

**Financial Accounting, 9e**  
**Harrison/Horngren/Thomas/Suwardy**  
**Test Item File**

**Chapter 1: Conceptual Framework and Financial Statements**

- 1.1-1 Bookkeeping is a type of accounting used primarily by proprietorships.
- Answer: False  
LO: 1-1  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.1-2 Bookkeeping is the mechanical part of accounting.
- Answer: True  
LO: 1-1  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.1-3 The major forms of business organizations are proprietorships, partnerships, and for-profit organizations.
- Answer: False  
LO: 1-1  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry Sector
- 1.1-4 Limited Liability Partnerships (LLPs) have at least one general partner with unlimited liability for all partnership debts.
- Answer: True  
LO: 1-1  
Difficulty: 1  
AACSB: Analytical Skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry Sector, Legal/Regulatory
- 1.1-5 In an LLP, each partner is liable for partnership debts only to the extent of their investment in the partnership plus their share of the liabilities.
- Answer: True  
LO: 1-1  
Difficulty: 2  
AACSB: Analytical Skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry Sector, Legal/Regulatory

- 1.1-6 All business owners are personally liable for the debts of their businesses.
- Answer: False  
LO: 1-1  
Difficulty: 2  
AACSB: Analytical Skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry Sector, Legal/Regulatory
- 1.1-7 The business records of a proprietorship should include the proprietor's personal finances.
- Answer: False  
LO: 1-1  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry sector, Legal/Regulatory
- 1.1-8 Mutual agency of a partnership means that each partner may conduct business in the name of the partnership and can legally bind all the partners without limit for the partnership's debts.
- Answer: True  
LO: 1-1  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry sector, Legal/Regulatory
- 1.1-9 Financial accounting provides budgeting information to a company's managers.
- Answer: False  
LO: 1-1  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Industry sector
- 1.1-10 Managerial accounting information is used mainly by external users.
- Answer: False  
LO: 1-1  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Industry sector
- 1.1-11 Accounting:
- A) measures business activities.
  - B) processes data into reports and communicates the data to decision makers.
  - C) is often called the language of business.
  - D) is all of the above.
- Answer: D

LO: 1-1

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.1-12

The two types of accounting are:

- A) profit and nonprofit.
- B) financial and managerial.
- C) internal and external.
- D) bookkeeping and decision-oriented.

Answer: B

LO: 1-1

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Industry sector

1.1-13

Management accounting:

- A) includes information such as budgets and forecasts.
- B) is used to make strategic decisions for the entity.
- C) must be relevant to decision makers within the entity.
- D) is all of the above.

Answer: D

LO: 1-1

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Industry sector

1.1-14 What type of accounting provides information for decision makers outside the entity?

- A) Bookkeeping
- B) Managerial accounting.
- C) Internal auditing.
- D) Financial accounting.

Answer: D

LO: 1-1

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Industry sector

1.1-15 Who ultimately controls a corporation?

- A) Board of Directors
- B) The Chief Executive Officer (CEO)
- C) The shareholders
- D) The President

Answer: C

LO: 1-1

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

1.1-16 Financial statements are:

- A) standard documents issued by outside consultants who are hired to analyze key operations of the business in financial terms.
- B) the business documents that companies use to report the results of their financial activities to various user groups.
- C) reports created by management that states it is responsible for the acts of the corporation.
- D) the mechanical part of accounting.

Answer: B

LO: 1-1

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.1-17 For which form of business ownership are the owners of a business legally distinct from the business?
- A) Corporation
  - B) Partnership
  - C) Proprietorship
  - D) All of the above

Answer: A

LO: 1-1

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-18 Characteristics of a sole proprietor include:
- A) multiple owners.
  - B) limited personal liability for all business debts.
  - C) a distinct entity, separate from its owner for accounting purposes.
  - D) formation under state law.

Answer: C

LO: 1-1

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-19 A partnership:
- A) is a taxpaying entity.
  - B) is not a distinct entity, separate from its owners for accounting purposes.
  - C) has mutual agency.
  - D) has limited liability for the partners.

