

***Accounting, 9e (Horngren)***

**Chapter 1 Accounting and the Business Environment**

Learning Objective 1-1

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

Answer: TRUE

Diff: 1

LO: 1-1

EOC Ref: QC1-6

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

2) Accounting is "the language of business."

Answer: TRUE

Diff: 1

LO: 1-1

EOC Ref: Accounting Vocabulary

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

3) A debt that a business owes to an outside party is called:

A) an asset.

B) a liability.

C) stockholders' equity.

D) revenue.

Answer: B

Diff: 1

LO: 1-1

EOC Ref: E1-14

AACSB: Analytic Skills

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

4) There are relatively few types of revenue. Which of the following is NOT a type of revenue?

A) Common Stock

B) Service

C) Interest

D) Sales

Answer: A

Diff: 1

LO: 1-1

EOC Ref: S1-1

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

5) A promise received from a business's customers to pay for goods and services that they received from the business is called a(n):

- A) account receivable.
- B) account payable.
- C) revenue.
- D) expense.

Answer: A

Diff: 1

LO: 1-1

EOC Ref: Accounting Vocabulary

AACSB: Analytic Skills

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

6) Which of the following statements BEST describes managerial accounting?

- A) Managerial accounting focuses on information for internal decision making.
- B) Managerial accounting focuses on outside investors and lenders.
- C) Managerial accounting provides information for the public.
- D) Managerial accounting provides information for taxing authorities.

Answer: A

Diff: 1

LO: 1-1

EOC Ref: S1-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

7) By definition, which of the following represents the owners of a corporation?

- A) Customers
- B) Creditors
- C) Stockholders
- D) Employees

Answer: C

Diff: 1

LO: 1-1

EOC Ref: QC1-2

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

8) Which of the following statements BEST defines financial statements?

- A) Financial statements are the information systems that record and measure business transactions.
- B) Financial statements are the verbal statements made to business news organizations by chief financial officers.
- C) Financial statements are documents that report on a business in monetary terms, providing information to help people make informed business decisions.
- D) Financial statements are plans and forecasts for future time periods.

Answer: C

Diff: 2

LO: 1-1

EOC Ref: Accounting Vocabulary

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

9) Items such as buildings and land are:

- A) liabilities.
- B) equity.
- C) assets.
- D) revenues.

Answer: C

Diff: 1

LO: 1-1

EOC Ref: Accounting Vocabulary

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

#### Learning Objective 1-2

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

Answer: FALSE

Diff: 1

LO: 1-2

EOC Ref: S1-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

2) Business owners use accounting information to set goals, evaluate progress toward those goals, and take corrective action when needed.

Answer: TRUE

Diff: 1

LO: 1-2

EOC Ref: E1-15

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

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

Answer: TRUE

Diff: 1

LO: 1-2

EOC Ref: S1-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling

4) An investor is someone who loans money to a business.

Answer: FALSE

Diff: 1

LO: 1-2

EOC Ref: S1-2

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

5) A creditor is a party that has an ownership interest in a business.

Answer: FALSE

Diff: 1

LO: 1-2

EOC Ref: S1-2

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

6) Different users of financial statements (investors, creditors, tax authorities, etc.) all focus on the same parts of the financial statements for the information they need.

Answer: FALSE

Diff: 1

LO: 1-2

EOC Ref: S1-2

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Decision Modeling, Measurement

7) Many organizations have contributed to the establishment of generally accepted accounting principles. Which of the following organizations has the PRIMARY responsibility for formulating accounting standards?

A) FASB

B) CMA

C) AICPA

D) SEC

Answer: A

Diff: 1

LO: 1-2

EOC Ref: QC1-1

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

8) Which of the following is a licensed accountant who serves the general public rather than an accountant who serves one particular company?

A) CPA

B) CMA

C) SEC

D) FASB

Answer: A

Diff: 1

LO: 1-2

EOC Ref: S1-3

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

9) The primary objective of financial reporting is to provide information useful for making investment and lending decisions. To be useful, information must possess certain characteristics. Which of the following is NOT one of the basic characteristics that financial information must possess to be useful?

- A) Reliability
- B) Creativity
- C) Relevance
- D) Comparability

Answer: B

Diff: 1

LO: 1-2

EOC Ref: S1-6

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

10) Accountants often refer to GAAP. What do the letters GAAP represent in accounting?

- A) Globally accepted and accurate policies
- B) Global accommodation accounting principles
- C) Generally accredited accounting policies
- D) Generally accepted accounting principles

Answer: D

Diff: 1

LO: 1-2

EOC Ref: Accounting Vocabulary

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

11) Which of the following are most likely to be users of managerial accounting information?

- A) Potential investors
- B) Creditors
- C) Customers
- D) Company managers

Answer: D

Diff: 1

LO: 1-2

EOC Ref: S1-2

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Decision Modeling

12) Which of the following are likely to be users of financial accounting information?

- A) Taxing authorities
- B) Creditors
- C) Potential investors
- D) All of the above

Answer: D

Diff: 1

LO: 1-2

EOC Ref: S1-2

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Research

### Learning Objective 1-3

1) The AICPA's Code of Professional Conduct for Accountants provides guidance to CPAs in the performance of their work.

Answer: TRUE

Diff: 1

LO: 1-3

EOC Ref: S1-3

AACSB: Ethical Understanding

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

2) GAAP refer to the set of accounting rules for international accounting.

Answer: FALSE

Diff: 1

LO: 1-3

EOC Ref: QC1-1

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

3) IFRS accounting rules apply to all U.S. corporations.

Answer: FALSE

Diff: 1

LO: 1-3

EOC Ref: QC1-1

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

4) A U.S. publicly traded company does not come under SEC regulations as long as it follows the rules of GAAP.

Answer: FALSE

Diff: 1

LO: 1-3

EOC Ref: QC1-1

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

5) IFRS are the international accounting rules that U.S. companies must follow for their international operations.

Answer: TRUE

Diff: 1

LO: 1-3

EOC Ref: E1-17

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

6) IFRS (international accounting rules) are much more specific than GAAP and allow for far less professional judgment.

Answer: FALSE

Diff: 1

LO: 1-3

EOC Ref: E1-17

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

7) The PCAOB is a watchdog agency that monitors the work of small, privately owned businesses.

Answer: FALSE

Diff: 1

LO: 1-3

EOC Ref: S1-3

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

8) Independent accountants that audit public companies come under the regulatory supervision of the PCAOB.

Answer: TRUE

Diff: 1

LO: 1-3

EOC Ref: S1-3

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

9) Accounting standards are formulated by the:

A) SEC.

B) AICPA.

C) FASB.

D) IRS.

Answer: C

Diff: 1

LO: 1-3

EOC Ref: S1-3

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

10) The Sarbanes-Oxley Act ("SOX") made it a criminal offense to:

A) steal shareholders' money.

B) default on loans from creditors.

C) declare bankruptcy.

D) falsify financial information.

Answer: D

Diff: 1

LO: 1-3

EOC Ref: Accounting Vocabulary

AACSB: Ethical Understanding

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

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

- A) SEC
- B) PCAOB
- C) FASB
- D) AICPA

Answer: A

Diff: 1

LO: 1-3

EOC Ref: QC 1-1

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

12) Which of the following organizations or groups issue an opinion on whether a company's financial statements are a fair representation of the company's financial situation?

