***Survey of Accounting, 3e* (Kimmel)**

**Chapter 1 Introduction to Financial Statements**

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

Answer: FALSE

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

2) Corporate stockholders generally pay higher taxes but have no personal liability.

Answer: TRUE

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: TRUE

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

4) The majority of U.S. business is transacted by proprietorships.

Answer: FALSE

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: FALSE

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: FALSE

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

7) Management of a business enterprise is the major external user of information.

Answer: FALSE

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

8) External users of accounting information are managers who plan, organize, and run a business.

Answer: FALSE

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

9) The information needs and questions of external users vary considerably.

Answer: TRUE

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: TRUE

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: TRUE

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: TRUE

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

13) Investing activities involve collecting the necessary funds to support the business.

Answer: FALSE

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

14) The purchase of equipment is an example of a financing activity.

Answer: FALSE

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: TRUE

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

16) Payments to owners are operating activities.

Answer: FALSE

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

17) The economic resources that are owned by a business are called stockholders' equity.

Answer: FALSE

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: TRUE

Diff: 1

LO: 2

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

19) A business is usually involved in two types of activity–financing and investing.

Answer: FALSE

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

20) Net income for the period is determined by subtracting total expenses and dividends from revenues.

Answer: FALSE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: FALSE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

22) The heading for the income statement might include the line "As of December 31, 20xx."

Answer: FALSE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

23) Net income is another term for revenue.

Answer: FALSE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

24) Cash is another term for stockholders' equity.

Answer: FALSE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

25) 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.

Answer: TRUE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: TRUE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

27) The basic accounting equation states that Assets = Liabilities.

Answer: FALSE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

28) One way of stating the accounting equation is: Assets + Liabilities = Stockholders' Equity.

Answer: FALSE

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

29) The accounting equation can be expressed as Assets - Stockholders' Equity = Liabilities.

Answer: TRUE

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: TRUE

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

31) If the assets owned by a business total $150,000 and liabilities total $105,000, stockholders' equity totals $45,000.

Answer: TRUE

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: Analytic / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 1

32) If the assets owned by a business total $100,000 and liabilities total $65,000, stockholders' equity totals $25,000.

Answer: FALSE

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: Analytic / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 1

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

Answer: FALSE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

34) Creditors' rights to assets supersede owners' rights to the assets.

Answer: TRUE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: TRUE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: FALSE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

37) An auditor is an accounting professional who conducts an independent examination of the accounting data presented by a company.

Answer: TRUE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Professional Demeanor

Minutes: 1

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

Answer: TRUE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 1

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

Answer: FALSE

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 1

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

Answer: TRUE

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 1

41) ESG reporting includes reports prepared by a company to highlight its performance regarding environmental, social, and governance issues.

Answer: TRUE

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 1

42) The 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.

Answer: B

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

43) 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.

Answer: C

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

44) 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.

Answer: B

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

45) Which of the following is **not** one of the three forms of business organization?

A) corporations

B) partnerships

C) proprietorships

D) investors

Answer: D

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

46) Most business enterprises in the United States are

A) proprietorships and partnerships.

B) partnerships.

C) corporations.

D) government units.

Answer: A

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

47) A business organized as a separate legal entity is a

A) corporation.

B) proprietor.

C) government unit.

D) partnership.

Answer: A

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

48) 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

Answer: C

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

49) An advantage of the corporate form of business is that

A) it has a 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.

Answer: C

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

50) 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

Answer: A

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

51) A corporation has which of the following set of characteristics?

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 the owner control

Answer: C

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

52) A small neighborhood barber shop that is operated by its owner would likely be organized as a

A) joint venture.

B) partnership.

C) corporation.

D) proprietorship.

Answer: D

Diff: 1

LO: 1

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

53) 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

Answer: C

Diff: 1

LO: 1

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

54) All of the following are advantages for choosing a proprietorship for a business **except**

A) a proprietorship is a simple form of business to set up.

B) a proprietorship gives the owner control of the business.

C) a proprietorship receives more favorable tax treatment.

D) transfer of ownership is easily achieved through stock sales.

Answer: D

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

55) 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 trueregarding 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.

Answer: C

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

56) 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's income?

C) What average pay raise is affordable for employees this year?

D) Should any product lines be eliminated?

Answer: C

Diff: 1

LO: 1

Bloom: C

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

57) Which of the following are internal reports that accounting provides to internal users?

A) forecasts of cash needs for next year, but not financial comparisons of operating activity alternatives

B) financial comparisons of operating activity alternatives, but not forecasts of cash needs for next year

C) Both forecasts of cash needs and financial comparisons are internal reports.

D) Neither forecasts of cash needs nor financial comparisons are internal reports.

Answer: C

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

58) Which of the following is the **best** definition of an internal user of accounting information?

A) investors who use accounting information to decide whether to buy or sell stock

B) creditors like 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.

Answer: D

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

59) The Internal Revenue Service is an external user of accounting information and a

A) taxing authority.

B) labor union.

C) customer.

D) regulatory agency.

Answer: A

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

60) 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 Act is meant to decrease the likelihood of unethical corporate behavior.

Answer: C

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: Ethics / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

61) Which of the following is **not** a step for solving an ethical dilemma?

A) identifying the alternatives and weighing the impact of each alternative on various stakeholders

B) certifying the ethical accuracy of the financial information

C) identifying and analyzing the principal elements in the situation

D) recognizing the ethical situation and issues involved

Answer: B

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: Ethics / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Professional Demeanor

Minutes: 1

62) 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

Answer: A

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

63) Which of the following would **not** be considered an internal user of accounting data for the

 Xanadu Company?

A) president of the company

B) production manager

C) merchandise inventory clerk

D) president of the employees' labor union

Answer: D

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

64) Which of the following groups uses accounting information primarily to ensure the entity is operating within prescribed rules?

A) taxing authorities

B) regulatory agencies

C) labor unions

D) management

Answer: B

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Professional Demeanor

Minutes: 1

65) The group of users of accounting information charged with achieving the goals of the business is its

A) auditors.

B) investors.

C) managers.

D) creditors.

Answer: C

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Industry/Sector Perspective; FC: Decision Modeling; PC: Project Management

Minutes: 1

66) Which of the following external groups 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

Answer: C

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

67) Which of the following groups uses accounting information to determine whether the company's net income will result in a stock price increase?

A) investors in common stock

B) marketing managers

C) creditors

D) chief financial officer

Answer: A

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

68) Which of the following groups uses accounting information to determine whether an advertising

 proposal will be cost-effective?

A) investors in common stock

B) marketing managers

C) creditors

D) chief financial officer

Answer: B

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Project Management

Minutes: 1

69) Which of the following would **not** be considered an external user of accounting data for the Julian Company?

A) Internal Revenue Service agent

B) management

C) creditors

D) customers

Answer: B

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

70) Which of the following would **not** be considered an internal user of accounting data for a company?

A) the president of a company

B) the controller of a company

C) creditor of a company

D) salesperson of a company

Answer: C

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

71) Which of the following is a primary user of accounting information with a direct financial interest in the business?

A) taxing authority

B) creditor

C) regulatory agency

D) labor union

Answer: B

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

72) 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

Answer: A

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

73) Which type of corporate information 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

Answer: D

Diff: 1

LO: 1

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

74) 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.

Answer: C

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

75) External users want answers to all of the following questions **except** which of the following?