Answer: C

LO: 1-1

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-20      A limited-liability partnership is made up of:  
A) partners.  
B) sole proprietors.  
C) members.  
D) shareholders.
- Answer: C  
LO: 1-1  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Legal/regulatory
- 1.1-21      Advantages of a corporation include:  
A) a single owner.  
B) the double taxation of distributed profits.  
C) limited liability of the shareholders.  
D) mutual agency.
- Answer: C  
LO: 1-1  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Legal/regulatory
- 1.1-22      All of the following are forms of business organizations EXCEPT for the:  
A) proprietorship.  
B) limited liability partnership.  
C) limited proprietorship.  
D) corporation.
- Answer: C  
LO: 1-1  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-23 An entity that is organized according to state legislation and in which ownership units are called shares is a:
- A) proprietorship.
  - B) corporation.
  - C) partnership.
  - D) limited liability partnership.

Answer: B

LO: 1-1

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-24 For accounting purposes, the business entity should be considered separate from its owners if the business is organized as a:
- A) proprietorship.
  - B) corporation.
  - C) partnership.
  - D) any of the above.

Answer: D

LO: 1-1

EOC: E1-13

Difficulty: 1

AACSB: Analytical

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Legal/regulatory

- 1.1-25 International Financial Reporting Standards, or IFRS, are the rules and procedures established by the International Accounting Standards Board, or the IASB.

Answer: True

LO: 1-1

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement

- 1.1-26 Since we live in a global economy, all countries have adopted the same accounting standards for business transactions.

Answer: False

LO: 1-1

Difficulty: 1

AACSB: Multicultural & diversity

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: international/global

- 1.1-27 No major differences exist between the accounting standards issued by the FASB and the IASB.
- Answer: False  
LO: 1-1  
Difficulty: 1  
AACSB: Multicultural & diversity  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: international/global
- 1.1-28 The International Accounting Standards Board is responsible for establishing:
- A) the code of professional conduct for accountants.
  - B) the International Accounting Standards.
  - C) generally accepted accounting principles.
  - D) the International Financial Reporting Standards.
- Answer: D  
LO: 1-1  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.1-29 The acronym GAAP stands for:
- A) generally acceptable authorized pronouncements.
  - B) government authorized accountant principles.
  - C) generally accepted accounting principles.
  - D) government audited accounting pronouncements.
- Answer: C  
LO: 1-1  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.1-30 Accountants follow guidelines for professional measurement and disclosure of financial information called:
- A) IASB.
  - B) IFRS.
  - C) FASB.
  - D) SEC.
- Answer: B  
LO: 1-1  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking



1.1-31 International financial reporting standards are set by the:

- A) IASB.
- B) GAAP.
- C) FASB.
- D) SEC.

Answer: A

LO: 1-1

Difficulty: 2

AACSB: Multicultural and diversity

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: International/global

1.2-32 The IASB:

- A) is working towards a convergence of standards with the FASB.
- B) will not accept FASB rules.
- C) does not want US companies to adopt IFRS standards.
- D) feels that the global use of IFRS will significantly increase costs of doing global business.

Answer: A

LO: 1-1

Difficulty: 2

AACSB: Multicultural & diversity

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: International/global

1.2-33 The heading John Smith, Capital, indicates the owners' equity of a:

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

Answer: A

LO: 1-1

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.2-1 Users of accounting information include investors, creditors, and regulatory bodies.

Answer: True

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Industry sector

1.2-2 An example of a regulatory body that uses accounting information is the Securities and Exchange Commission or SEC (in the US)..

Answer: True

LO: 1-2

Difficulty: 1  
AACSB: Analytical Skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Industry Sector

- 1.2-3 One overall objective of accounting is to provide financial information that is useful to potential capital providers who are making investment and lending decisions.

Answer: True  
LO: 1-2  
Difficulty: 1  
AACSB: Analytical  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-4 To be relevant, accounting information must be capable of making a difference to the decision maker.

Answer: True  
LO: 1-2  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement

1.2-4

- 1.2-5 The entity assumption is the most basic accounting concept.

Answer: True  
LO: 1-2  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Legal/Regulatory  
AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement

- 1.2-6 The going-concern assumption assumes that the entity will liquidate and not continue its operations.