- A) SEC
- B) Board of Directors
- C) Shareholders
- D) Independent Accountants (CPAs)

Answer: D

Diff: 1

LO: 1-3

EOC Ref: S1-3

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

#### Learning Objective 1-4

1) A not-for-profit organization has owners just like other forms of business.

Answer: FALSE

Diff: 1

LO: 1-4

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

2) Board members of a not-for-profit organization have fiduciary responsibilities which constitute legal obligations to manage the organization in a trust-worthy manner.

Answer: TRUE

Diff: 1

LO: 1-4

EOC Ref: S1-4

AACSB: Ethical Understanding

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting



3) There are four major forms of business organizations.

Answer: FALSE

Diff: 1

LO: 1-4

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

4) Similar to partnerships, in a limited-liability company (LLC), the members are personally liable for the debts and obligations of the business.

Answer: FALSE

Diff: 1

LO: 1-4

EOC Ref: P1-29A

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Risk Analysis

5) The largest businesses are usually organized as:

A) corporations.

B) partnerships.

C) proprietorships.

D) LLCs.

Answer: A

Diff: 1

LO: 1-4

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

6) Businesses can be organized in a variety of forms. The types of businesses commonly found in the U.S. include all of the following EXCEPT:

A) corporations.

B) state government-run companies.

C) partnerships.

D) proprietorships.

Answer: B

Diff: 1

LO: 1-4

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

- 7) A corporation possesses all but one of the following characteristics. Which of the following is NOT a characteristic of a corporation?
- A) If a corporation cannot pay its debts, lenders can take the owners' personal assets to satisfy the obligations.
  - B) A corporation is a distinct entity in the eyes of the law.
  - C) Corporation ownership is divided into shares of stock.
  - D) A corporation is owned by shareholders or stockholders.

Answer: A

Diff: 1

LO: 1-4

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

- 8) Corporate ownership is a very popular type of ownership in the United States. Which of the following is a major reason that corporate ownership is popular?

- A) Corporate shareholders have limited liability for the debts of the corporation.
- B) Most corporations are small or medium-sized.
- C) The life of a corporation is limited by the death of an owner.
- D) A corporation is usually managed by the owners.

Answer: A

Diff: 1

LO: 1-4

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

- 9) Which of the following is NOT a characteristic of a traditional partnership?

- A) A partnership is owned by shareholders or stockholders.
- B) If a partnership cannot pay its debts, lenders can take the owners' personal assets to satisfy the obligations.
- C) A partnership joins two or more individuals as co-owners.
- D) Each partner has the authority to commit the entire partnership to a binding contract.

Answer: A

Diff: 1

LO: 1-4

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

- 10) Which of the following is TRUE for a proprietorship?

- A) A proprietorship joins two or more individuals as co-owners.
- B) The proprietor is not personally liable for the debts of the proprietorship.
- C) A proprietorship has a single owner.
- D) A proprietorship has an indefinite life.

Answer: C

Diff: 1

LO: 1-4

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

11) Which of the following is a characteristic of a limited liability partnership (LLP)?

- A) A limited liability partnership issues shares of stock to shareholders.
- B) Each partner is liable only for the actions under his or her control.
- C) A limited liability partnership is owned by a single investor.
- D) The limited liability partners are subject to "double taxation."

Answer: B

Diff: 2

LO: 1-4

EOC Ref: S1-4

AACSB: Analytic Skills

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

12) Caleb Brown has been the sole owner of a bicycle sales and repair shop for many years. Which of the following business types would best protect Caleb's personal assets from product liability exposure?

- A) Partnership
- B) Limited liability company
- C) Proprietorship
- D) Not-for-profit

Answer: B

Diff: 2

LO: 1-4

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Decision Modeling

13) Dylan Chase is a partner in a CPA practice. One of Dylan's partners sometimes takes a very aggressive position when auditing clients. Which of the following business types would protect Dylan's personal assets from malpractice liability for his partner's aggressive auditing tactics?

- A) Limited liability partnership
- B) Traditional partnership
- C) Not-for-profit
- D) Proprietorship

Answer: A

Diff: 1

LO: 1-4

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Decision Modeling

14) Phillip and Reed have developed a new technology for home computer systems. However, they need to raise a large amount of capital to build the production and support facilities to market their product successfully. Which of the following business types would be best suited to help the company raise the necessary capital to begin production?

- A) Corporation
- B) Proprietorship
- C) Partnership
- D) Limited liability partnership

Answer: A

Diff: 1

LO: 1-4

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Decision Modeling

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

- A) Limited liability company
- B) Partnership
- C) Corporation
- D) Proprietorship

Answer: D

Diff: 2

LO: 1-4

EOC Ref: S1-4

AACSB: Analytic Skills

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

#### Learning Objective 1-5

1) A proprietor has unlimited liability for the debts and obligations of the proprietorship.

Answer: TRUE

Diff: 1

LO: 1-5

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Risk Analysis

2) The most that a proprietor can lose, as a result of business debts or lawsuits, is limited to the amount he/she has invested in the proprietorship itself.

Answer: FALSE

Diff: 1

LO: 1-5

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Risk Analysis

3) A proprietor may have to pay self-employment tax in addition to income tax.

Answer: TRUE

Diff: 1

LO: 1-5

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

4) In an LLC, the business, not the owners, is responsible for the corporation's debts.

Answer: TRUE

Diff: 1

LO: 1-5

EOC Ref: P1-29A

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Risk Analysis

5) A proprietorship is created by:

A) electing a board of directors.

B) obtaining a state charter.

C) issuing shares of stock.

D) one individual deciding to start a business.

Answer: D

Diff: 1

LO: 1-5

EOC Ref: S1-5

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Decision Modeling

6) In an LLC, who is responsible for the company's debts?

A) The company itself

B) The partners

C) The individual investors

D) The proprietor

Answer: A

Diff: 1

LO: 1-5

EOC Ref: P1-29A

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Risk Analysis

7) Regarding accounting information and records, a proprietorship is an entity entirely separate from its:

A) stockholders.

B) vendors.

C) customers.

D) proprietor.

Answer: D

Diff: 1

LO: 1-5

EOC Ref: S1-5

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

8) From a legal perspective, a proprietorship is:

- A) an entity separate from its proprietor.
- B) authorized under state charter.
- C) not a distinct entity from its proprietor.
- D) subject to regulation by the SEC.

Answer: C

Diff: 2

LO: 1-5

EOC Ref: S1-5

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

9) The financial examination of a company's financial records is called a(n):

- A) audit.
- B) criminal investigation.
- C) financial analysis.
- D) appraisal.

Answer: A

Diff: 1

LO: 1-5

EOC Ref: Accounting Vocabulary

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

10) If a proprietorship cannot pay its debts, the creditors may make claims against the:

- A) assets of the proprietorship only.
- B) assets of the proprietor.
- C) state government.
- D) employees of the business.

Answer: B

Diff: 1

LO: 1-5

EOC Ref: S1-6

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Risk Analysis

11) The taxable income of a proprietorship is:

- A) combined with the personal income of the proprietor on a single return.
- B) reported on a separate return from the proprietor's personal income.
- C) not taxable.
- D) handled similarly to that of a corporation.