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?

Answer: C

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

76) Which type of corporate 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

Answer: B

Diff: 1

LO: 1

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

77) The liability created by a business when it purchases coffee beans and coffee cups on credit from suppliers is termed a(n)

A) account payable.

B) account receivable.

C) revenue.

D) expense.

Answer: A

Diff: 1

LO: 2

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

A) account payable.

B) account receivable.

C) liability.

D) revenue.

Answer: B

Diff: 1

LO: 2

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

79) Which of the following is **not** a principal type of business activity?

A) operating

B) investing

C) financing

D) delivering

Answer: D

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

80) Borrowing money is an example of a(n)

A) delivering activity.

B) financing activity.

C) investing activity.

D) operating activity.

Answer: B

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

81) 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.

Answer: C

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

82) 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.

Answer: D

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

83) Which of the following activities involves obtaining the necessary funds to support the business?

A) operating

B) investing

C) financing

D) delivering

Answer: C

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

84) 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.

Answer: C

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

85) Which activities involve acquiring the assets to run the business?

A) delivering

B) financing

C) investing

D) operating

Answer: C

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

86) Which activities involve putting the resources of the business into action to generate a profit?

A) delivering

B) financing

C) investing

D) operating

Answer: D

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

87) 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.

Answer: D

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

88) Buying and selling products are examples of

A) operating activities.

B) investing activities.

C) financing activities.

D) delivering activities.

Answer: A

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

89) The common characteristic possessed by all assets is

A) long life.

B) great monetary value.

C) tangible nature.

D) future economic benefit.

Answer: D

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

90) Expenses are incurred

A) only on rare occasions.

B) to produce assets.

C) to produce liabilities.

D) to generate revenues.

Answer: D

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

91) The cost of assets consumed or services used is also known as

A) a revenue.

B) an expense.

C) a liability.

D) an asset.

Answer: B

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

92) Resources owned by a business are referred to as

A) stockholders' equity.

B) liabilities.

C) assets.

D) revenues.

Answer: C

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

93) 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.

Answer: D

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

94) Debts and obligations of a business are referred to as

A) assets.

B) equities.

C) liabilities.

D) expenses.

Answer: C

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

95) Jackson 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 Jackson's net cash provided by operating activities?

A) $125,000

B) $65,000

C) $140,000

D) $119,000

Answer: A

Explanation: $275,000 - $135,000 - $15,000 = $125,000

 (Cash coll. - sal. paid - util. paid)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

96) Gibson 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 Gibson's net cash provided by operating activities?

A) $150,000

B) $70,000

C) $170,000

D) $142,000

Answer: A

Explanation: $350,000 - $180,000 - $20,000 = $150,000

 (Cash coll. - sal. paid - util. paid)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

97) 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

Answer: A

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

98) Which of the following is an asset?

A) mortgage payable

B) investments

C) common stock

D) retained earnings

Answer: B

Diff: 1

LO: 2

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

99) Which of the following is **not** a liability?

A) unearned service revenue

B) accounts payable

C) accounts receivable

D) interest payable

Answer: C

Diff: 1

LO: 2

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

100) 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

Answer: D

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

101) 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.

Answer: C

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

102) 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

Answer: C

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Measurement Analysis and Interpretation; PC: None

Minutes: 1

103) 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.

Answer: B

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

104) Dividends are reported on the

A) income statement.

B) retained earnings statement.

C) balance sheet.

D) income statement and balance sheet.

Answer: B

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

105) Dividends paid

A) increase assets.

B) increase expenses.

C) decrease revenues.

D) decrease retained earnings.

Answer: D

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

106) 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.

Answer: D

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

107) To show how successfully your business performed during a period of time, you would report its revenues and expenses in the

A) balance sheet.

B) income statement.

C) statement of cash flows.

D) retained earnings statement.

Answer: B

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

108) Net income results when

A) Assets > Liabilities.

B) Revenues = Expenses.

C) Revenues > Expenses.

D) Revenues < Expenses.

Answer: C

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

109) 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.

Answer: D

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

110) 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.

Answer: B

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

111) 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

Answer: A

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

112) 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.

Answer: C

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Industry/Sector Perspective; FC: Reporting; PC: None

Minutes: 1

113) 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.

Answer: D

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

114) If the 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.

Answer: D

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

115) The retained earnings statement would **not** show

A) the retained earnings beginning balance.

B) revenues and expenses.

C) dividends.

D) the ending retained earning balance.

Answer: B

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

116) 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.

Answer: A

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Measurement Analysis and Interpretation; PC: None

Minutes: 1

117) Which financial statement is prepared first?

A) balance sheet

B) income statement

C) retained earnings statement

D) statement of cash flows

Answer: B

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

118) 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.

Answer: C

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

119) 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 that are paid to the shareholders. They belong on the retained earnings statement.

D) Dividends are deducted from retained earnings on the balance sheet.

Answer: C

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

120) Henson 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 Henson's retained earnings at the end of the year?

A) $540,000

B) $460,000

C) $840,000

D) $500,000

Answer: B

Explanation: $380,000 + ($500,000 - $380,000) - $40,000 = $460,000

(Beg. R/E + (rev.- exp.) - div.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

121) Pinson Company began the year with retained earnings of $670,000. During the year, the company recorded revenues of $600,000, expenses of $380,000, and paid dividends of $140,000. What was Pinson's retained earnings at the end of the year?

A) $1,030,000

B) $750,000

C) $1,130,000

D) $600,000

Answer: B

Explanation: $670,000 + ($600,000 - $380,000) - $140,000 = $750,000

(Beg. R/E + (rev.- exp.) - div.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

122) Finney Company began the year by issuing $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 Finney's net income for the year?

A) $60,000

B) $140,000

C) $100,000

D) $180,000

Answer: C

Explanation: $740,000 - $640,000 = $100,000

 (Rev. - exp.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

123) Lankston 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 Lankston's net income for the year?

A) $80,000

B) $200,000

C) $140,000

D) $260,000

Answer: C

Explanation: $1,100,000 - $960,000 = $140,000

 (Rev. - exp.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

124) Gilkey 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 Gilkey'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

Answer: B

Explanation: $330,000 + $80,000 + $1,200,000 - $310,000 = $1,300,000

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

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

125) Kilmer Corporation began the year with 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 Kilmer's ending retained earnings was $990,000, what was the company's revenue for the year?

A) $3,660,000

B) $3,900,000

C) $4,920,000

D) $50,160,000

Answer: B

Explanation: $990,000 + $240,000 + $3,600,000 - $930,000 = $3,900,000

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

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

126) 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.

Answer: D

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

127) 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.

Answer: B

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

128) 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

Answer: A

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

129) Jimmy's 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. Stockholders' equity at the end of the year was

A) $360,000.

B) $300,000.

C) $240,000.

D) $270,000.

Answer: B

Explanation: ($300,000 - $240,000) + ($630,000 - $330,000) - $60,000 = $300,000

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

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

130) Jimmy's 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 Jimmy's Repair Shop for the year was

A) $240,000.

B) $300,000.

C) $180,000.

D) $570,000.

Answer: B

Explanation: $630,000 - $330,000 = $300,000

(Rev. - exp)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

131) Ashley's Accessory Shop started the year with total assets of $210,000 and total liabilities of $120,000. During the year, the business recorded $330,000 in revenues, $165,000 in expenses, and dividends of $60,000. Stockholders' equity at the end of the year was

A) $180,000.