Answer: False  
LO: 1-2  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement

- 1.2-7 Cost is a verifiable measure that is relatively free from bias.
- Answer: True  
LO: 1-2  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement
- 1.2-8 A conceptual framework lays the foundation for resolving the “big” issues in accounting.
- Answer: True  
LO: 1-2  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement
- 1.2-9 Comparability means uniformity, and continuing to use the same accounting principles and polivies when more relevant and reliable alternative exists.
- Answer: False  
LO: 1-2  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking, Measurement
- 1.2-10 To be useful, accounting information must have the fundamental qualitative characteristics of:
- A) understandability, timeliness, reliability and relevance.
  - B) timeliness, comparability, reliability and relevance.
  - C) materiality, understandability, timeliness and comparability.
  - D) understandability, comparability, reliability and relevance.
- Answer: D  
LO: 1-2  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.2-11 All of the following are characteristics of useful accounting information EXCEPT:

- A) comparability.
- B) relevance
- C) informative.
- D) reliability.

Answer: C

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.2-12 When information is important enough to the informed user, so that, if it was omitted or erroneous, it would make a difference in the user's decision, it is:

- A) comparable.
- B) material
- C) timely.
- D) understandable.

Answer: B

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.2-13 Accounting information is subject to the constraints of:

- A) balance between qualitative characteristics, comparability and consistency.
- B) balance between qualitative characteristics, reliability and relevance.
- C) timeliness, benefits versus cost and balance between qualitative characteristics.
- D) timeliness, benefit versus cost, relevance and reliability.

Answer: C

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-14 The accounting assumption that states that the business, rather than its owners, is the reporting unit is the:
- A) entity assumption.
  - B) going concern assumption.
  - C) stable-monetary-unit assumption.
  - D) historical cost assumption.

Answer: A

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory

- 1.2-15 The accrual assumption of accounting:
- A) ensures that accounting records and statements are based on the most reliable data available.
  - B) holds that the entity will remain in operation for the foreseeable future.
  - C) ensures that transactions and events are recognized when they occur.
  - D) enables accountants to ignore the effect of inflation in the accounting records.

Answer: C

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-16 The going-concern assumption of accounting:
- A) enables accountants to ignore the effect of inflation in the accounting records.
  - B) holds that the entity will remain in operation long enough to use its existing assets.
  - C) maintains that each organization, or section of an organization, stands apart from other organizations and individuals.
  - D) ensures that accounting records and statements are based on the most reliable data available.

Answer: B

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-17 The qualitative characteristic of a financial statement stating that accounting information must be sufficiently transparent so that it makes sense to users of the information is:
- A) relevance.
  - B) reliability.
  - C) understandability.
  - D) comparability.

Answer: A

LO: 1-2

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-18 The relevant measure of the value of the assets of a company that is going out of business is the:
- A) book value.
  - B) current market value.
  - C) historical cost.
  - D) recorded value.

Answer: B

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-19 The CEO of a business owns a residence in Flagstaff. The company the CEO works for owns a factory in Chandler. Which of these properties is considered an asset(s) of the business?
- A) The Flagstaff residence only
  - B) The Chandler factory only
  - C) Both the Flagstaff and Chandler properties
  - D) Neither the Flagstaff nor Chandler properties

Answer: B

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory

- 1.2-20 An Oklahoma City business paid \$15,000 cash for equipment used in the business. At the time of purchase, the equipment had a list price of \$20,000. When the balance sheet was prepared, the value of the equipment was \$22,000. What is the relevant measure of the value of the equipment?
- A) Historical cost, \$15,000
  - B) Fair market cost, \$20,000
  - C) Current market cost, \$22,000
  - D) \$15,000 on the day of purchase, \$22,000 on balance sheet date

Answer: A

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-21 An office building is appraised for \$250,000 and offered for sale at \$260,000. The buyer pays \$245,000 for the building. The building should be recorded on the books of the buyer at:
- A) \$250,000.
  - B) \$260,000.
  - C) \$245,000.
  - D) some other amount.

Answer: C

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-22 Liabilities are divided into "outsider claims" and "insider claims."