Answer: A

Diff: 1

LO: 1-5

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement

12) A relatively low amount of government regulation is a key advantage of a:

- A) partnership.
- B) not-for-profit.
- C) corporation.
- D) proprietorship.

Answer: D

Diff: 1

LO: 1-5

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

13) One beneficial characteristic of a proprietorship is:

- A) that the owner also manages the business.
- B) the owner appoints a board of directors to manage the business.
- C) the owner's interest is separate from the manager's interest.
- D) the owner does not need to be involved in the day-to-day operations of the business.

Answer: A

Diff: 1

LO: 1-5

EOC Ref: S1-4

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

#### Learning Objective 1-6

1) Many liabilities have the word "receivable" in their titles.

Answer: FALSE

Diff: 1

LO: 1-6

EOC Ref: Accounting Vocabulary

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

2) The faithful representation principle requires that information is complete, neutral and free from material error.

Answer: TRUE

Diff: 1

LO: 1-6

EOC Ref: P1-29A

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

3) Which of the following concepts (or principles) would dictate that a person with three different businesses keep three different checking accounts?

- A) Cost principle
- B) Faithful representation principle
- C) Going-concern concept
- D) Entity concept

Answer: D

Diff: 1

LO: 1-6

EOC Ref: S1-6

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

4) Which of the following concepts (or principles) would most likely require that data be complete, neutral, and free from error?

- A) Cost principle
- B) Faithful representation principle
- C) Entity concept
- D) Going-concern concept

Answer: B

Diff: 1

LO: 1-6

EOC Ref: S1-6

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting

5) Which of the following concepts (or principles) addresses the ability of partners to commit other partners and the business to a contract?

- A) Going-concern concept
- B) Cost principle
- C) Mutual agency
- D) Objectivity principle

Answer: C

Diff: 1

LO: 1-6

EOC Ref: S1-6

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

6) Counting the actual physical inventory of a company and comparing it to accounting records would be an example of the:

- A) faithful representation principle.
- B) entity concept.
- C) going-concern concept.
- D) stable monetary unit concept.

Answer: A

Diff: 1

LO: 1-6

EOC Ref: S1-6

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting



7) An American business records transactions using the U.S. dollar and disregards fluctuation in the buying power of the dollar over time. This represents the:

- A) entity concept.
- B) going-concern concept.
- C) faithful representation principle.
- D) stable monetary unit principle.

Answer: D

Diff: 1

LO: 1-6

EOC Ref: S1-6

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

8) Which of the following concepts (or principles) would require that an item be recorded at the amount actually paid rather than at the estimated market value?

- A) Going-concern concept
- B) Entity concept
- C) Cost principle
- D) Stable monetary unit concept

Answer: C

Diff: 1

LO: 1-6

EOC Ref: S1-6

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

9) Which of the following concepts (or principles) require an assumption that the entity will remain in operation for the foreseeable future?

- A) Entity concept
- B) Faithful representation principle
- C) Going-concern concept
- D) Cost principle

Answer: C

Diff: 1

LO: 1-6

EOC Ref: S1-6

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

10) Bill Rogers has three different businesses. He has only one bank account for transactions relating to all of his various businesses. Which of the following concepts or principles of accounting is Bill violating?

- A) Faithful representation principle
- B) Entity concept
- C) Cost principle
- D) Going-concern concept

Answer: B

Diff: 2

LO: 1-6

EOC Ref: S1-6

AACSB: Analytic Skills

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

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

- A) Cost principle
- B) Entity concept
- C) Stable monetary unit concept
- D) Going-concern concept

Answer: A

Diff: 1

LO: 1-6

EOC Ref: S1-6

AACSB: Analytic Skills

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

12) Tate Corporation purchased a building for its grocery store for \$30,000 in 1970. Based on inflation estimates, the amount of this asset has been adjusted in the accounting records. The building is now reported at \$75,000. Which of the following concepts or principles of accounting is being violated?

- A) Going-concern concept
- B) Stable monetary unit concept
- C) Entity concept
- D) None of the above

Answer: B

Diff: 2

LO: 1-6

EOC Ref: S1-6

AACSB: Analytic Skills

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

13) The Ragun Cajun Bar and Grill, Inc. has been a popular restaurant in Beaumont, Texas. With no insurance, a recent hurricane has left the business with large losses due to a damaged building and lost business income. Which of the following concepts or principles of accounting will be of the greatest concern to Ragun Cajun's auditors?

- A) Going-concern concept
- B) Faithful representation principle
- C) Entity concept
- D) Stable monetary unit concept

Answer: A

Diff: 2

LO: 1-6

EOC Ref: S1-6

AACSB: Analytic Skills

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

## Learning Objective 1-7

1) Which of the following is the CORRECT accounting equation?

- A) Assets + Liabilities = Owners' equity
- B) Assets = Liabilities + Owners' equity
- C) Assets + Revenue = Owners' equity
- D) Assets + Revenue = Liabilities + Expenses

Answer: B

Diff: 1

LO: 1-7

EOC Ref: E1-14

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

2) Owner's equity is \$150,000 and total liabilities are \$90,000. Total assets would be:

- A) \$300,000.
- B) \$180,000.
- C) \$60,000.
- D) \$240,000.

Answer: D

Explanation: D) Calculations:  $\$150,000 + \$90,000 = \$240,000$

Diff: 1

LO: 1-7

EOC Ref: E1-14

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

3) The owners' claims to the assets of the business are called:

- A) revenues.
- B) liabilities.
- C) owners' equity.
- D) expenses.

Answer: C

Diff: 1

LO: 1-7

EOC Ref: E1-14

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

4) A \$5,000 account payable is paid by the business. How is the accounting equation affected?

- A) Assets decrease \$5,000; owner's equity increases \$5,000.
- B) Assets decrease \$5,000; liabilities decrease \$5,000.
- C) Assets increase \$5,000; owner's equity decreases \$5,000.
- D) Assets increase \$5,000; liabilities increase \$5,000.

Answer: B

Diff: 2

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

5) Assets are \$150,000 and total liabilities are \$90,000. Total owners' equity will be:

- A) \$180,000.
- B) \$300,000.
- C) \$240,000.
- D) \$60,000.

Answer: D

Explanation: D) Calculations:  $\$150,000 - \$90,000 = \$60,000$

Diff: 1

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

6) Assets are \$270,000 and owner's equity is \$90,000. Liabilities will be:

- A) \$60,000.
- B) \$360,000.
- C) \$270,000.
- D) \$180,000.

Answer: D

Explanation: D) Calculations:  $\$270,000 - \$90,000 = \$180,000$

Diff: 1

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

7) A business performs services for its customers. Payment is expected to be received next month. How does the performance of services affect the accounting equation?

- A) Liabilities increase; owner's equity decreases.
- B) Assets increase; owner's equity increases.
- C) Assets decrease; owner's equity decreases.
- D) Assets increase; owner's equity decreases.

Answer: B

Diff: 2

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

8) A business receives a bill for services rendered from one of its suppliers. The business will pay the supplier next month. When the business receives the bill from its supplier, how does this affect the accounting equation?