B) $165,000.

C) $195,000.

D) $105,000.

Answer: C

Explanation: ($210,000 - $120,000) + ($330,000 - $165,000) - $60,000 = $195,000

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

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

132) Ashley's Accessory Shop started the year with total assets of $210,000 and total liabilities of $120,000. During the year, the business recorded $330,000 in revenues, $165,000 in expenses, and dividends of $60,000. The net income reported by Ashley's Accessory Shop for the year was

A) $120,000.

B) $150,000.

C) $195,000.

D) $165,000.

Answer: D

Explanation: $330,000 - $165,000 = $165,000

(Rev. - exp.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

133) 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

Answer: B

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

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

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Measurement Analysis and Interpretation; PC: Problem Solving

Minutes: 3

134) If total liabilities decreased 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 increase

B) $60,000 decrease

C) $60,000 increase

D) $90,000 decrease

Answer: B

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

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

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Measurement Analysis and Interpretation; PC: Problem Solving

Minutes: 3

135) If total liabilities decreased by $75,000 and stockholders' equity increased by $15,000 during a period of time, then total assets must change by what amount and direction during that same period?

A) $60,000 decrease

B) $60,000 increase

C) $75,000 increase

D) $90,000 increase

Answer: A

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

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

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Measurement Analysis and Interpretation; PC: Problem Solving

Minutes: 3

136) If total liabilities decreased by $105,000 and stockholders' equity decreased by $35,000 during a period of time, then total assets must change by what amount and direction during that same period?

A) $140,000 increase

B) $70,000 decrease

C) $140,000 decrease

D) $70,000 increase

Answer: C

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

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

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Measurement Analysis and Interpretation; PC: Problem Solving

Minutes: 3

137) 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.

Answer: D

Explanation: $69,000 - $27,000 = $42,000 increase

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

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Measurement Analysis and Interpretation; PC: Problem Solving

Minutes: 3

138) 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.

Answer: C

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

139) 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.

Answer: A

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

140) Liabilities

A) are future economic benefits.

B) are debts and obligations.

C) possess service potential.

D) are things of value owned by a business.

Answer: B

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

141) Liabilities of a company are owed to

A) debtors.

B) owners.

C) creditors.

D) stockholders.

Answer: C

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

142) 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.

Answer: B

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

143) Distributions to stockholders are called

A) expenses.

B) liabilities.

C) dividends.

D) distributions.

Answer: C

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

144) Common stock is reported on the

A) statement of cash flows.

B) retained earnings statement.

C) income statement.

D) balance sheet.

Answer: D

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

145) 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.

Answer: B

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

146) 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.

Answer: C

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

147) 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.

Answer: D

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

148) 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

Answer: D

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Measurement Analysis and Interpretation; PC: None

Minutes: 1

149) 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.

Answer: C

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

150) Claims of owners are called

A) dividends.

B) stockholders' equity.

C) liabilities.

D) income payable.

Answer: B

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

151) 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

Answer: A

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

152) 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.

Answer: B

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

153) 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.

Answer: B

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

154) Elston Company compiled the following financial information as of December 31, 2027:

|  |  |
| --- | --- |
| 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 |  300,000 |
| Retained earnings, 1/1/27 |  450,000 |

Elston's assets on December 31, 2027 are

A) $1,620,000.

B) $1,230,000.

C) $750,000.

D) $780,000.

Answer: D

Explanation: $240,000 + $210,000 + $30,000 + $300,000 = $780,000

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

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

155) Elston Company compiled the following financial information as of December 31, 2027:

|  |  |
| --- | --- |
| 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 |  300,000 |
| Retained earnings, 1/1/27 |  450,000 |

Elston's retained earnings on December 31, 2027 are

A) $450,000.

B) $540,000.

C) $480,000.

D) $ 30,000.

Answer: C

Explanation: $450,000 + ($840,000 - $750,000) - $60,000 = $480,000

(Beg. R/E + (ser. rev. - oper. exp.) - div.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

156) Elston Company compiled the following financial information as of December 31, 2027:

|  |  |
| --- | --- |
| 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 |  300,000 |
| Retained earnings, 1/1/27 |  450,000 |

Elston's stockholders' equity on December 31, 2027 is

A) $630,000.

B) $660,000.

C) $480,000.

D) $720,000.

Answer: B

Explanation: $180,000 + [$450,000 + ($840,000 - $750,000) - $60,000] = $660,000

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

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

157) Benedict Company compiled the following financial information as of December 31, 2027:

|  |  |
| --- | --- |
| Service revenue | $1,120,000 |
| Common stock |  240,000 |
| Equipment |  320,000 |
| Operating expenses |  1,000,000 |
| Cash |  280,000 |
| Dividends |  80,000 |
| Supplies |  40,000 |
| Accounts payable |  160,000 |
| Accounts receivable |  400,000 |
| Retained earnings, 1/1/27 |  600,000 |

Benedict's assets on December 31, 2027 are

A) $2,160,000.

B) $1,640,000.

C) $1,000,000.

D) $1,040,000.

Answer: D

Explanation: $320,000 + $280,000 + $40,000 + $400,000 = $1,040,000

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

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

158) Benedict Company compiled the following financial information as of December 31, 2027:

|  |  |
| --- | --- |
| Service revenue | $1,120,000 |
| Common stock |  240,000 |
| Equipment |  320,000 |
| Operating expenses |  1,000,000 |
| Cash |  280,000 |
| Dividends |  80,000 |
| Supplies |  40,000 |
| Accounts payable |  160,000 |
| Accounts receivable |  400,000 |
| Retained earnings, 1/1/27 |  600,000 |

Benedict's retained earnings on December 31, 2027 are

A) $600,000.

B) $720,000.

C) $640,000.

D) $ 40,000.

Answer: C

Explanation: $600,000 + ($1,120,000 - $1,000,000) - $80,000 = $640,000

(Beg. R/E + (ser. rev. - oper. exp.) - div.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

159) Benedict Company compiled the following financial information as of December 31, 2027:

|  |  |
| --- | --- |
| Service revenue | $1,120,000 |
| Common stock |  240,000 |
| Equipment |  320,000 |
| Operating expenses |  1,000,000 |
| Cash |  280,000 |
| Dividends |  80,000 |
| Supplies |  40,000 |
| Accounts payable |  160,000 |
| Accounts receivable |  400,000 |
| Retained earnings, 1/1/27 |  600,000 |

Benedict's stockholders' equity on December 31, 2027 is

A) $840,000.

B) $880,000.

C) $640,000.

D) $960,000.

Answer: B

Explanation: $240,000 + [$600,000 + ($1,120,000 - $1,000,000) - $80,000] = $880,000

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

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

160) 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.

Answer: A

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

161) 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 stockholder's 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.

Answer: D

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

162) Marvin 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 $70,000 and $5,000 of Accounts Payable were paid in cash, what would be the balance of the total stockholders' equity?

A) $135,000

B) $120,000

C) $170,000

D) $130,000

Answer: B

Explanation: ($5,000 + $70,000 + $10,000 + $35,000 + $35,000) - ($25,000 + $10,000) = $120,000

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

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

163) Marvin 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 $40,000 and $10,000 of Accounts Payable were paid in cash, what would be the total liabilities and stockholders' equity?