Answer: False

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-23 "Net assets", as shareholders' equity is often referred to, represents the residual amount of business assets which can be claimed by the owners.

Answer: True

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.2-24 Shareholders' equity is the shareholders' interest in the assets of the corporation.
- Answer: True  
LO: 1-2  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.2-25 The economic resources of a business that are expected to produce a benefit in the future are:
- A) liabilities.
  - B) assets.
  - C) owners' equity.
  - D) expenses.
- Answer: B  
LO: 1-2  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.2-26 Which of the following best describes a liability? Liabilities are:
- A) a form of paid-in capital.
  - B) future economic benefits to which a company is entitled.
  - C) debts payable to outsiders called creditors.
  - D) economic obligations to owners to be paid at some future date by the corporation.
- Answer: C  
LO: 1-2  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.2-27 The owners' interest in the assets of a corporation is known as:
- A) capital.
  - B) shareholders' equity.
  - C) long-term assets.
  - D) operating expenses.
- Answer: B  
LO: 1-2  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking



1.3-28

Revenues are:

- A) decreases in assets resulting from delivering goods or services to customers.
- B) increases in liabilities resulting from delivering goods or services to customers.
- C) increases in retained earnings resulting from delivering goods or services to customers.
- D) decreases in retained earnings resulting from delivering goods or services to customers.

Answer: C

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-29

Expenses are:

- A) increases in liabilities resulting from purchasing assets.
- B) increases in assets resulting from operations.
- C) increases in retained earnings resulting from operations.
- D) decreases in retained earnings resulting from operations.

Answer: D

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.2-30

Use the following Balance Sheet and Income Statement to answer the question.

Jane Austin Bookstore					
Balance Sheet					
December 31, 20X6					
<b>Assets</b>			<b>Liabilities and Shareholders' Equity</b>		
Cash and equivalents		\$5,000	Accounts payable	\$10,000	
Accounts Receivable		12,000	Taxes payable	4,500	
Inventory		25,000	Other liabilities	2,500	
Prepaid expenses		3,000	Mortgage payable	60,000	
Land		54,000	Total liabilities		77,000
Building	63,000				
Accumulated depreciation--Building	????	51,000	Capital	30,000	
Trucks	20,000		Retained earnings	???	
Accumulated depreciation--Trucks	18,000	2,000	Total shareholders' equity		???
<b>Total Assets</b>		\$152,000	<b>Total Liabilities and</b>		
			<b>Shareholders' Equity</b>		????

Jane Austin Bookstore		
Income Statement		
For the Year Ended December 31, 20X6		
Book sales		\$100,000
Cost of goods sold		???
Gross profit		???
Operating expenses:		
Selling and administrative expenses	14,000	
Depreciation expense	8,000	
Total Operating expenses		22,000
Income from operations		13,000
Income tax (35%) expense		4,550
Net income		\$8,450

What is the Retained earnings shown on the Balance Sheet for 20X6?

- A) \$15,000
- B) \$45,000
- C) \$75,000
- D) \$77,000

Answer: B

Calculations:  $152,000 - 77,000 = 75,000$  Total equity  
 $75,000 - 30,000 = 45,000$

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-1 The accounting equation expresses the idea that Resources – Insider claims = Outsider claims.

Answer: True

LO: 1-3

Difficulty: 3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-2 The financial statements are based on the accounting equation.

Answer: True

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-3 The word “payable” always signifies a liability.

Answer: True

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-4 The accounting equation must always be in balance.

Answer: True

LO: 1-3

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-5 A net loss occurs when:  
A) not enough cash exists.  
B) total revenues exceed total expenses.  
C) total expenses exceed total revenues.  
D) total revenues and dividends exceed total expenses.

Answer: C

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-6 Dividends never affect net income.

Answer: True

LO: 1-3

Difficulty: 3

AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-7 Expenses are increases in retained earnings that result from operations.

Answer: False  
LO: 1-2  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-8 Dividend payments are NOT classified as expenses.

Answer: True  
LO: 1-3  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-9 The calculation of ending retained earnings considers beginning retained earnings, current net income or net loss and dividends.