- A) Assets decrease; owner's equity decreases.
- B) Liabilities increase; owner's equity decreases.
- C) Assets increase; liabilities increase.
- D) Liabilities increase; owner's equity increases.

Answer: B

Diff: 2

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

9) A business settles a liability by making a payment with cash. How does paying this liability affect the accounting equation?

- A) Assets decrease; liabilities decrease.
- B) Liabilities decrease; owner's equity increases.
- C) Assets increase; liabilities increase.
- D) Assets increase; liabilities decrease.

Answer: A

Diff: 2

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

10) A proprietor makes a cash withdrawal from the proprietorship. How does this affect the accounting equation?

- A) This has no effect on assets, liabilities, or owner's equity.
- B) Assets decrease; owner's equity decreases.
- C) Assets increase; liabilities decrease.
- D) Assets decrease; owner's equity increases.

Answer: B

Diff: 2

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

11) Equipment is sold for cash in an amount equal to the cost of the equipment recorded on the books. How does this sale affect the accounting equation?

- A) One asset increases; one asset decreases.
- B) Assets increase; liabilities increase.
- C) Assets increase; liabilities decrease.
- D) Assets increase; owner's equity increases.

Answer: A

Diff: 2

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

12) The business receives cash from a customer that is owed to the company "on account," based on services rendered to the customer previously. How does the collection of the cash affect the accounting equation?

- A) Assets increase; owner's equity increases.
- B) Assets increase; liabilities increase.
- C) One asset increases; one asset decreases.
- D) Assets decrease; owner's equity decreases.

Answer: C

Diff: 2

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

13) Land was originally purchased for \$20,000. It is sold for \$20,000 in cash. How does the sale affect the accounting equation?

- A) Assets increase \$20,000; liabilities decrease \$20,000.
- B) Assets increase \$20,000; liabilities increase \$20,000.
- C) Assets increase \$20,000; owner's equity increases \$20,000.
- D) Assets increase \$20,000; assets decrease \$20,000.

Answer: D

Diff: 2

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

14) Land is purchased by the business for \$100,000. The company pays for land with a \$20,000 cash payment and the execution of an \$80,000 promissory note payable to the seller. How does this purchase affect the business's accounting equation?

- A) Assets increase \$80,000; liabilities decrease \$20,000.
- B) Assets increase \$20,000; liabilities decrease \$80,000.
- C) Assets increase \$80,000; owner's equity increases \$80,000.
- D) Assets increase \$80,000; liabilities increase \$80,000.

Answer: D

Diff: 3

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

15) The business collects a \$5,000 account receivable from its customer. How is the accounting equation affected?

- A) Assets increase \$5,000; liabilities decrease \$5,000.
- B) One asset increases by \$5,000; another asset decreases \$5,000.
- C) Assets increase \$5,000; liabilities increase \$5,000.
- D) Assets increase \$5,000; owner's equity increases \$5,000.

Answer: B

Diff: 2

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

16) Total liabilities increase by \$7,000. How is the accounting equation affected?

- A) Either assets have increased by \$7,000, or owner's equity has decreased by \$7,000.
- B) Assets have decreased by \$7,000.
- C) Assets and owner's equity have each decreased by \$3,500.
- D) Owner's equity has increased by \$7,000.

Answer: A

Diff: 3

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

17) An individual asset has increased. Which of the following is possible?

- A) There is an equal decrease in another asset.
- B) There is an equal decrease in owner's equity.
- C) There is an equal decrease in a liability account.
- D) Both liabilities and owner's equity decrease.

Answer: A

Diff: 2

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

18) Scott's Camera Shop started the year with total assets of \$80,000 and total liabilities of \$40,000. During the year, the business earned revenues of \$120,000 and incurred expenses of \$70,000. Scott made no capital contributions during the year, but did make withdrawals of \$60,000.

What is the amount of Scott's owner's equity at the end of the year?

- A) \$40,000
- B) \$50,000
- C) \$30,000
- D) \$10,000

Answer: C

Explanation: C) Calculations:  $\$80,000 - \$40,000 = \$40,000 + \$120,000 - \$70,000 - \$60,000 = \$30,000$

Diff: 3

LO: 1-7

EOC Ref: P1-31A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

19) Scott's Camera Shop started the year with total assets of \$80,000 and total liabilities of \$40,000. During the year, the business earned revenues of \$120,000 and incurred expenses of \$70,000. Scott made no capital contributions during the year, but did make withdrawals of \$60,000.

What is the amount of Scott's net income for the year?

- A) \$50,000
- B) \$10,000
- C) \$30,000
- D) \$40,000

Answer: A

Explanation: A) Calculations:  $\$120,000 - \$70,000 = \$50,000$

Diff: 2

LO: 1-7

EOC Ref: E1-24

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

20) Scott's Camera Shop started the year with total assets of \$80,000 and total liabilities of \$40,000. During the year, the business earned revenues of \$120,000 and incurred expenses of \$70,000. Scott made no capital contributions during the year, but did make withdrawals of \$60,000.

The net change in Scott's owner's equity for the year is a:

- A) \$10,000 decrease.
- B) \$40,000 increase.
- C) \$30,000 decrease.
- D) \$50,000 increase.

Answer: A

Explanation: A) Calculations:  $\$120,000 - \$70,000 - \$60,000 = (\$10,000)$

Diff: 2

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

21) Net income is \$29,000. Beginning capital balance was \$34,000. Ending capital balance was \$55,000. No capital contributions were made by the owner during the year. What amount of drawings was made?

- A) \$18,000
- B) \$8,000
- C) \$5,000
- D) \$60,000

Answer: B

Explanation: B) Calculations:  $\$34,000 + \$29,000 - \$55,000 = \$8,000$

Diff: 2

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting



22) Sharon Samson starts a plumbing service named Reliable Waterworks. Selected transactions are described as follows:

- A) Sharon deposits \$7,000 into a new checking account for the business, recording the capital contribution.
- B) Reliable pays \$4,000 cash for equipment to be used for plumbing repairs.
- C) Reliable borrows \$15,000 from a local bank and deposits the money in the checking account.
- D) Reliable pays \$600 rent for the first month.
- E) Reliable pays \$400 cash for plumbing supplies to be used on various jobs in the future.
- F) Reliable completes a plumbing repair project for a local lawyer and receives \$1,300 cash.
- G) Sharon takes a cash withdrawal of \$2,500.

After all of the transactions, what is the amount of total assets?

- A) \$25,700
- B) \$5,200
- C) \$24,200
- D) \$20,200

Answer: D

Explanation: D) Calculations:  $\$7,000 + \$4,000 - \$4,000 + \$15,000 - \$600 - \$400 + \$400 + \$1,300 - \$2,500 = \$20,200$

Diff: 3

LO: 1-7

EOC Ref: P1-31A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

23) Sharon Samson starts a plumbing service called Reliable Waterworks. Selected transactions are described as follows:

- A) Sharon deposits \$7,000 into a new checking account for the business, recording the capital contribution.
- B) Reliable pays \$4,000 cash for equipment to be used for plumbing repairs.
- C) Reliable borrows \$15,000 from a local bank and deposits the money in the checking account.
- D) Reliable pays \$600 rent for the first month.
- E) Reliable pays \$400 cash for plumbing supplies to be used on various jobs in the future.
- F) Reliable completes a plumbing repair project for a local lawyer and receives \$1,300 cash.
- G) Sharon takes a cash withdrawal of \$2,500.

