 (Cont.)

ACME INDUSTRIES

Balance Sheet

August 31, 2025

Assets

$

Total assets

$ t

Liabilities and Stockholders’ Equity

Liabilities

$

$

Stockholders’ Equity

$

Total liabilities and stockholders’ equity $ t

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Interrelationships of Statements, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 224

ACME INDUSTRIES

Income Statement

For the Month Ended August 31, 2025

Revenues

Service revenue $25,700

Expenses

Salaries and wages expense $12,000

Rent expense 3,400

Insurance expense 1,200

Total expenses 16,600

Net income $9,100

Solution 224 (Cont.)

ACME INDUSTRIES

Retained Earnings Statement

For the Month Ended August 31, 2025

Retained Earnings, August 1 $25,900

Add: Net income 9,100

35,000

Less: Dividends 3,000

Retained Earnings, August 31 $32,000

ACME INDUSTRIES

Balance Sheet

August 31, 2025

Assets

Cash … $18,600

Accounts receivable 5,400

Supplies 1,400

Equipment 63,000

Total assets $88,400

Liabilities and Stockholders’ Equity

Liabilities

Notes payable $ 3,300

Accounts payable 1,100

Total liabilities $4,400

Stockholders’ Equity

Common stock 52,000

Retained earnings 32,000 84,000

Total liabilities and stockholders’ equity $88,400

Ex. 225

At September 1, 2025, the balance sheet accounts for A1 Steakhouse Restaurant were as follows:

Accounts Payable $ 3,800 Land $33,000

Accounts Receivable 1,600 Common Stock ?

Buildings 66,000 Notes Payable 46,000

Cash 5,000 Supplies 3,600

Equipment 15,700 Retained Earnings 45,200

The following transactions occurred during the next two days:

On September 2, stockholders invested an additional $20,000 cash in the business. The accounts payable were paid in full.

**Instructions**

Assuming these were the only two transactions during the first three days of September, prepare a balance sheet at September 3, 2025.

Ans: N/A, LO: 3, Bloom: AP, Section: The Four Financial Statements, Subsection: Balance Sheet, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 225

A1 STEAKHOUSE RESTAURANT

Balance Sheet

September 3, 2025

ASSETS

Cash $ 21,200

Accounts receivable 1,600

Supplies 3,600

Land 33,000

Buildings 66,000

Equipment 15,700

Total assets $141,100

LIABILITIES AND STOCKHOLDERS’ EQUITY

Liabilities

Notes payable $ 46,000

Stockholders’ Equity

Common stock $49,900

Retained earnings 45,200 95,100

Total liabilities and stockholders’ equity $141,100

Cash ($5,000 + $20,000 - $3,800) = $21,200

Accounts Payable ($3,800 - $3,800) = $0

Common Stock = Beginning balance ($124,900a - $95,000b) $29,900

Additional investment 20,000

Ending balance (a–b) + addl. investment $49,900

a Acc. rec. + Build. + Beg. Cash + Equip. + Land + Supp. = $1,600 + $66,000 + $5,000 + $15,700 + $33,000 + 3,600 = $124,900

b Acc. pay. + Notes pay. + Ret. earn. = $3,800 + $46,000 + $45,200 = $95,000

Ex. 226

This information relates to Acme Service Co. for the year 2025.

Retained earnings, January 1, 2025 $59,000

Advertising expense 1,800

Dividends paid during 2025 9,000

Rent expense 10,400

Service revenue 52,000

Utilities expense 2,400

Salaries and wages expense 25,000

***Instructions***

After analyzing the data, prepare an income statement and a retained earnings statement for the year ending December 31, 2025.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Income Statement, Interrelationships of Statements, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 226

ACME SERVICE CO.

Income Statement

For the Year Ended December 31, 2025

Revenues

Service revenue $52,000

Expenses

Salaries and wages expense $25,000

Rent expense 10,400

Utilities expense 2,400

Advertising expense 1,800

Total expenses 39,600

Net income $12,400

ACME SERVICE CO.

Retained Earnings Statement

For the Year Ended December 31, 2025

Retained earnings, January 1 $59,000

Add: Net income 12,400

71,400

Less: Dividends 9,000

Retained earnings, December 31 $62,400

Ex. 227

Here are incomplete financial statements for Kardashian, Inc.