Answer: True  
LO: 1-3  
Difficulty: 3  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-10 The owners' equity of proprietorships and corporations are the same.

Answer: False  
LO: 1-3  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory

1.3-11 Ramos, Inc. has monthly revenues of \$30,000 and monthly expenses of \$18,000, and the company paid \$4,000 in dividends. Therefore, net income for the month is \$8,000.

Answer: False

Calculations:  $30,000 - 18,000 = 12,000$  net income

LO: 1-3

Difficulty: 3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-12 Able Co. has \$500,000 in assets and \$400,000 in liabilities. Therefore, the equity is \$900,000.

Answer: False

Calculations:  $\text{equity} = 500,000 - 400,000 = 100,000$

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-13 Yummy Inc. has beginning retained earnings of \$10,000, net income of \$50,000, and dividends paid of \$5,000. Therefore, the ending retained Earnings is \$65,000.

Answer: False

Calculations:  $10,000 + 50,000 - 5,000 = 55,000$

LO: 1-3

Difficulty: 3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-14 The accounting equation can be stated as:  
A)  $\text{Assets} + \text{Shareholders' Equity} = \text{Liabilities}$ .  
B)  $\text{Assets} - \text{Liabilities} = \text{Shareholders' Equity}$ .  
C)  $\text{Assets} = \text{Liabilities} - \text{Shareholders' Equity}$ .  
D)  $\text{Assets} - \text{Shareholders' Equity} + \text{Liabilities} = \text{Zero}$ .

Answer: B

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-15 The owners' equity of any business is its:

A) revenues minus expenses.

B) assets minus liabilities.

C) assets plus liabilities.

D) paid-in capital plus assets.

Answer: B

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-16

The sum of "outsider claims" plus "insider claims" equals:

A) net income.

B) total liabilities.

C) total assets.

D) total shareholders' equity.

Answer: C

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-17

Revenues are:

A) decreases in assets resulting from delivering goods or services to customers.

B) increases in liabilities resulting from delivering goods or services to customers.

C) increases in retained earnings resulting from delivering goods or services to customers.

D) decreases in retained earnings resulting from delivering goods or services to customers.

Answer: C

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-18

Expenses are:

- A) increases in liabilities resulting from purchasing assets.
- B) increases in assets resulting from operations.
- C) increases in retained earnings resulting from operations.
- D) decreases in retained earnings resulting from operations.

Answer: D

LO: 1-2

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-19

Dividends:

- A) are expenses.
- B) always affect net income.
- C) are distributions to shareholders of assets (usually cash) generated by net income.
- D) are distributions to shareholders of assets (usually cash) generated by a favorable balance in retained earnings.

Answer: D

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-20

Net income is computed as:

- A) revenues – expenses – dividends.
- B) revenues + expenses.
- C) revenues – expenses.
- D) revenues – expenses + dividends.

Answer: C

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-21 When total expenses exceed total revenues, the result is a:

- A) net profit.
- B) net loss.
- C) dividend.
- D) net earnings.

Answer: B

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-22 Which of the following must be added to beginning Retained Earnings to compute ending Retained Earnings?

- A) Net income
- B) Expenses
- C) Dividends
- D) All of the above

Answer: A

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA: Functional Competencies: Measurement

AICPA: Business Perspective Competencies: Strategic/Critical Thinking

1.3-23 At the end of the current accounting period, account balances were as follows: Cash, \$180,000; Accounts Receivable, \$75,000; Share Capital, \$20,000; Retained Earnings, \$65,000. Liabilities for the period were:

- A) \$ 70,000.
- B) \$170,000.
- C) \$190,000.
- D) \$210,000.

Answer: B

Calculations: Assets- equity = liabilities  $180,000 + 75,000 - 20,000 - 65,000 = 170,000$

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking



1.3-24

On January 1, 20X6, total assets for Liftoff Technologies were \$125,000; on December 31, 20X6, total assets were \$145,000. On January 1, 20X6, total liabilities were \$110,000; on December 31, 20X6, total liabilities were \$115,000. What is the amount of the change and the direction of the change in Liftoff Technologies' shareholders' equity for 20X6?