After all of the transactions, what is the amount of total liabilities?

- A) \$15,000
- B) \$4,000
- C) \$19,000
- D) \$4,400

Answer: A

Explanation: A) Calculations: \$15,000 only

Diff: 2

LO: 1-7

EOC Ref: P1-31A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

24) Sharon Samson starts a plumbing service named Reliable Waterworks. Selected transactions are described as follows:

- A) Sharon deposits \$7,000 into a new checking account for the business, recording the capital contribution.
- B) Reliable pays \$4,000 cash for equipment to be used for plumbing repairs.
- C) Reliable borrows \$15,000 from a local bank and deposits the money in the checking account.
- D) Reliable pays \$600 rent for the first month.
- E) Reliable pays \$400 cash for plumbing supplies to be used on various jobs in the future.
- F) Reliable completes a plumbing repair project for a local lawyer and receives \$1,300 cash.
- G) Sharon takes a cash withdrawal of \$2,500.

After all of the transactions, what is the amount of total owner's equity?

- A) \$5,200
- B) \$20,200
- C) \$7,700
- D) \$7,300

Answer: A

Explanation: A) Calculations:  $\$7,000 - \$600 + \$1,300 - \$2,500 = \$5,200$

Diff: 3

LO: 1-7

EOC Ref: P1-31A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

25) Sharon Samson starts a plumbing service named Reliable Waterworks. Selected transactions are described as follows:

- A) Sharon deposits \$7,000 into a new checking account for the business, recording the capital contribution.
- B) Reliable pays \$4,000 cash for equipment to be used for plumbing repairs.
- C) Reliable borrows \$15,000 from a local bank and deposits the money in the checking account.
- D) Reliable pays \$600 rent for the first month.
- E) Reliable pays \$400 cash for plumbing supplies to be used on various jobs in the future.
- F) Reliable completes a plumbing repair project for a local lawyer and receives \$1,300 cash.
- G) Sharon takes a cash withdrawal of \$2,500.

After all of the transactions, what is net income?

- A) \$700
- B) \$300
- C) \$4,500
- D) \$1,300

Answer: A

Explanation: A) Calculations:  $-\$600 + \$1,300 = \$700$

Diff: 3

LO: 1-7

EOC Ref: P1-31A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

26) Sharon Samson starts a plumbing service named Reliable Waterworks. Selected transactions are described as follows:

- A) Sharon deposits \$7,000 into a new checking account for the business, recording the capital contribution.
- B) Reliable pays \$4,000 cash for equipment to be used for plumbing repairs.
- C) Reliable borrows \$15,000 from a local bank and deposits the money in the checking account.
- D) Reliable pays \$600 rent for the first month.
- E) Reliable pays \$400 cash for plumbing supplies to be used on various jobs in the future.
- F) Reliable completes a plumbing repair project for a local lawyer and receives \$1,300 cash.
- G) Sharon takes a cash withdrawal of \$2,500.

After all of the transactions, what is cash balance?

- A) \$15,800
- B) \$300
- C) \$4,500
- D) \$1,300

Answer: A

Explanation: A) Calculations:  $\$7,000 - \$4,000 + \$15,000 - \$600 - \$400 + \$1,300 - \$2,500 = \$15,800$

Diff: 3

LO: 1-7

EOC Ref: P1-31A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

27) Following is a list of account balances (except for owner's capital) of Wilson Mowing Service as of December 31 of the first year of operation:

Accounts receivable	\$ 2,500
Accounts payable	3,500
Salary expense	4,500
Repairs expense	800
Truck	8,500
Equipment	6,300
Notes payable	8,200
Cash	6,800
Supplies expense	1,600
Service revenue	31,900
Gasoline expense	3,800
Salary payable	200

The proprietor, J.D. Wilson, contributed \$3,000 at the beginning of the year; during the year, the proprietor took \$12,000 in drawings.

At the end of the year, what is the amount of total assets?

A) \$12,200

B) \$24,100

C) \$11,900

D) \$21,200

Answer: B

Explanation: B) Calculations:  $\$2,500 + \$8,500 + \$6,300 + \$6,800 = \$24,100$

Diff: 1

LO: 1-7

EOC Ref: P1-35A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

28) Following is a list of account balances (except for owner's capital) of Wilson Mowing Service as of December 31 of the first year of operation:

Accounts receivable	\$ 2,500
Accounts payable	3,500
Salary expense	4,500
Repairs expense	800
Truck	8,500
Equipment	6,300
Notes payable	8,200
Cash	6,800
Supplies expense	1,600
Service revenue	31,900
Gasoline expense	3,800
Salary payable	200

The proprietor, J.D. Wilson, contributed \$3,000 at the beginning of the year: during the year, the proprietor took \$12,000 in drawings.

At the end of the year, what is the amount of total liabilities?

A) \$11,900

B) \$24,100

C) \$21,200

D) \$12,200

Answer: A

Explanation: A) Calculations:  $\$3,500 + \$8,200 + \$200 = \$11,900$

Diff: 1

LO: 1-7

EOC Ref: P1-35A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

29) Following is a list of account balances (except for owner's capital) of Wilson Mowing Service as of December 31 of the first year of operation:

Accounts receivable	\$ 2,500
Accounts payable	3,500
Salary expense	4,500
Repairs expense	800
Truck	8,500
Equipment	6,300
Notes payable	8,200
Cash	6,800
Supplies expense	1,600
Service revenue	31,900
Gasoline expense	3,800
Salary payable	200

The proprietor, J.D. Wilson, contributed \$3,000 at the beginning of the year; during the year, the proprietor made \$12,000 in drawings.

At the end of the year, what is the amount of total owner's equity?

A) \$11,900

B) \$24,100

C) \$21,200

D) \$12,200

Answer: D

Explanation: D) Calculations: \$24,100 total assets - \$11,900 total liabilities = \$12,200

Diff: 3

LO: 1-7

EOC Ref: P1-35A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

30) Following is a list of account balances (except for owner's capital) of Wilson Mowing Service as of December 31 of the first year of operation:

Accounts receivable	\$ 2,500
Accounts payable	3,500
Salary expense	4,500
Repairs expense	800
Truck	8,500
Equipment	6,300
Notes payable	8,200
Cash	6,800
Supplies expense	1,600
Service revenue	31,900
Gasoline expense	3,800
Salary payable	200

The proprietor, J.D. Wilson, contributed \$3,000 at the beginning of the year; during the year, the proprietor took \$12,000 in drawings.

At the end of the year, what is net income?

A) \$21,200

B) \$11,900

C) \$12,200

D) \$24,100

Answer: A

Explanation: A) Calculations:  $\$31,900 - \$4,500 - \$800 - \$1,600 - \$3,800 = \$21,200$

Diff: 2

LO: 1-7

EOC Ref: P1-35A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

31) The assets and liabilities of Matt Wesley Auto Shop are as follows: Cash, \$10,000; Accounts receivable, \$8,200; Supplies, \$1,050; Land, \$25,000; Accounts payable, \$6,530. What is the amount of owner's equity?