KARDASHIAN, INC.

Balance Sheet

Assets Liabilities and Stockholders' Equity

Cash $ 5,000 Liabilities

Inventory 10,000 Accounts payable $ 5,000

Buildings 40,000 Stockholders' equity

Total assets $55,000 Common stock (a)

Retained earnings (b)

Total liabilities and

stockholders' equity $55,000

Income Statement

Revenues $80,000

Cost of goods sold (d)

Administrative expenses 10,000

Net income $ (c)

Retained Earnings Statement

Beginning retained earnings $10,000

Net income (c)

Dividends 5,000

Ending retained earnings $24,000

***Instructions***

Calculate the missing amounts.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Interrelationships of Statements, Balance Sheet, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 227

First note that the retained earnings statement shows that (b) equals $24,000.

Accounts payable + Common stock + Retained earnings = Total liabilities and stockholders' equity

(a) $5,000 + a + $24,000 = $55,000

a + $29,000 = $55,000

a = $26,000 [Tot liab. & Stock. equity – (Acct. pay. + End. ret. earn)]

(b) $24,000 = Ending retained earnings per Retained Earnings Statement

(c) Beginning retained earnings + Net income – Dividends = Ending retained earnings

$10,000 + (c) – $5,000 = $24,000

$5,000 + (c) = $24,000

c = $19,000 [End. ret. earn. + div. – Beg. ret. earn.]

(d) Revenue – Cost of goods sold – Administrative expenses = Net income

$80,000 – (d) – $10,000 = $19,000

$70,000 – (d) = $19,000

(d) Cost of Goods Sold = $51,000

Ex. 228

Holly’s Hipcamp is a private camping ground near the Pisgah National Forest. It has compiled the following financial information as of December 31, 2025.

Services revenues (from camping fees) $132,000 Dividends $ 8,000

Sales revenues (from general store) 25,000 Notes payable 50,000

Accounts payable 13,000 Administrative expenses 133,000

Cash 13,500 Supplies 2,500

Equipment 108,000 Common stock 40,000

Retained earnings (1/1/2025) 5,000

***Instructions***

(a) Determine net income for Holly’s Hipcamp for 2025.

(b) Prepare a retained earnings statement and a balance sheet for Holly’s Hipcamp as of December 31, 2025.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Interrelationships of Statements, Balance Sheet, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 228

(a) Service revenue $132,000

Sales revenue 25,000

Total revenue 157,000

Administrative Expenses 133,000

Net income $ 24,000

(b) HOLLY’S HIPCAMP

Retained Earnings Statement

For the Year Ended December 31, 2025

Retained earnings, January 1 $ 5,000

Add: Net income 24,000

29,000

Less: Dividends 8,000

Retained earnings, December 31 $21,000

HOLLY’S HIPCAMP

Balance Sheet

December 31, 2025

Assets

Cash $ 13,500

Supplies 2,500

Equipment 108,000

Total assets $124,000

Solution 228 (Cont.)

Liabilities and Stockholders’ Equity

Liabilities

Notes payable $50,000

Accounts payable 13,000

Total liabilities $ 63,000

Stockholders’ equity

Common stock 40,000

Retained earnings 21,000 61,000

Total liabilities and stockholders’ equity $124,000

Ex. 229

Ryan Seacrest is the bookkeeper for Idol Company. Ryan has been trying to get the company’s balance sheet to balance. It finally balanced, but now he is not sure it is correct.

IDOL COMPANY

Balance Sheet

December 31, 2025

Assets Liabilities and Stockholders' Equity

Cash $12,500 Accounts payable $18,000

Supplies 9,500 Accounts receivable (12,000)

Equipment 50,000 Common stock 40,000

Dividends 13,000 Retained earnings 39,000

Total assets $85,000 Total liabilities and

stockholders' equity $85,000

***Instructions***

Prepare a correct balance sheet.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 229

IDOL COMPANY

Balance Sheet

December 31, 2025

Assets

Cash $12,500

Accounts receivable 12,000

Supplies 9,500

Equipment 50,000

Total assets $84,000

Solution 229 (Cont.)