A) $90,000

B) $78,000

C) $80,000

D) $120,000

Answer: D

Explanation: $5,000 + $40,000 + $5,000 + $35,000 + $35,000 = $120,000

[A/R + Bldg. bal. + (Cash bal. - A/P pd.) + equip. + land]

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

164) Marvin 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 total stockholder's equity was $95,000, what would be the balance of the Buildings account?

A) $35,000

B) $135,000

C) $145,000

D) $45,000

Answer: D

Explanation: ($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)

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

165) Marvin 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 $75,000 and all of the equipment was sold for $35,000 cash, what would be the total of stockholders' equity?

A) $65,000

B) $90,000

C) $115,000

D) $125,000

Answer: D

Explanation: $5,000 + $75,000 + $50,000 + $35,000 - ($30,000 + $10,000) = $125,000

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

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

166) Marvin 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

Answer: B

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

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

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

167) 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.

Answer: C

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

168) 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.

Answer: B

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

169) 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) salary information for all the executives.

Answer: D

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

170) 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

Answer: C

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

171) The information needed to determine whether a company is using accounting methods similar to those of its competitors would be found in the

A) auditor's report.

B) balance sheet.

C) management discussion and analysis section.

D) notes to the financial statements.

Answer: D

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

172) In the 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

Answer: D

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

173) 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.

Answer: B

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

174) 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) None of these answer choices are correct.

Answer: D

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

175) 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.

Answer: B

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

176) Tucker Tutoring Service Company recorded the following cash transactions for the year:

Paid $55,000 for salaries

Paid $7,000 to purchase office equipment

Paid $6,000 for utilities, advertising, and supplies

Paid $12,000 for rent

Paid $18,000 in dividends

Collected $125,000 from customers

Borrowed $20,000 from the bank

What was the company's net cash provided (used) by operating activities?

A) $34,000

B) $52,000

C) $72,000

D) The amount cannot be determined from the information provided.

Answer: B

Explanation: $125,000 - $55,000 - $6,000 - $12,000 = $52,000

(Cash coll. - sal. paid - (util. + adv. + supp. paid) - rent paid)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

177) Tucker Tutoring Service Company recorded the following cash transactions for the year:

Paid $55,000 for salaries

Paid $7,000 to purchase office equipment

Paid $6,000 for utilities, advertising, and supplies

Paid $12,000 for rent

Paid $18,000 in dividends

Collected $125,000 from customers

Borrowed $20,000 from the bank

What was the company's net cash provided (used) by investing activities?

A) ($7,000)

B) $7,000

C) $13,000

D) The amount cannot be determined from the information provided.

Answer: A

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

178) Tucker Tutoring Service Company recorded the following cash transactions for the year:

Paid $55,000 for salaries

Paid $7,000 to purchase office equipment

Paid $6,000 for utilities, advertising, and supplies

Paid $12,000 for rent

Paid $18,000 in dividends

Collected $125,000 from customers

Borrowed $20,000 from the bank

What was the company's net cash provided (used) by financing activities?

A) ($2,000)

B) $2,000

C) $22,000

D) The amount cannot be determined from the information provided.

Answer: B

Explanation: $20,000 - $18,000 = $2,000

(Bank borrowing - div. pmt.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

179) Dr. Mark Veterinary Services recorded the following cash transactions for the year:

Paid $154,000 for salaries

Paid $85,000 to purchase equipment

Paid $49,000 for utilities, supplies, insurance, and advertising

Paid $36,000 for rent

Issued shares of stock for $60,000

Paid $28,000 in dividends

Collected $650,000 from customers

Paid $3,600 to purchase investments

What was the company's net cash provided (used) by operating activities?

A) $298,000

B) $383,000

C) $411,000

D) The amount cannot be determined from the information provided.

Answer: C

Explanation: $650,000 - $154,000 - $49,000 - $36,000 = $411,000

(Collections from customers - pmts. for operating expenses)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

180) Dr. Mark Veterinary Services recorded the following cash transactions for the year:

Paid $154,000 for salaries

Paid $85,000 to purchase equipment

Paid $49,000 for utilities, supplies, insurance, and advertising

Paid $36,000 for rent

Issued shares of stock for $60,000

Paid $28,000 in dividends

Collected $650,000 from customers

Paid $3,600 to purchase investments

What was the company's net cash provided (used) by investing activities?

A) $25,000

B) ($85,000)

C) ($88,600)

D) The amount cannot be determined from the information provided.

Answer: C

Explanation: ($85,000) + ($3,600) = ($88,600)

(Purch. equip. + Purch. invest.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

181) Dr. Mark Veterinary Services recorded the following cash transactions for the year:

Paid $154,000 for salaries

Paid $85,000 to purchase equipment

Paid $49,000 for utilities, supplies, insurance, and advertising

Paid $36,000 for rent

Issued shares of stock for $60,000

Paid $28,000 in dividends

Collected $650,000 from customers

Paid $3,600 to purchase investments

What was the company's net cash provided (used) by financing activities?

A) $32,000

B) $60,000

C) $63,600

D) The amount cannot be determined from the information provided.

Answer: A

Explanation: $60,000 - $28,000 = $32,000

(Issu. stock - Pmt. div.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

182) Barrow Company recorded the following cash transactions for the year:

Paid $115,000 for salaries

Paid $40,000 to purchase office equipment

Paid $9,000 for utilities

Sold investments for cash of $5,000

Paid $11,000 in dividends

Collected $295,000 from customers

Issued shares for cash of $120,000

What was Barrow's net cash provided (used) by financing activities?

A) $60,000

B) $65,000

C) $69,000

D) $109,000

Answer: D

Explanation: $120,000 - $11,000 = $109,000

(Issu. shares - Pmt. div.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

183) Barrow Company recorded the following cash transactions for the year:

Paid $115,000 for salaries

Paid $40,000 to purchase office equipment

Paid $9,000 for utilities

Sold investments for cash of $5,000

Paid $11,000 in dividends

Collected $295,000 from customers

Issued shares for cash of $120,000

What was Barrow's net cash provided (used) by investing activities?

A) ($24,000)

B) ($35,000)

C) ($40,000)

D) $80,000

Answer: B

Explanation: ($40,000) + $5,000 = ($35,000)

(Purch. equip. + Sale of invest.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

184) Barrow Company recorded the following cash transactions for the year:

Paid $115,000 for salaries

Paid $40,000 to purchase office equipment

Paid $9,000 for utilities

Sold investments for cash of $5,000

Paid $11,000 in dividends

Collected $295,000 from customers

Issued shares for cash of $120,000

What was Barrow's net cash provided (used) by operating activities?

A) ($40,000)

B) $160,000

C) $171,000

D) $180,000

Answer: C

Explanation: $295,000 - $115,000 - $9,000 = $171,000

 (Cash coll. - sal. paid - util. paid)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

185) Pacifica Company recorded the following cash transactions for the year:

Paid $255,000 for salaries

Paid $60,000 to purchase equipment

Collected $7,200 from the sale of investments

Repaid $48,000 of loan principal

Paid $220,000 for other operating expenses

Paid $112,000 in dividends

Collected $652,000 from customers

What was Pacifica's net cash provided (used) by investing activities?