- A) \$21,500
- B) \$44,430
- C) \$50,780
- D) \$37,720

Answer: D

Explanation: D) Calculations:  $\$10,000 + \$8,200 + \$1,050 + \$25,000 - \$6,530 = \$37,720$

Diff: 2

LO: 1-7

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

32) The total assets and the total liabilities of Ty Williams Financial Services, are shown below. During the year, the proprietor made no additional capital contributions, and took drawings of \$15,000.

	Assets	Liabilities
Beginning of year	\$395,000	\$290,000
End of year	455,000	320,000

What was the amount of net income for the year?

- A) \$85,000
- B) \$40,000
- C) \$45,000
- D) \$135,000

Answer: C

Explanation: C) Calculations:

$\$395,000 - \$290,000 = \$105,000$

$\$455,000 - \$320,000 = \$135,000$

$\$135,000 + \$15,000 - \$105,000 = \$45,000$

Diff: 3

LO: 1-7

EOC Ref: E1-18

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting



33) The total assets and the total liabilities of Paragon Services are shown below. During the year, no additional capital contributions were made, and the business earned net income of \$50,000.

	Assets	Liabilities
Beginning of year	\$395,000	\$290,000
End of year	455,000	320,000

What was the amount of drawings taken during the year?

A) \$85,000

B) \$40,000

C) \$45,000

D) \$20,000

Answer: D

Explanation: D) Calculations:

$\$395,000 - \$290,000 = \$105,000$

$\$455,000 - \$320,000 = \$135,000$

$\$135,000 - \$105,000 = \$20,000$

Diff: 3

LO: 1-7

EOC Ref: E1-18

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

Learning Objective 1-8

1) A business owner starts a new business and invests \$6,000 of capital. This transaction results in an increase in the business's liabilities.

Answer: FALSE

Diff: 1

LO: 1-8

EOC Ref: E1-20

AACSB: Analytic Skills

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

2) Tim contributes capital into his business. The two accounts affected are:

- A) an asset and a liability.
- B) an asset and an equity.
- C) a liability and an equity.
- D) two asset accounts.

Answer: B

Diff: 1

LO: 1-8

EOC Ref: E1-20

AACSB: Analytic Skills

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

3) Joe purchased office equipment for \$1,250 cash. What is the effect on accounts?

- A) One asset account increases; one liability account increases.
- B) Two asset accounts increase.
- C) One asset account increases; another asset account decreases.
- D) One asset account increases; one equity account increases.

Answer: C

Diff: 1

LO: 1-8

EOC Ref: E1-21

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

4) Bill purchased office supplies for \$500 cash. What is the effect on accounts?

- A) Cash account increases; Accounts payable increases.
- B) Cash account increases; Supplies account increases.
- C) Supplies account increases; Cash account decreases.
- D) Supplies account increases; Owner's capital account increases.

Answer: C

Diff: 1

LO: 1-8

EOC Ref: E1-21

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

5) Hamilton Lawn Service earned \$1,000 for services rendered and collected cash from its customer. What is the effect on accounts?

- A) Cash account increases; Accounts payable increases.
- B) Cash account increases; Accounts receivable increases.
- C) Cash account increases; Supplies account decreases.
- D) Cash account increases; Owner's capital account increases.

Answer: D

Diff: 2

LO: 1-8

EOC Ref: E1-21

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

6) Hamilton Lawn Service earned \$1,000 for services rendered. The customer promised to pay at a later time. What is the effect on accounts?

- A) Accounts receivable decreases; Owner's capital increases.
- B) Cash and Accounts receivable both increase.
- C) Cash account increases; Accounts receivable decreases.
- D) Accounts receivable increases; Owner's capital increases.

Answer: D

Diff: 2

LO: 1-8

EOC Ref: E1-21

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

7) Hamilton Lawn Service earned \$1,000 for services rendered. The customer promised to pay at a later time. Which of the following accounts increased?

- A) Accounts payable
- B) Supplies
- C) Cash
- D) Accounts receivable

Answer: D

Diff: 2

LO: 1-8

EOC Ref: E1-21

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

8) Hamilton Lawn Service incurred \$800 repair expense and paid the repair company in cash. Which account, besides Cash, decreased?

- A) Owner's capital
- B) Accounts payable
- C) Common stock
- D) Accounts receivable

Answer: A

Diff: 2

LO: 1-8

EOC Ref: E1-21

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

9) Hamilton Lawn Service incurred \$500 labor expense and promised to pay the labor agency within 30 days. Which account increased?

- A) Accounts receivable
- B) Cash
- C) Accounts payable
- D) Owner's capital

Answer: C

Diff: 2

LO: 1-8

EOC Ref: E1-21

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

10) Hamilton Lawn Service incurred \$500 labor expense and promised to pay the labor agency within 30 days. Which of the following accounts decreased?

- A) Accounts payable
- B) Owner's capital
- C) Supplies
- D) Accounts receivable

Answer: B

Diff: 2

LO: 1-8

EOC Ref: E1-21

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

11) Martin Supply Service paid \$350 cash to a materials supplier that it owed from the previous month. What is the effect of the cash payment on accounts of the business?

- A) Materials account increases; Owner's capital account decreases.
- B) Cash account decreases; Accounts payable increases.
- C) Accounts payable increases; Owner's capital account decreases.
- D) Cash account decreases; Accounts payable decreases.

Answer: D

Diff: 2

LO: 1-8

EOC Ref: E1-21

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

12) Martin Supply Service paid \$350 cash to a materials supplier that it owed from the previous month. Which of the following accounts decreases?

- A) Accounts receivable
- B) Accounts payable
- C) Owner's capital
- D) Rent expense

Answer: B

Diff: 2

LO: 1-8

EOC Ref: E1-21

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

13) Martin Supply Service received \$1,000 cash from a customer which was owed to the business from the previous month. What is the effect of the cash receipt on the accounts of the business?

- A) Accounts receivable decreases; Owner's capital account decreases.
- B) Cash account increases; Accounts receivable decreases.
- C) Accounts payable increases; Owner's capital account decreases.
- D) Cash increases; Accounts payable decreases.

Answer: B

Diff: 2

LO: 1-8

EOC Ref: E1-21

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

14) Martin Supply Service received \$1,000 cash from a customer which was owed to the business from the previous month. Which of the following accounts decreases?

- A) Cash
- B) Owner's capital
- C) Accounts payable
- D) Accounts receivable

Answer: D

Diff: 2

LO: 1-8

EOC Ref: E1-21

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

15) The proprietor of Martin Supply Service took a \$5,000 cash withdrawal. What is the effect of the withdrawal on the accounts of the business?

- A) Cash account decreases; Owner's capital account decreases.
- B) Cash account increases; Accounts receivable decreases.
- C) Accounts payable increases; Owner's capital account decreases.
- D) Cash account increases; Owner's capital account decreases.

Answer: A

Diff: 2

LO: 1-8

EOC Ref: P1-31A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

16) The proprietor of Martin Supply Services took a \$5,000 cash withdrawal. Which of the following accounts decreased?