Liabilities and Stockholders’ Equity

Liabilities

Accounts payable $18,000

Stockholders’ equity

Common stock $40,000

Retained earnings 26,000\* 66,000

Total liabilities and stockholders’ equity $84,000

\*Retained Earnings – Dividends = $39,000 – $13,000 = $26,000

Ex. 230

Suppose that the following summaries of data for 2025 from the balance sheet, income statement, and retained earnings statement are for Walmart and Target:

Walmart Target

Beginning of year

Total assets $110,000 $130,000

Total liabilities 80,000 (d)

Total stockholders' equity (a) 70,000

End of year

Total assets (b) 190,000

Total liabilities 120,000 65,000

Total stockholders' equity 70,000 (e)

Changes during year in retained

earnings

Dividends (c) 5,000

Total revenues 225,000 (f)

Total expenses 165,000 80,000

***Instructions***

Determine the missing amounts. Assume all changes in stockholders' equity are due to changes in retained earnings.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Interrelationships of Statements, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 230

(a) Assets = Liabilities + Stockholders' Equity

$110,000 = $80,000 + (a)

(a) = $30,000 (Assets – Liabilities) = $110,000 - $80,000

(b) Assets = Liabilities + Stockholders' Equity

(b) = $120,000 + $70,000

(b) = $190,000 (Liabilities + Stockholders’ Equity) = ($120,000 + $70,000)

Solution 230 (Cont.)

(c) Beginning + Revenues – Expenses – Dividends = Ending

Stockholders' Stockholders'

Equity Equity

$30,000(a) + ($225,000 – $165,000) – (c) = $70,000

$90,000 – (c) = $70,000

(c) = ($90,000 - $70,000) = $20,000

(d) Assets = Liabilities + Stockholders' Equity

$130,000 = (d) + $70,000

(d) = $60,000 (Assets – Stockholders’ Equity = Liabilities = $130,000 - $70,000)

(e) Assets = Liabilities + Stockholders' Equity

$190,000 = $65,000 + (e)

(e) = $125,000 (Assets – Liabilities = Stockholders’ Equity = ($190,000 - $65,000)

(f) Beginning + Revenues – Expenses – Dividends = Ending

Stockholders' Stockholders'

Equity Equity

$70,000 + (f) – $80,000 – $5,000 = $125,000(e)

(f) = $140,000 = ($125,000 - $70,000 + $80,000 + $5,000)

Ex. 231

This information is for Ace Corporation for the year ended December 31, 2025.

Cash received from lenders $20,000

Cash received from customers 65,000

Cash paid for new equipment 30,000

Cash dividends paid 9,000

Cash paid to suppliers 28,000

Cash balance 1/1/2025 12,000

***Instructions***

Prepare the 2025 statement of cash flows for Ace Corporation.

Ans: N/A, LO 3, Section: The Four Financial Statements, Subsections: Statement of Cash Flows, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 231

ACE CORPORATION

Statement of Cash Flows

For the Year Ended December 31, 2025

Cash flows from operating activities

Cash received from customers $65,000

Cash paid to suppliers (28,000)

Net cash provided by operating activities $37,000

Cash flows from investing activities

Cash paid for new equipment (30,000)

Net cash used by investing activities (30,000)

Cash flows from financing activities

Cash received from lenders 20,000

Cash dividends paid (9,000)

Net cash provided by financing activities 11,000

Net increase in cash 18,000

Cash at beginning of period 12,000

Cash at end of period $30,000

Ex. 232

One item is omitted in each of the following summaries of balance sheet and income statement data for three different corporations, A, B, and C.

Determine the amounts of the missing items, identifying each corporation by letter.

Corporation

A B C

Beginning of the Year:

Assets $410,000 $150,000 $199,000

Liabilities 250,000 115,000 166,000

End of the Year:

Assets 460,000 195,000 205,000

Liabilities 280,000 95,000 169,000

During the Year:

Additional Investment by stockholders ? 79,000 78,000

Dividends 70,000 83,000 ?