A) ($ 60,000)

B) ($52,800)

C) $7,200

D) $67,200

Answer: B

Explanation: ($60,000) + $7,200 = ($52,800)

(-Purch. equip. + Sale of invest.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

186) Pacifica Company recorded the following cash transactions for the year:

Paid $255,000 for salaries

Paid $60,000 to purchase equipment

Collected $7,200 from the sale of investments

Repaid $48,000 of loan principal

Paid $220,000 for other operating expenses

Paid $112,000 in dividends

Collected $652,000 from customers

What was Pacifica's net cash provided (used) by operating activities?

A) $65,000

B) $177,000

C) $182,000

D) $184,200

Answer: B

Explanation: $652,000 - $255,000 - $220,000 = $177,000

(Collect. - Pmt. sal. - Pmt. op.exp.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

187) Pacifica Company recorded the following cash transactions for the year:

Paid $255,000 for salaries

Paid $60,000 to purchase equipment

Collected $7,200 from the sale of investments

Repaid $48,000 of loan principal

Paid $220,000 for other operating expenses

Paid $112,000 in dividends

Collected $652,000 from customers

What was Pacifica's net cash provided (used) by financing activities?

A) $48,000

B) ($52,800)

C) ($152,800)

D) ($160,000)

Answer: D

Explanation: ($48,000) + ($112,000) = ($160,000)

(Loan pmt. + Pmt. div.)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

188) Which of the following would be done by a socially responsible business?

A) It follows fair trade practices.

B) It provides safe environments for workers.

C) It bears responsibility for environmental damage.

D) All of the above are done by socially responsible businesses.

Answer: D

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

189) 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

Answer:

a. S & P d. C

b. P & C e. S & P

c. C f. C

Diff: 2

LO: 1

Bloom: C

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 5

190) 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

Answer:

a. O d. I

b. F e. O

c. F f. I

Diff: 2

LO: 2

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 5

191) Use the following information to calculate for the year ended December 31, 2027 (a) net income (net loss), (b) ending retained earnings, and (c) total assets.

|  |  |  |  |
| --- | --- | --- | --- |
| Supplies | $ 1,500 |  Service revenue | $19,000 |
| Other 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 |  |  |

Answer:

|  |  |  |
| --- | --- | --- |
| (a) $9,000 | (b) $8,000 | (c) $30,000 |
| (Ser. rev. - Oper. exp.) | (Beg. ret. earn. +  Net inc.- Dividends) | (Sup. + Acc. rec. + Cash + Equip.) |

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 5

192) Use the following information to calculate for the year ended December 31, 2027 (a) net income (net loss), (b) ending retained earnings, and (c) total assets.

|  |  |  |  |
| --- | --- | --- | --- |
| Supplies | $ 1,000 |  Service revenue | $18,000 |
| Other 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 |  |  |

Answer:

|  |  |  |
| --- | --- | --- |
| (a) $6,000 | (b) $10,000 | (c) $32,000 |
| (Ser. rev. - Oper. exp.) | (Beg. ret. earn. + Net inc. - Dividends) | (Sup. + Acc. rec. + Cash + Equip.) |

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 5

193) Listed below in alphabetical order are the balance sheet items of Nolan Company at December 31, 2027. 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 |
|  | Land | 31,000 |
|  | Equipment | 10,000 |
|  | Retained earnings | 41,000 |

Answer: NOLAN COMPANY

Balance Sheet

December 31, 2027

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 |

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 5

194) 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

b. Utilities Expense

c. Cash

d. Accounts Payable

e. Supplies

f. Salaries and Wages Exp.

g. Accounts Receivable

h. Common Stock

i. Equipment

j. Advertising Expense

k. Dividends

l. Notes Payable

Answer:

a. IS g. BS

b. IS h. BS

c. BS i. BS

d. BS j. IS

e. BS k. RE

f. IS l. BS

Diff: 2

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 5

195) Cesar Ruiz was reviewing his company's activities at the end of the year (2027) 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.

Answer:

CESAR RUIZ COMPANY

Retained Earnings Statement

For the Year Ended December 31, 2027

|  |  |
| --- | --- |
| 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)

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 5

196) From the following list of selected accounts taken from the records of Schmidt 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 |

Answer: a, c, e, f, g, i

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 5

197) Determine the missing items.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** | = | **Liabilities** | + | **Stockholders' Equity** |
| $80,000 |  | $56,000 |  | (a) |
| (b) |  | $28,000 |  | $34,000 |
| $84,000 |  | (c) |  | $55,000 |

Answer:

|  |  |  |
| --- | --- | --- |
| a. $24,000 | b. $62,000 | c. $29,000 |
| (Assets - Liab.) | (Liab. + Stock. Equity) | (Assets - Stock. Equity) |

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 5

198) Determine the missing items.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** | = | **Liabilities** | + | **Stockholders' Equity** |
| $66,000 |  | $50,000 |  | (a) |
| (b) |  | $18,000 |  | $30,000 |
| $54,000 |  | (c) |  | $40,000 |

Answer:

|  |  |  |
| --- | --- | --- |
| a. $16,000 | b. $48,000 | c. $14,000 |
| (Assets - Liab.) | (Liab. + Stock. Equity) | (Assets - Stock. Equity) |

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 5

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

(a) Service revenue

(b) Cash

(c) Common stock

(d) Accounts payable

(e) Rent expense

(f) Supplies

(g) Land

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

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 5

200) For the items listed below, fill in the appropriate code letter to indicate whether the item is an asset, liability, or stockholders' equity item.

 Code

Asset A

Liability L

Stockholders' Equity SE

 1. Rent Expense

 2. Equipment

 3. Accounts Payable

 4. Common Stock

 5. Insurance Expense

 6. Cash

 7. Accounts Receivable

 8. Retained Earnings

 9. Service Revenue

 10. Notes Payable

Answer:

 1. SE 6. A

 2. A 7. A

 3. L 8. SE

 4. SE 9. SE

 5. SE 10. L

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 5

201) 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

Answer:

1. A 5. SE

2. L 6. A

3. SE 7. L

4. A 8. A

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 5

202) 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 by $225,000 during the year, and total liabilities decreased by $100,000, what is the amount of stockholders' equity at the end of the year?

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

(3) If total assets decreased by $60,000 and stockholders' equity increased by $150,000 during the year, what is the amount of total liabilities at the end of the year?

Answer:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Total Assets |  | Total Liabilities |  | Stockholders' Equity |
| Beginning | $660,000 |  | $300,000 |  | $360,000 |
| Change |  225,000 |  | (100,000) |  |  325,000 |
| Ending | $885,000 | - | $200,000 | = |  $685,000 (1) |
|  |  |  |  |  |  |
|  | Total Assets |  | Total Liabilities |  | Stockholders' Equity |
| Beginning | $660,000 |  | $300,000 |  | $360,000 |
| Change |  85,000 |  |  215,000 |  | (130,000) |
| Ending |  $745,000 (2) | = | $515,000 | + | $230,000 |
|  |  |  |  |  |  |
|  | Total Assets |  | Total Liabilities |  | Stockholders' Equity |
| Beginning | $660,000 |  | $300,000 |  | $360,000  |
| Change |  (60,000) |  | (210,000) |  | 150,000 |
| Ending | $600,000 | = |  $ 90,000 (3) | + | $510,000  |

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 5

203) Reinhardt's Carpet Cleaning has the following balance sheet items:

Buildings Notes Payable

Accounts Payable Common Stock

Cash Retained Earnings

Supplies Equipment

Accounts Receivable

Identify which items are (1) Assets

 (2) Liabilities

 (3) Stockholders' Equity

Answer:

(1) Assets–Buildings, Cash, Supplies, Accounts Receivable, Equipment

(2) Liabilities–Accounts Payable, Notes Payable

(3) Stockholders' Equity–Common Stock, Retained Earnings

Diff: 2

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 5

204) On June 1, 2027, Shaw Company prepared a balance sheet that shows 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?