- A) Office supplies
- B) Accounts payable
- C) Accounts receivable
- D) Owner's capital

Answer: D

Diff: 2

LO: 1-8

EOC Ref: P1-34A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

17) Ace Builders had the following transactions in June: Earned \$4,000 "on account;" collected \$3,000 from a customer that was owed from a previous month; incurred \$500 of repair expense and paid cash to the repairman; paid \$1,200 to a supplier that it owed from the previous month; paid out \$800 in cash drawings to the owner. What is the combined effect on Owner's capital of the June transactions?

- A) Down \$2,700
- B) Down \$5,700
- C) Up \$2,700
- D) Down \$4,500

Answer: C

Explanation: C) Calculations:  $\$4,000 - \$500 - \$800 = \$2,700$

Diff: 3

LO: 1-8

EOC Ref: P1-31A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

18) Ace Builders had the following transactions in June: Earned \$4,000 "on account;" collected \$3,000 from a customer which was owed from a previous month; incurred \$500 of repair expense and paid cash to the repairman; paid \$1,200 to a supplier that it owed from the previous month; paid out \$800 in cash drawings to the owner. What is the combined effect on Cash of the June transactions?

- A) Up \$500
- B) Down \$5,700
- C) Down \$2,700
- D) Up \$4,500

Answer: A

Explanation: A) Calculations:  $\$3,000 - \$500 - \$1,200 - \$800 = \$500$

Diff: 3

LO: 1-8

EOC Ref: P1-31A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

19) Ace Builders had the following transactions in June: Earned \$4,000 "on account;" collected \$3,000 from a customer which was owed from a previous month; incurred \$500 of repair expense and paid cash to the repairman; paid \$1,200 to a supplier that it owed from the previous month; paid out \$800 in cash drawings to the owner. How much was the Net income in June?

- A) \$500
- B) \$5,700
- C) \$2,700
- D) \$3,500

Answer: D

Explanation: D) Calculations:  $\$4,000 - \$500 = \$3,500$

Diff: 3

LO: 1-8

EOC Ref: P1-31A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

20) ABC Delivery Service had the following transactions in June: Earned \$4,000 cash for services rendered; collected \$2,500 from a customer "on account;" paid out \$200 cash for plumbing services; received \$3,500 of supplies and promised to pay one month later; paid out \$1,000 in cash drawings to the owner. What is the combined effect on Owner's capital of the June transactions?

- A) Up \$2,800
- B) Down \$300
- C) Down \$6,300
- D) Up \$5,300

Answer: A

Explanation: A) Calculations:  $\$4,000 - \$300 - \$1,000 = \$2,800$

Diff: 3

LO: 1-8

EOC Ref: P1-31A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

21) ABC Delivery Service had the following transactions in June: Earned \$4,000 cash for services rendered; collected \$2,500 from a customer "on account;" paid out \$200 cash for plumbing services; received \$3,500 of supplies and promised to pay one month later; paid out \$1,000 in cash drawings to the owner. What is the combined effect on Cash of the June transactions?

- A) Up \$1,800
- B) Down \$300
- C) Down \$6,300
- D) Up \$5,300

Answer: D

Explanation: D) Calculations:  $\$4,000 + \$2,500 - \$200 - \$1,000 = \$5,300$

Diff: 3

LO: 1-8

EOC Ref: P1-31A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

22) ABC Delivery Service had the following transactions in June: Earned \$4,000 cash for services rendered; collected \$2,500 from a customer "on account;" paid out \$200 cash for plumbing services; received \$3,500 of supplies and promised to pay one month later; paid out \$1,000 in cash drawings to the owner. How much was Net income in June?

- A) \$5,300
- B) \$2,800
- C) \$6,300
- D) \$3,800

Answer: D

Explanation: D) Calculations:  $\$4,000 - \$200 = \$3,800$

Diff: 3

LO: 1-8

EOC Ref: P1-31A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

## Learning Objective 1-9

1) The balance sheet of a business represents the account balances as of a particular date in time.

Answer: TRUE

Diff: 1

LO: 1-9

EOC Ref: QC1-9

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

2) By looking at a statement of owner's equity, you can evaluate the effect of drawings on the ending balance in owner's equity.

Answer: TRUE

Diff: 1

LO: 1-9

EOC Ref: E1-14

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

3) Beginning owner's capital was \$25,000. Ending owner's capital is \$37,000. No contributions were made during the year. Drawings were \$23,000. What was net income or loss for the year?

A) Net income of \$16,000

B) Net loss of \$35,000

C) Net loss of \$14,000

D) Net income of \$35,000

Answer: D

Explanation: D) Calculations:  $\$37,000 + \$23,000 - \$25,000 = \$35,000$

Diff: 1

LO: 1-9

EOC Ref: E1-25

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

4) Net income is \$34,000. Beginning owner's capital is \$29,000. Ending owner's capital is \$55,000. No capital contributions were made during the year. What was the amount of drawings?

A) \$18,000

B) \$8,000

C) \$60,000

D) \$5,000

Answer: B

Explanation: B) Calculations:  $\$29,000 + \$34,000 - \$55,000 = \$8,000$

Diff: 1

LO: 1-9

EOC Ref: E1-25

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting



5) Beginning owner's capital is \$20,000. No capital contributions were made during the year. Drawings were \$7,000. Ending owner's capital is \$37,000. What was net income?

- A) \$24,000
- B) \$13,000
- C) \$10,000
- D) \$27,000

Answer: A

Explanation: A) Calculations:  $\$37,000 + \$7,000 - \$20,000 = \$24,000$

Diff: 1

LO: 1-9

EOC Ref: E1-25

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

6) Financial statements are prepared after an entity's transactions are analyzed and recorded. Which of the following reports is NOT one of the required financial statements?

- A) Statement of cash flows
- B) Balance sheet
- C) Statement of drawings
- D) Income statement

Answer: C

Diff: 1

LO: 1-9

EOC Ref: E1-14

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

7) The statement of owner's equity shows the changes in Owner's capital. Which one of these statements is TRUE?

- A) Decreases in Owner's equity result from owner investments.
- B) Decreases in Owner's equity result from net losses.
- C) Decreases in Owner's equity result from net income.
- D) Decreases in Owner's equity result from revenues earned.

Answer: B

Diff: 2

LO: 1-9

EOC Ref: E1-14

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

8) The income statement presents a summary of an entity's revenues and expenses for a period of time. Which of the following statements is TRUE?

- A) There is net income when total revenues are greater than total expenses.
- B) There is a net loss when total expenses are greater than total revenue.
- C) There is a net loss when withdrawals are made.
- D) Both A and B are true.

Answer: D

Diff: 1

LO: 1-9

EOC Ref: E1-14

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

9) The balance sheet, or statement of financial position, is like a snapshot of the entity. Which of the following items are included on the balance sheet?

- A) Revenues
- B) Expenses
- C) Assets
- D) Drawings

Answer: C

Diff: 1

LO: 1-9

EOC Ref: E1-14

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

10) Each financial statement includes a heading giving three pieces of data. Which of the following items is NOT included in these headings?

- A) Name of the financial statement
- B) Date or time period covered
- C) Name of the preparer of the statement
- D) Name of the business

Answer: C

Diff: 1

LO: 1-9

EOC Ref: E1-14

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

11) Which of the following financial statements reports expenses in decreasing order of their amounts, with the largest expense first?