Revenue 195,000 ? 187,000

Expenses 155,000 113,000 183,000

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsections: Interrelationships of Statements, Bloom: AN, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution 232

Corporation A ($50,000)

Beginning stockholders’ equity ($410,000 - $250,000) $160,000c

Additional investments ($180,000a + $70,000b - $160,000c - $40,000d) **50,000**

Net income for year ($195,000 - $155,000) 40,000d

250,000

Less dividends 70,000b

Ending stockholders’ equity ($460,000 - $280,000) $180,000a

Corporation B ($182,000)

Beginning stockholders’ equity ($150,000 - $115,000) $ 35,000f

Additional investments 79,000g

Net income for year ($183,000e - $35,000f - $79,000g) 69,000h

\*[Revenues = $182,000($113,000 + $69,000h)] 183,000e

Less dividends 83,000

Ending stockholders’ equity ($195,000 - $95,000) $100,000

Corporation C ($79,000)

Beginning stockholders’ equity ($199,000 - $166,000) $ 33,000

Additional investments 78,000

Net income for year ($187,000 - $183,000) 4,000

115,000i

Less dividends ($115,000i - $36,000j) 79,000

Ending stockholders’ equity ($205,000 - $169,000) $ 36,000j

COMPLETION STATEMENTS

233. A business organized as a separate legal entity owned by stockholders is a \_\_\_\_\_\_\_\_\_\_\_.

Ans: N/A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

234. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of accounting information are managers who plan, organize, and run a business.

Ans: N/A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Internal Users, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

235. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ analytics focus on identifying what is likely to happen

Ans: N/A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Data Analytics, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

236. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ analytics focus on identifying why something happened.

Ans: N/A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Data Analytics, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

237. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ was passed to reduce unethical corporate behavior and decrease the likelihood of future corporate scandals.

Ans: N/A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Ethics in Financial Reporting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

238. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ activities involve collecting the necessary funds to start the business.

Ans: N/A, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

239. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ reports the assets, liabilities, and stockholders’ equity of a business at a specific date.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

240. The claims of owners on the assets of a corporation are known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

241. The basic accounting equation is Assets = \_\_\_\_\_\_\_\_\_\_\_\_ + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

242. The primary purpose of a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is to provide financial information about the cash receipts and cash payments of a business.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Statement of Cash Flows, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

243. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is prepared by an independent auditor stating the auditor’s opinion as to the fairness of the presentation of the financial statements.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Answers to Completion Statements

233. corporation 239. balance sheet

234. Internal users 240. stockholders’ equity

235. Predictive 241. Liabilities, Stockholders’ equity

236. Diagnostic 242. statement of cash flows

237. Sarbanes-Oxley Act (SOX) 243. auditor's report

238. Financing

MATCHING

244. Match the items below by entering the appropriate code letter in the space provided.

A. Internal users F. Corporation

B. Management discussion and analysis G. Assets

C. Annual report H. Liabilities

D. Sole proprietorship I. Expenses

E. Dividends J. Investing activities

1. Distributions of cash from a corporation to its stockholders.

2. Consumed assets or services.

3. Ownership is limited to one person.

4. Officers and others who manage the business.

5. Creditor claims against the assets of the business.

6. A separate legal entity under state laws.

7. A report prepared by management that presents financial information.

8. A section of the annual report that presents management’s views.

9. Future economic benefits.

10. Involves acquiring the resources necessary to run the business.

Ans: N/A, LO: 1,2,3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Answers to Matching

1. E 6. F

2. I 7. C

3. D 8. B

4. A 9. G

5. H 10. J

SHORT-ANSWER ESSAY QUESTIONS

S-A E 245

What are the advantages to a business of being formed as a corporation? What are the disadvantages?

Ans: N/A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 3, AACSB: Communication, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

Solution 245

Advantages of a corporation are limited liability (stockholders are not personally liable for corporate debts), easy transferability of ownership, and ease to raise funds. Disadvantages of a corporation are increased taxation and government regulations.

S-A E 246

Why would it be safer for a wealthy individual to set up his or her business as a corporation rather than as a sole proprietorship or partnership?

Ans: N/A, LO: 1, Business Organization and Accounting Information Uses, Subsection: Forms of Business Organization, Bloom: C, Difficulty: Easy, Min: 3, AACSB: Communication, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

Solution 246

In the sole proprietorship or partnership organization forms, the owner(s) have unlimited liability. This means that they may be required to use personal assets to satisfy business debts. The liability of a corporate shareholder, however, is limited to his or her investment in the business. Therefore, it would be safer for a wealthy individual to set up his/her business as a corporation.