 Balances Immediately After Sale

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Cash Received for the Assets | Assets | - | Liabilities | = | Stockholders' Equity |
| Cash A | $135,000 | $\_\_\_\_\_\_\_\_ |  | $\_\_\_\_\_\_\_\_ |  | $\_\_\_\_\_\_\_\_ |
| Cash B | 120,000 | $\_\_\_\_\_\_\_\_ |  | $\_\_\_\_\_\_\_\_ |  | $\_\_\_\_\_\_\_\_ |
| Cash C | 105,000 | $\_\_\_\_\_\_\_\_ |  | $\_\_\_\_\_\_\_\_ |  | $\_\_\_\_\_\_\_\_ |

Answer: Balances Immediately After Sale

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Cash Received for 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.) |

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 5

205) 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 |

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

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

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

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 5

206) Classify each of these cash flows as Operating (O), Investing (I), or Financing (F).

\_\_\_\_\_ 1. Collected cash from customers

\_\_\_\_\_ 2. Paid utility bill

\_\_\_\_\_ 3. Issued common stock

\_\_\_\_\_ 4. Sold investments

\_\_\_\_\_ 5. Purchased equipment

\_\_\_\_\_ 6. Paid dividend

\_\_\_\_\_ 7. Borrowed from bank

\_\_\_\_\_ 8. Paid employee salaries

Answer:

1. O 5. I

2. O 6. F

3. F 7. F

4. I 8. O

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 5

207) Classify each of these cash flows as Operating inflow (OI), Operating outflow (OO), Investing inflow (II), Investing outflow (IO), Financing inflow (FI), or Financing outflow (FO).

\_\_\_\_\_ 1. Collected cash from customers on account

\_\_\_\_\_ 2. Repaid bank loan principal

\_\_\_\_\_ 3. Issued common stock

\_\_\_\_\_ 4. Purchased equity investments

\_\_\_\_\_ 5. Sold equipment

\_\_\_\_\_ 6. Paid dividends on common stock

\_\_\_\_\_ 7. Issued shares of common stock

\_\_\_\_\_ 8. Paid SEO consultant for digital marketing plan

Answer:

1. OI 5. II

2. FO 6. FO

3. FI 7. FI

4. IO 8. OO

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 5

208) Reardon Dental Services recorded the following cash transactions for the year:

Paid $255,000 for employee salaries

Paid $77,000 to purchase equipment

Paid $46,000 for other operating expenses

Paid $48,000 for rent

Sold investments for $3,400

Paid $78,000 in dividends

Collected $725,000 from patients

Borrowed $126,000 from the bank

What was the company's (a) net cash provided (used) by investing activities and (b) net cash provided (used) by financing activities?

Answer:

(a) Investing cash flows = ($77,000) cash outflow to purchase equipment + $3,400 cash inflow from sale of investments = $73,600 cash used

(b) Financing cash flows = $126,000 cash inflow from bank borrowing - ($78,000) cash outflow for dividend = $48,000 cash provided

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 3

209) Prepare an income statement and a retained earnings statement, for the month of October 2027 and a balance sheet at October 31, 2027 for the medical practice of Linda Denny, 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 |

LINDA DENNY, MD

Income Statement

For the Month Ended October 31, 2027

|  |  |  |
| --- | --- | --- |
| Revenues |  | $ |
|   |  |  |
| Expenses |  |  |
|  | $ |  |
|  |  |  |
|  |  |  |
|  | \_\_\_ \_\_\_\_ |  |
|  Total expenses  |  | \_\_ \_\_\_\_ |
|  Net income  |  | $\_\_\_\_\_\_\_ |

LINDA DENNY, MD

Retained Earnings Statement

For the Month Ended October 31, 2027

|  |  |
| --- | --- |
| Retained Earnings, October 1  |  $  |
| Add:  | \_\_ \_\_\_\_\_ |
|  |  |
| Less:  | \_\_\_\_ \_\_\_ |
|  | $\_\_\_\_\_\_\_ |

LINDA DENNY, MD

Balance Sheet

October 31, 2027

|  |  |  |
| --- | --- | --- |
|  Assets |  |  |
|  |  |  $ |
|  |  |  |
|  |  |  |
|  |  | \_\_\_\_ \_\_\_ |
| Total assets  |  | $\_\_\_\_\_\_\_ |
|  |  |  |
|  |  |  |
|  Liabilities and Stockholders' Equity |  |  |
| Liabilities |  |  |
|  |  |  $  |
|  |  |  |
| Stockholders' Equity |  |  |
|  | $ |  |
|  | \_\_\_\_ \_\_\_ | \_\_\_\_ \_\_\_ |
|  Total liabilities and stockholders' equity  |  | $\_\_\_\_\_\_\_ |

Answer:

LINDA DENNY, MD

Income Statement

For the Month Ended October 31, 2027

|  |  |  |
| --- | --- | --- |
| 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 |

LINDA DENNY, MD

Retained Earnings Statement

For the Month Ended October 31, 2027

|  |  |
| --- | --- |
| Retained Earnings, October 1  | $15,000 |
| Add: Net income  |  7,800 |
|  | 22,800 |
| Less: Dividends  |  6,000 |
| Retained Earnings, October 31  | $16,800 |

LINDA DENNY, MD

Balance Sheet

October 31, 2027

|  |  |  |
| --- | --- | --- |
|  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 |

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 15

210) 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, 2027 for Pierce Industries.

Accounts payable $ 1,100 Dividends $ 3,000

Accounts receivable 5,400 Insurance expense 1,200

Buildings 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

PIERCE INDUSTRIES

Income Statement

For the Month Ended August 31, 2027

|  |  |  |
| --- | --- | --- |
| Revenues |  |  $ |
|   |  |  |
| Expenses |  |  |
|  | $ |  |
|  |  |  |
|  |  |  |
|  | \_\_\_\_\_\_\_ |  |
|  Total expenses  |  | \_\_\_\_ \_\_\_ |
|  Net income  |  | $\_\_\_\_\_\_\_ |

PIERCE INDUSTRIES

Retained Earnings Statement

For the Month Ended August 31, 2027

|  |  |
| --- | --- |
| Retained Earnings, August 1  |  $ |
| Add:  | \_\_ \_\_\_\_\_ |
|  |  |
| Less:  | \_\_\_\_ \_\_\_ |
| Retained Earnings, August 31 | $\_\_\_\_\_\_\_ |

PIERCE INDUSTRIES

Balance Sheet

August 31, 2027

|  |  |  |
| --- | --- | --- |
|  Assets |  |  |
|  |  | $ |
|  |  |  |
|  |  |  |
|  |  | \_\_\_\_ \_\_\_ |
| Total assets  |  | $\_\_\_\_\_\_\_ |
|  |  |  |
|  |  |  |
|  Liabilities and Stockholders' Equity |  |  |
| Liabilities |  |  |
|  | $ |   |
|  |  | $ |
| Stockholders' Equity |  |  |
|  | $ |  |
|  | \_\_\_\_ \_\_\_ | \_\_\_\_ \_\_\_ |
|  Total liabilities and stockholders' equity  |  | $\_\_\_\_\_\_\_ |