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

Answer: B

Diff: 1

LO: 1-9

EOC Ref: E1-24

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

12) Which of the following financial statements uses net income or net loss taken directly from the income statement?

- A) Statement of owner's equity
- B) Statement of cash flow
- C) Balance sheet
- D) Statement of expenditures

Answer: A

Diff: 1

LO: 1-9

EOC Ref: E1-24

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

13) Which of the following financial statements reports that total assets equals total liabilities plus total owner's equity?

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

Answer: D

Diff: 1

LO: 1-9

EOC Ref: S1-24

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

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

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

Answer: A

Diff: 1

LO: 1-9

EOC Ref: E1-24

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

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

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

Answer: C

Diff: 1

LO: 1-9

EOC Ref: E1-24

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

16) The financial statements should be prepared in what order?

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

Answer: A

Diff: 1

LO: 1-9

EOC Ref: E1-15

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

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

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

Answer: C

Diff: 1

LO: 1-9

EOC Ref: E1-15

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

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

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

Answer: A

Diff: 1

LO: 1-9

EOC Ref: E1-15

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

19) Which of the following amounts appears on both the income statement and the balance sheet?

- A) Total assets
- B) Net income
- C) Ending owner's equity
- D) None of the above amounts appear on both

Answer: D

Diff: 1

LO: 1-9

EOC Ref: E1-15

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

20) Which of the following financial statements shows the changes in Owner's capital during a period of time?

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

Answer: B

Diff: 1

LO: 1-9

EOC Ref: E1-14

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

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

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

Answer: A

Diff: 1

LO: 1-9

EOC Ref: E1-14

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

22) On the financial statements, which line item connects the balance sheet to the statement of cash flows?

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

Answer: D

Diff: 1

LO: 1-9

EOC Ref: E1-14

AACSB: Reflective Thinking

AICPA Business: Legal/Regulatory

AICPA Functional: Measurement, Reporting

23) On Jan. 1, 2012, William Kelly started Kelly's Computer Service by investing \$10,000. On Jan. 3, the business borrowed \$10,000 from a creditor and executed a Note payable with the principal and interest to be due in one year. On Jan. 5, the business purchased \$12,000 of equipment for cash. On Jan. 8, Kelly's rendered service to his first corporate client and earned \$2,500 in cash. On Jan. 12, Kelly's incurred repair expense of \$1,200 and promised to pay the repair contractor the following month. On Jan. 18, Kelly's rendered service to a new client in the amount of \$6,000 "on account," (the client promised to pay the following month). At the end of January, Kelly took a withdrawal of \$1,000. Please prepare an income statement for the month of January, a statement of owner's equity for the month of January, and a balance sheet at Jan. 31, 2012.

Answer:

Kelly's Computer Service Income Statement Month Ended January 31, 2012	
Service revenue	\$8,500
Repair expense	<u>1,200</u>
Net income	<u>\$7,300</u>

Kelly's Computer Service Statement of Owner's Equity Month Ended January 31, 2012	
Kelly, capital, January 1, 2012	\$ 0
Investments by owner	10,000
Net income	7,300
Kelly, drawing	<u>(1,000)</u>
Kelly, capital, January 31, 2012	<u>\$16,300</u>

Kelly's Computer Service Balance Sheet January 31, 2012			
<u>Assets</u>		<u>Liabilities</u>	
Cash	\$9,500	Accounts payable	\$1,200
Accounts receivable	6,000	Notes payable	<u>10,000</u>
Equipment	12,000	Total liabilities	11,200
		<u>Owner's Equity</u>	
		Kelly, capital	16,300
		<u>Total liabilities and owner's equity</u>	
Total assets	<u>\$27,500</u>		<u>\$27,500</u>

Explanation: This question is not available in MyAccountingLab.

Diff: 3

LO: 1-9

EOC Ref: P1-35A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

24) Alice Li started Li Design Consultants and invested \$5,000 into the business. On Dec. 12, she rendered services to three clients "on account" with total revenues earned of \$4,500. She then incurred advertising expense on four different websites and promised to pay a total of \$1,600 at a later date. On Dec. 15, she purchased \$900 of office supplies for cash. On Dec. 20, she received \$1,000 in cash payment from her first client and deposited it into the business account. On Dec. 22, she incurred \$2,000 for legal expense and paid cash. On Dec. 31, she made a payment of \$300 to one of the websites that she owed for advertising provided earlier in the month. No withdrawals were taken in December. Please prepare an income statement for the month of December, a statement of owner's equity for the month of December, and a balance sheet at Dec. 31, 2012.

Answer:

Li Design Consultants Income Statement Month Ended December 31, 2012	
Service revenue	\$4,500
Expenses	
Legal expense	\$2,000
Advertising expense	1,600
Total expenses	3,600
Net income	\$ 900

Li Design Consultants Statement of Owner's Equity Month Ended December 31, 2012	
Li, capital, January 1, 2012	\$ 0
Investments by owner	5,000
Net income	900
Li, drawing	0
Li, capital, January 1, 2012	\$5,900

Li Design Consultants Balance Sheet December 31, 2012			
Assets		Liabilities	
Cash	\$2,800	Accounts payable	\$1,300
Accounts receivable	3,500		
Supplies	900		
		Owner's Equity	
		Li, capital	5,900
Total assets	\$7,200	Total liabilities and owner's equity	\$7,200

Explanation: This question is not available in MyAccountingLab.

Diff: 3

LO: 1-9

EOC Ref: P1-35A

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

## Learning Objective 1-10

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

Answer: FALSE

Diff: 1

LO: 1-10

EOC Ref: E1-23

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

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

Answer: FALSE

Diff: 1

LO: 1-10

EOC Ref: E1-14

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

3) You can evaluate business performance in terms of profitability by analyzing which financial statement?

A) Income statement

B) Balance sheet

C) Statement of cash flows

D) None of the above

Answer: A

Diff: 1

LO: 1-10

EOC Ref: E1-23

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

4) You can evaluate the economic resources, debt, and overall financial position of a company in which of the following financial statements?

A) Income statement

B) Balance sheet

C) Statement of cash flows

D) Statement of owner's equity

Answer: B

Diff: 1

LO: 1-10

EOC Ref: E1-23

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting



5) The explanation of why the net income differs from change in cash balance for the period is explained in which of the following statements?

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

Answer: D

Diff: 1

LO: 1-10

EOC Ref: E1-23

AACSB: Reflective Thinking

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Reporting

6) If an analyst wants to know how likely it is that a business would be able to pay off all its debts, which of the following statements would be MOST useful?

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

Answer: B

Diff: 2

LO: 1-10

EOC Ref: E1-23

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

7) If an analyst wants to know how likely it is that a company would be able to earn a profit, which of the following statements would be MOST useful?

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

Answer: A

Diff: 2

LO: 1-10

EOC Ref: E1-23

AACSB: Analytic Skills

AICPA Business: Strategic/Critical Thinking

AICPA Functional: Measurement, Reporting

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

Answer: TRUE

Diff: 2

LO: 1-10

EOC Ref: Accounting Vocabulary

AACSB: Content/Knowledge

AICPA Business: Legal/Regulatory

AICPA Functional: Reporting