S-A E 247

Your friend, Jaime, made this comment: “My major is biology and I plan to research for cures for major illnesses. Therefore, I have no need to study accounting.” What is your response to Jaime?

Ans: N/A, LO: 1, Section: Users and Uses of Financial Information, Subsections: Internal Users, External Users, Bloom: C, Difficulty: Easy, Min: 5, AACSB: Communication, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

Solution 247

Jaime, you are entering a dynamic profession and you have the opportunity to make important contributions to society. While science will be your profession and major concern, you will not be able to escape the need to understand accounting. Accounting staff and professionals will always be available to assist you. Here are some areas that will directly affect you:

As a manager, you will need to review accounting information (both internal and external) and make decisions. Budgets will be an important part of your research activities. As an employee, you will be concerned about the financial information of your employer. Thus, you will need to be able to read the company’s financial statements. In addition, as an investor, you will be interested in the financial statements of other companies.

You will probably not be a preparer of the financial statements, but you do need an understanding of how they are prepared. You also need a good understanding of how to interpret the information on the financial statements.

S-A E 248

The information needs of a specific user of financial accounting information depend on the kinds of decisions that the user makes. Identify the major users of accounting information and discuss what questions financial accounting information answers for each group of users.

Ans: N/A, LO: 1, Section: Users and Uses of Financial Information, Subsections: Users and Uses of Financial Information Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communication, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

Solution 248

The major users of accounting information are internal users and external users. Internal users are those who manage the business. External users are those outside the business who have either a present or a potential financial interest.

Financial accounting information may answer the following questions for internal users:

1. Is cash sufficient to pay our debts?

2. Can we afford to give employee pay raises this year?

3. What is the cost of manufacturing each unit of product?

4. Which product line is the most profitable?

Questions answered by financial accounting information for external users include:

1. Is the company earning satisfactory income?

2. How does the company compare in size and profitability with competitors?

3. Will the company be able to pay its debts as they come due?

S-A E 249

The statement of cash flows for Acme Corporation reveals the following information:

Net cash used by operating activities $(150,000)

Net cash used by investing activities (200,000)

Net cash provided by financing activities

Issued common stock $100,000

Issued note payable 250,000 350,000

Net change in cash $ 0

Provide three comments about this information. Make your comments concise, yet thorough.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Statement of Cash Flows, Bloom: C, Difficulty: Easy, Min: 5, AACSB: Communication, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

Solution 249

1. Operating activities represent the ongoing activities of the company and are a result of its reason for being in business. The fact that this is a negative cash flow is a cause of concern. This may be a new company and future cash flows from operations may be positive.
2. The cash that was used for operating and investing activities came from the stockholders (issuance of common stock) and creditors (borrowing with notes payable). This is to be expected for a new company or one that is expanding, but should not be considered an ongoing way to finance the business. Cash from operating activities should be available to purchase assets and pay dividends to shareholders.
3. There is a concern that all proceeds raised from issuing stock and notes payable have been used. If operating activities cannot generate positive cash flows, can the corporation issue additional stock to raise cash?
4. The corporation owes on the note payable. Will there be sufficient cash from operating activities to pay the interest and repay the principal?
5. Does the corporation need to acquire additional assets for use in the business? If so, will it be able to get the cash to pay for these future acquisitions?

The net of zero may be misleading. The reader may think that there are no potential problems because the cash flows netted to zero. The user of the Statement of Cash Flows needs to consider the activities of each of the sections – operating, investing, and financing.

S-A E 250

How are each of the following financial statements interrelated? (a) Retained earnings statement and income statement. (b) Retained earnings statement and balance sheet. (c) Balance sheet and statement of cash flows.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: C, Difficulty: Easy, Min: 3, AACSB: Communication, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

Solution 250

(a) Net income (loss) from the income statement is reported as an increase (decrease) to retained earnings on the retained earnings statement.

(b) The ending amount on the retained earnings statement is reported as the retained earnings amount on the balance sheet.

(c) The ending amount on the statement of cash flows is reported as the cash amount on the balance sheet.

S-A E 251

A1 Corporation’s stockholders’ equity equals one-fourth of the company’s total assets. The company’s liabilities are $270,000. What is the amount of the company’s stockholders’ equity?