Answer:

PIERCE INDUSTRIES

Income Statement

For the Month Ended August 31, 2027

|  |  |  |
| --- | --- | --- |
| 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 |

PIERCE INDUSTRIES

Retained Earnings Statement

For the Month Ended August 31, 2027

|  |  |
| --- | --- |
| Retained Earnings, August 1  | $25,900 |
| Add: Net income  |  9,100 |
|  | 35,000 |
| Less: Dividends  |  3,000 |
| Retained Earnings, August 31  | $32,000 |

PIERCE INDUSTRIES

Balance Sheet

August 31, 2027

|  |  |  |
| --- | --- | --- |
|  Assets |  |  |
| Cash  |  | $18,600 |
| Accounts receivable  |  |  5,400 |
| Supplies  |  |  1,400 |
| Buildings |  |  63,000 |
| Total assets  |  | $88,400 |
|  |  |  |
| Liabilities and Stockholders' Equity |  |  |
| Liabilities |  |  |
| Accounts payable  |  $ 1,100 |  |
| Notes payable  |  3,300 |  |
| Total liabilities |  | $4,400 |
| Stockholders' Equity |  |  |
| Common stock | $52,000 |  |
| Retained earnings |  32,000 |  84,000 |
| Total liabilities and stockholders' equity  |  | $88,400 |

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 15

211) At September 1, the balance sheet accounts for Kiner's 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:

Stockholders invested an additional $20,000 cash in the business. The accounts payable were paid in full. (No payment was made on the notes payable.)

**Instructions**

Prepare a balance sheet at September 3, 2027.

Answer:

 KINER'S RESTAURANT

 Balance Sheet

 September 3, 2027

|  |  |  |
| --- | --- | --- |
|  ASSETS |  |  |
|  |  |  |
| Cash |  | $21,200 |
| Accounts receivable |  | 1,600 |
| Supplies |  | 3,600 |
| Equipment |  | 15,700 |
| Buildings |  | 66,000 |
| Land |   |  33,000 |
|  Total assets |  | $141,100 |
|  |  |  |
|  LIABILITIES & 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) + add. invest. | $49,900 |

a Acc. rec. + Build. + Beg. Cash + Equip. + Land + Supp.

b Acc. pay. + Note pay. + Ret. earn.

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 10

212) This information relates to Connor Co. for the year 2027:

|  |  |
| --- | --- |
| Retained earnings, January 1, 2027 | $59,000 |
| Advertising expense | 1,800 |
| Dividends paid during 2027 | 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, 2027.

Answer:

CONNOR CO.

Income Statement

For the Year Ended December 31, 2027

|  |  |  |
| --- | --- | --- |
| 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 |

CONNOR CO.

Retained Earnings Statement

For the Year Ended December 31, 2027

|  |  |
| --- | --- |
| Retained earnings, January 1  | $59,000 |
| Add: Net income  |  12,400 |
|  | 71,400 |
| Less: Dividends  |  9,000 |
| Retained earnings, December 31  | $62,400 |

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 10

213) Here are incomplete financial statements for Brandon, Inc.:

BRANDON, 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 | (c) |
| Administrative expenses |  10,000 |
| Net income | $ (d) |

 Retained Earnings Statement

|  |  |
| --- | --- |
| Beginning retained earnings | $10,000 |
| Net income | (e) |
| Dividends |  5,000 |
| Ending retained earnings | $24,000 |

***Instructions***

Calculate the missing amounts.

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

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

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

(a) + $29,000 = $55,000

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

Beginning retained earnings + Net income - Dividends = Ending retained earnings

$10,000 + (e) - $5,000 = $24,000

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

(e) = $19,000 End. ret. earn. + div. - Beg. ret. earn.

From the above, we know that net income (d) equals $19,000.

Revenue - Cost of goods sold - Administrative expenses = Net income

$80,000 - (c) - $10,000 = $19,000

$70,000 - (c) = $19,000

(c) = $51,000 Rev. - Admin. exp. - Net inc.(d)

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 10

214) Sleep Cheap is a private camping ground near the Boulder Peak Recreation Area. It has compiled the following financial information as of December 31, 2027.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 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 |  | Operating expenses | 133,000 |
| Cash | 13,500 |  | Supplies |  2,500 |
| Equipment |  108,000 |  | Common stock | 40,000 |
|  |  |  | Retained earnings (1/1/2027) | 5,000 |

***Instructions***

(a) Determine net income from Sleep Cheap for 2027.

(b) Prepare a retained earnings statement and a balance sheet for Sleep Cheap as of December 31, 2027.

Answer:

|  |  |  |
| --- | --- | --- |
| (a) | Service revenue  | $132,000 |
|  | Sales revenue  |  25,000 |
|  |  Total revenue  | 157,000 |
|  | Expenses  |  133,000 |
|  | Net income  | $ 24,000 |

(b)

 SLEEP CHEAP

 Retained Earnings Statement

 For the Year Ended December 31, 2027

|  |  |
| --- | --- |
| Retained earnings, January 1  | $ 5,000 |
| Add: Net income  |  24,000 |
|  | 29,000 |
| Less: Dividends |  8,000 |
| Retained earnings, December 31 |  $21,000 |

 SLEEP CHEAP

 Balance Sheet

 December 31, 2027

|  |  |  |
| --- | --- | --- |
| Assets |  |  |
| Cash  |  | $ 13,500 |
| Supplies  |  |  2,500 |
| Equipment |  |  108,000 |
|  Total assets  |  | $124,000 |
|  |  |  |
| 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 |

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 10

215) John Tate is the bookkeeper for Gabelli Company. John has been trying to get the balance sheet of Gabelli Company to balance. It finally balanced, but now he's not sure it is correct.

GABELLI COMPANY

Balance Sheet

December 31, 2027

 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.

Answer:

 GABELLI COMPANY

 Balance Sheet

 December 31, 2027

|  |  |  |
| --- | --- | --- |
|  Assets |  |  |
| Cash  |  | $12,500 |
| Accounts receivable  |  | 12,000 |
| Supplies |  | 9,500 |
| Equipment |  |  50,000 |
|  Total assets  |  | $84,000 |
|  |  |  |
|  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 |

\*$39,000 - $13,000

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 5

216) The summaries of data from the balance sheet, income statement, and retained earnings statement for two corporations, Bates Corporation and Wilson Enterprises, are presented below for 2027.

|  |  |  |
| --- | --- | --- |
|  | Bates Corporation | Wilson Enterprises |
| 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.

Answer:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (a) | Assets | = | Liabilities | + | Stockholders' Equity |
|  | $110,000 | = | $80,000 | + | (a) |
|  | (a) | = |  |  | $30,000 (Beg. tot. assets - Beg. tot. liab.) |
|  |  |  |  |  |  |
| (b) | Assets | = | Liabilities | + | Stockholders' Equity |
|  | (b) | = | $120,000 | + | $70,000 |
|  | (b) | = | $190,000 (End. liab. + End. stock. equity) |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (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) |  |  | = | $20,000 |

(Beg. stock. equity + Rev. - Exp. - End. stock. equity)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (d) | Assets | = | Liabilities | + | Stockholders' Equity |
|  | $130,000 | = | (d) | + | $70,000 |
|  | (d) | = | $60,000 (Beg. tot. assets - Beg. stock. equity) |  |  |
|  |  |  |  |  |  |
| (e) | Assets | = | Liabilities | + | Stockholders' Equity |
|  | $190,000 | = | $65,000 | + | (e) |
|  | (e) | = | $125,000 (End. tot. assets - End. tot. liab.) |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (f) | Beginning | + | Revenues | - | Expenses | - | Dividends | = | Ending |
|  | Stockholders' |  |  |  |  |  |  |  | Stockholders' |
|  | Equity |  |  |  |  |  |  |  | Equity |
|  | $70,000 | + | (f) | - | $80,000 | - | $5,000 | = | $125,000(e) |
|  |  (f) | = | $140,000\* |  |  |  |  |  |  |

\*(End. stock. equity + Div. + Exp. - Beg. stock. equity)

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 10

217) This information is for Campo Corporation for the year ended December 31, 2027.

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 1/1/27 12,000

***Instructions***

Prepare the 2027 statement of cash flows for Campo Corporation.

Answer:

 CAMPO CORPORATION

 Statement of Cash Flows

 For the Year Ended December 31, 2027

|  |  |  |
| --- | --- | --- |
| 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 (Cash from oper. act. -  |  |  |
|  Cash from inv. act. + Cash from fin.act.) |  | 18,000 |
| Cash at beginning of period  |  |  12,000 |
| Cash at end of period  |  | $30,000 |

Diff: 2

LO: 3

Bloom: AP

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 10

218) 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

|  |  |  |  |
| --- | --- | --- | --- |
| Beginning of the Year: |  A |  B |  C |
| 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 |

Answer:

|  |  |
| --- | --- |
| Corporation A | ($50,000) |
| Beginning stockholders' equity ($410,000 - $250,000) | $160,000 |
| Additional investments ($180,000 + $70,000 - $160,000 - $40,000) |  50,000\* |
| Net income for year ($195,000 - $155,000) |  40,000 |
|  | 250,000 |
| Less dividend |  70,000 |
| Ending stockholders' equity ($460,000 - $280,000) | $180,000 |
|  |  |
| \*End. stock. equity + Div. + Rev. - Exp. - Beg. stock. equity |  |
|  |  |
| Corporation B | ($182,000) |
| Beginning stockholders' equity ($150,000 - $115,000) | $ 35,000 |
| Additional investments | 79,000 |
| Net income for year ($182,000\* - $113,000)  |  69,000 |
| \*[Revenues = $182,000 ($113,000 + $69,000)] | 183,000 |
| Less dividend |  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 |
|  | 115,000 |
| Less dividends ($115,000 - $36,000) |  79,000\* |
| Ending stockholders' equity ($205,000 - $169,000) | $ 36,000 |

Diff: 2

LO: 3

Bloom: AN

AACSB / IMA: Analytic / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Problem Solving

Minutes: 10

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

Answer: corporation

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: Internal users

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: Financing

Diff: 1

LO: 2

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

222) The \_\_\_\_\_\_\_\_ reports the assets, liabilities, and stockholders' equity of a business at a specific date.

Answer: balance sheet

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: stockholders' equity

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

224) The basic accounting equation is Assets = \_\_\_\_\_\_\_\_ + \_\_\_\_\_\_\_\_.

Answer: Liabilities, Stockholders' Equity

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: statement of cash flows

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

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

Answer: auditor's report

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 1

227) 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

Answer:

1. E 6. F

2. I 7. C

3. D 8. B

4. A 9. G

5. H 10. J

Diff: 1

LO: 1, 2, 3

Bloom: K

AACSB / IMA: None / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: None

Minutes: 5

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

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

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: Communication / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 3

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

Answer: With a proprietorship or partnership, the owner(s) have unlimited liability. That is, 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.

Diff: 1

LO: 1

Bloom: C

AACSB / IMA: Communication / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 3

230) Your friend, James, 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 James?

Answer: James, 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. Also, 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.

Diff: 1

LO: 1

Bloom: C

AACSB / IMA: Communication / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 5

231) The information needs of a specific user of financial accounting information depends upon 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.

Answer: 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 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?

Diff: 1

LO: 1

Bloom: K

AACSB / IMA: Communication / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 5

232) The statement of cash flows for Nyland 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 |  |  |
|  Issuance of common stock |  $100,000 |  |
|  Issuance of note payable |  250,000 |  $350,000 |
| Net change in cash |  |  $ 0 |

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

Answer:

(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 will 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 a notes payable). This is to be expected for a new company, or a company 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 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.

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: Communication / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 5

233) 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.

Answer:

(a) Net income from the income statement is reported as an increase 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.

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: Communication / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 3

234) Broadway 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?

Answer: $90,000: X = 270,000 + ¼X

Diff: 1

LO: 3

Bloom: AN

AACSB / IMA: Communication / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 2

235) Which three items affect retained earnings, and how do they affect it?

Answer: Net income increases retained earnings, whereas a net loss and dividends decrease it.

Diff: 1

LO: 3

Bloom: K

AACSB / IMA: Communication / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 2

236) 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?

Answer: 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.

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: Communication / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 3

237) What types of information are presented in the notes to the financial statements?

Answer: 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.

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: Communication / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 3

238) (Ethics)

Joe Laramie owns and operates Joe's Burgers, a small fast-food store, located at the edge of City College campus in Newton, Ohio. After several very profitable years, Joe's Burgers began to have problems. Most of the problems were related to Joe's expansion of the eating area in the restaurant without corresponding increases in the food preparation area. Joe does not have the cash or financial backing to expand further. He has therefore decided to sell his business.

William Sheets is interested in purchasing the business. However, he is located in another city and is unfamiliar with Newton. He has asked Joe why he is selling Joe's Burgers. Joe replies that his elderly mother requires extra care, and that his brother needs help in his manufacturing business. Both are true, but neither is his primary reason for selling. Joe reasons that William should not have asked him anyway since profitable businesses don't come up for sale.

**Required:**

1. Identify the stakeholders in this situation.

2. Did Joe act ethically in not revealing fully his reasons for selling the business? Why or why not?

Answer:

1. The stakeholders include:

 Joe Laramie Students of City College and other customers

 William Sheets City College

 Newton, Ohio Persons financing the purchase of Joe's Burgers

2. Joe 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 Joe 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. Joe has shown an intent to deceive that is unethical and might be actionable in court as well.

Diff: 1

LO: 3

Bloom: E

AACSB / IMA: Ethics / Reporting

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 5

239) (Communication)

Mary Baroni is a friend of yours from high school. She decided to become a beautician after leaving high school, rather than attend college. 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 an email, asking you whether such a situation is possible, or whether she should find another accountant.

**Required:**

Write a short email to your friend. Use proper form. Answer her question completely, but briefly.

Answer: Answers will vary. The instructor's requirements concerning proper form should be followed. The email may be either business or personal. At a minimum, the email should be in a recognizable form, and proper grammar and spelling should be used. A suggested email follows:

Dear Mary,

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)

Diff: 1

LO: 3

Bloom: C

AACSB / IMA: Communication / Business Economics

AICPA: BB: Legal/Regulatory Perspective; FC: Reporting; PC: Communication

Minutes: 5

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