Ans: N/A, LO 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: AN, Difficulty: Easy, Min: 2, AACSB: Communication, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

Solution 251

Assets = Liabilities + Stockholders’ Equity; (Assets) = $270,000 + ¼ (Assets) =

¾ (Assets) = $270,000; Assets = $270,000 ÷ ¾ = $360,000 (Assets). Thus, Stockholders’

Equity = ¼ x Assets, $360,000 = $90,000

S-A E 252

Which three items affect retained earnings, and how do they affect it?

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Retained Earnings Statement, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Communication, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

Solution 252

Net income increases retained earnings, whereas a net loss and dividends decrease it.

S-A E 253

The framework used to record and summarize the economic activities of a business enterprise is referred to as the accounting equation. State the basic accounting equation and define its major components. How are financial statements related to the accounting equation?

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Easy, Min: 3, AACSB: Communication, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

Solution 253

The basic accounting equation is expressed as follows:

Assets = Liabilities + Stockholders’ Equity

Assets are defined as resources owned by the business. Liabilities are creditors’ claims against the assets of the business; or simply put, liabilities are existing debts and obligations. Stockholders’ equity is the ownership claim on the total assets of the business; it is equal to total assets minus total liabilities.

The financial statements report the results and effects of transactions on the business' assets, liabilities, and stockholders’ equity. The balance sheet is a summary expression of the basic accounting equation.

S-A E 254

What types of information are presented in the notes to the financial statements?

Ans: N/A, LO: 3, Section: The Four Financial Statements Subsection: Notes to the Financial Statements, Bloom: C, Difficulty: Easy, Min: 3, AACSB: Communication, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

Solution 254

Information included in the notes to the financial statements clarifies information presented in the financial statements and includes descriptions of accounting policies, explanations of uncertainties and contingencies, and details too voluminous to be reported in the financial statements.

S-A E 255 (Ethics)

Jason Bates owns and operates A1 Burgers, a small fast food store, located at the edge of City College campus in Newton, Ohio. After several very profitable years, A1 Burgers began to have problems. Most of the problems were related to the expansion of the eating area in the restaurant without corresponding increases in the food preparation area. Jason does not have the cash or financial backing to expand further. He has, therefore, decided to sell his business.

Katy Perry is interested in purchasing the business. However, she is located in another city and is unfamiliar with Newton. She has asked Jason why he is selling A1 Burgers. Jason replies that his elderly father requires extra care, and that his sister needs help with her hotel. Both are true, but neither is his primary reason for selling. Jason reasons that Katy should not have asked him anyway, since profitable businesses do not come up for sale.

**Required:**

1. Identify the stakeholders in this situation.

2. Did Jason act ethically in not revealing fully his reasons for selling the business? Why or why not?

Ans: N/A, LO: 3, Section: Business Organizations and Accounting Information Uses, Subsection: Ethics in Financial Reporting, Bloom: E, Difficulty: Easy, Min: 5, AACSB: Ethics, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

Solution 255

1. The stakeholders include:

Jason Bates Students of City College and other customers

Katy Perry City College

Newton, Ohio Persons financing the purchase of A1 Burgers

2. Jason did not act ethically in not revealing fully his reasons for selling the business. Students might be of the opinion that a purchaser should investigate a business before purchasing it, rather than relying entirely on the seller's assertions. However, students should realize that Jason should have said something about his problems. He might ethically be allowed to put these in the best possible light, perhaps, but failure to disclose them at all is certainly unethical. This is especially true, since family concerns might well cause someone to sell a business that is otherwise doing well. Jason has shown an intent to deceive that is unethical, and might be actionable in court as well.

S-A E 256 (Communication)

Paris Hilton is a friend of yours from high school. She decided to become a nail technician after leaving high school. She recently opened her own shop, and has contracted her services to a local hospital. She is paid a monthly fee for her services, and receives a small gratuity from each of the patients.

She has just received her first set of financial statements from her accountant. She is quite upset. The statements show a cash balance of $3,600 at the end of the month, but a net income of only $500. She has written you a letter, asking you whether such a situation is possible, or whether she should find another accountant.

**Required:**

Write a short letter to your friend. Use proper form. Answer her question completely, but briefly.

Ans: N/A, LO: 3, Section: The Four Financial Statements, Subsection: Interrelationships of Statements, Bloom: C, Difficulty: Easy, Min: 5, AACSB: Communication, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

Solution 256

Answers will vary. The instructor's requirements concerning proper form should be followed. The letter may be either business or personal. At a minimum, the letter should be in a recognizable form, and proper grammar and spelling should be used. Neat erasures and corrections might be allowed. A suggested personal letter follows:

1245 Sorrento Drive

Los Angeles, CA 90210

(Date)

Dear Paris,

Congratulations on opening your business! I am sure you will do well, combining your creative genius with your talent for serving others.

You asked about your financial statements. Of course, you realize that I am just an accounting student, but I do know that it is possible to have a large cash balance and little net income. You may have had expenses that were not paid in cash yet. These expenses reduce your income, but not your cash.

I think that you should discuss the statements with the accountant who prepared them. He or she will be in the best position to explain the results.

Thanks for the question. It really made me think.

Sincerely,

(signature)

IFRS QUESTIONS

1. Which of the following is not a reason one set of international accounting standards are needed?

a. multinational corporations

b. financial markets

c. information technology

d. All of these answer choices are reasons one set of international accounting standards are needed.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Global and Industry Perspectives AICPA FC: Reporting IMA: Reporting

2. International standards are referred to as

a. IFRS.

b. GAAP.

c. IASB.

d. FASB.

Ans: A, LO: 4, Bloom: K, Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Global and Industry Perspectives AICPA FC: Reporting IMA: Reporting

3. U.S. standards are referred to as

a. IFRS.

b. GAAP.

c. IASB.

d. FASB.

Ans: B, LO: 4, Bloom: K, Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Global and Industry Perspectives AICPA FC: Reporting IMA: Reporting

4. International standards are developed by the

a. IFRS.

b. GAAP.

c. IASB.

d. FASB.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Global and Industry Perspectives AICPA FC: Reporting IMA: Reporting

5. U.S. standards are developed by the

a. IFRS.

b. GAAP.

c. IASB.

d. FASB.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Global and Industry Perspectives AICPA FC: Reporting IMA: Reporting

6. The United States and the international standard-setting environment are primarily driven by meeting the needs of

a. investors and creditors.

b. tax authorities.

c. central government planners.

d. academic researchers.

Ans: A, LO: 4, Bloom: K, Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Global and Industry Perspectives AICPA FC: Reporting IMA: Reporting

7. The internal control standards of Sarbanes-Oxley are applicable to

a. all U.S. and international companies.

b. U.S. and international companies listed on U.S. exchange.

c. International companies listed on U.S. exchange.

d. U.S. companies listed on U.S. exchange.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Global and Industry Perspectives AICPA FC: Reporting IMA: Reporting

8. The concern about international companies adopting SOX-type standards centers on

a. cost-benefit analysis.

b. ethics issues.

c. the governing authorities.

d. comparability.

Ans: A, LO: 4, Bloom: K, Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Global and Industry Perspectives AICPA FC: Reporting IMA: Reporting

9. Financial accounting ethics violations are

a. not a problem in the U.S or internationally.

b. much more common in the U.S than internationally.

c. much more common internationally than in the U.S.

d. a major problem both in the U.S and internationally.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Global and Industry Perspectives AICPA FC: Reporting IMA: Reporting

10. IFRS, compared to GAAP, tends to be more

a. detailed.

b. rules-based.

c. principles-based.

d. full of disclosure requirements.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Global and Industry Perspectives AICPA FC: Reporting IMA: Reporting

11. GAAP, compared to IFRS, tends to be more

a. simple in accounting requirements.

b. rules-based.

c. principles-based.

d. simple in disclosure requirements.

Ans: B, LO: 4, Bloom: K, Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Global and Industry Perspectives AICPA FC: Reporting IMA: Reporting

12. The conceptual framework that underlines IFRS

a. is very similar to that used to develop GAAP.

b. does not define assets or liabilities.

c. does not define equity.

d. does not define income or expenses.

Ans: A, LO: 4, Bloom: K, Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Global and Industry Perspectives AICPA FC: Reporting IMA: Reporting