- A) Decrease of \$15,000
- B) Increase of \$15,000
- C) Increase of \$30,000
- D) Decrease of \$30,000

Answer: B

Calculations: assets-liabilities = equity

Beg 125,000-110,000=15,000

End 145,000-115,000=30,000

Increase of 15,000

LO: 1-3

Difficulty: 3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.3-25

Revenues were \$170,000, expenses were \$90,000, and cash dividends were \$30,000. What was the net income and the change in retained earnings for the period?

- A) Net income was \$50,000; the change in retained earnings was \$50,000.
- B) Net income was \$80,000; the change in retained earnings was \$50,000.
- C) Net income was \$80,000; the change in retained earnings was \$80,000.
- D) Net income was \$250,000; the change in retained earnings was \$250,000.

Answer: B

Calculations Net income = 170,000-90,000= 80,000

Retained earnings increased by 80,000 and decreased by 30,000 for dividends for a change of 50,000

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-26 At the beginning of the period, assets were \$490,000 and shareholders' equity was \$240,000. During the year, assets increased by \$60,000, liabilities increased by \$40,000, and shareholders' equity increased by \$20,000. Beginning liabilities must have been:
- A) \$230,000.
  - B) \$250,000.
  - C) \$280,000.
  - D) \$300,000.

Answer: B

Calculations:  $A-L = OE$   $490,000 - 240,000 = 250,000$

LO: 1-3

Difficulty: 3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-27 If assets increase \$210,000 during a given period and liabilities increase \$65,000 during the same period, shareholders' equity must:
- A) increase \$145,000.
  - B) decrease \$275,000.
  - C) decrease \$145,000.
  - D) increase \$275,000.

Answer: A

Calculations:  $A-L=OE$   $210,000 - 65,000 = 145,000$  increase

LO: 1-3

Difficulty: 3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-28 Shareholders' equity for Commerce Corporation on January 1, 20X6 and December 31, 20X6 were \$60,000 and \$75,000, respectively. Assets on January 1, 20X6 and December 31, 20X6 were \$115,000 and \$105,000, respectively. Liabilities on January 1, 20X6 were \$55,000. What is the amount of liabilities on December 31, 20X6?
- A) \$40,000  
B) \$15,000  
C) \$30,000  
D) The amount is indeterminable from the given information.

Answer: C

Calculation:  $A - OE = L$   $105,000 - 75,000 = 30,000$

LO: 1-3

Difficulty: 3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.3-29 Identify the missing amount in the accounting equation for each example below:

	Assets	Liabilities	Shareholders' Equity
A)	\$230,000	?	\$120,000
B)	?	\$250,000	\$90,000
C)	\$220,000	\$120,000	?

Answer:

A)  $\$110,000 = \$230,000 - \$120,000$

B)  $\$340,000 = \$250,000 + \$90,000$

C)  $\$100,000 = \$220,000 - \$120,000$

LO: 1-3

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-1 Net income is the profit left over after subtracting expenses and losses from revenues and gains.
- Answer: True  
LO: 1-4  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-2 Cost of goods sold is the major expense of merchandising and manufacturing companies.
- Answer: True  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-3 If expenses have exceeded sales revenue during the life of the company, the accumulation of these losses will result in an accumulated deficit in retained earnings.
- Answer: True  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-4 Shareholders determine if a corporation will pay dividends.
- Answer: False  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business perspective competencies: Legal/regulatory
- 1.4-5 Net income appears on both the income statement and the balance sheet.
- Answer: False  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-6 The statement of cash flows is organized in terms of the organization's operating, investing, and financing activities.
- Answer: True  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement, Reporting  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-7 The amount of cash received on the sale of the company's shares in excess of par value is called retained earnings.
- Answer: False  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-8 The statement of cash flows contains three "parts"—operating activities, investing activities, and share activities.
- Answer: False  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-9 In accounting, the word "net" refers to an amount after a subtraction.
- Answer: True  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-10 A balance sheet reports the company's financial position at a specific point in time.
- Answer: True  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-11 Net income and net profit mean the same thing to accountants.
- Answer: True  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-12 The statement that reports revenues and expenses for the period is the:
- A) Statement of Changes in Equity.  
B) Balance Sheet.  
C) Statement of Cash Flows.  
D) Income Statement.
- Answer: D  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-13 A company sells its product for \$100. The cost of the product to the company is \$60. Selling expenses are \$15. Cost of goods sold is:
- A) \$100.  
B) \$60.  
C) \$40.  
D) \$75.
- Answer: B  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-14 Retained earnings is increased by:
- A) net income.  
B) net loss.  
C) dividends.  
D) expenses.
- Answer: A  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-15 Dividends appear on:  
A) the Statement of Changes in Equity.  
B) both the Statement of Changes in Equity and the Income Statement.  
C) the Income Statement.  
D) the Balance Sheet.
- Answer: A  
LO: 1-4  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-16 Assets appear on:  
A) the Balance Sheet.  
B) the Income Statement.  
C) the Statement of Changes in Equity.  
D) both the Balance Sheet and the Statement of Changes in Equity.
- Answer: A  
LO: 1-4  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-17 Share Capital appears on:  
A) the Balance Sheet.  
B) the Income Statement.  
C) the Statement of Cash Flows and the Statement of Changes in Equity.  
D) none of the above.
- Answer: A  
LO: 1-4  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-18 A company's gross profit for the period is reported on the:  
A) Balance Sheet.  
B) Income Statement.  
C) Statement of Cash Flows.  
D) Statement of Changes in Equity.
- Answer: B  
LO: 1-4  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-19 Gains and losses appear on which of the financial statements listed below?  
A) Balance Sheet  
B) Income Statement  
C) Statement of Cash Flows  
D) Statement of Changes in Equity
- Answer: B  
LO: 1-4  
Difficulty: 1  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking
- 1.4-20 The ending balance in Retained Earnings appears on the:  
A) Balance Sheet only.  
B) Balance Sheet and Statement of Changes in Equity.  
C) Statement of Changes in Equity only.  
D) Income Statement and Statement of Cash Flows.
- Answer: B  
LO: 1-4  
Difficulty: 2  
AACSB: Analytical skills  
AICPA Functional Competencies: Measurement  
AICPA Business Perspective Competencies: Strategic/Critical Thinking



1.4-21

Cash dividends:

- A) decrease revenue on the income statement.
- B) decrease retained earnings on the Statement of Changes in Equity.
- C) increase expenses on the income statement.
- D) decrease operating activities on the statement of cash flows.

Answer: B

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-22

Which of the following financial statements shows the net increase or decrease in cash during the period?

- A) Balance Sheet only
- B) Statement of Operations
- C) Statement of Changes in Equity and Balance Sheet
- D) Statement of Cash Flows

Answer: D

LO: 1-4

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-23

An investor wishing to assess a company's overall financial position at the end of the period would probably examine the:

- A) Statement of Cash Flows and the Income Statement.
- B) Income Statement only
- C) Balance Sheet.
- D) Statement of Changes in Equity.

Answer: C

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-24 A potential investor interested in evaluating a company's financial earning performance for the current period would probably examine which of the following financial statements?
- A) Balance Sheet only
  - B) Income Statement only
  - C) Statement of Cash Flows and Income Statement
  - D) Statement of Changes in Equity and Balance Sheet

Answer: B

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-25 Which statement(s) summarizes the revenues and expenses of an entity?
- A) Balance Sheet only
  - B) Statement of Cash Flows and Income Statement
  - C) Statement of Changes in Equity and Statement of Operations
  - D) Income Statement

Answer: D

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-26 Which financial statement provides a "snapshot photo" of one moment in time for the whole entity?
- A) Balance Sheet only
  - B) Income Statement only
  - C) Statement of Changes in Equity and Income Statement
  - D) Statement of Cash Flows only

Answer: A

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-27

The income statement:

- A) is not dated.
- B) may cover a period of time or only one day in time, like a snapshot photograph.
- C) covers a defined period of time.
- D) reports the results of operations since the inception of the business.

Answer: C

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-28

The income statement presents a summary of the:

- A) cash inflows and outflows of an entity.
- B) assets and liabilities of an entity.
- C) revenues and expenses of an entity for a specific time period.
- D) changes that occurred in the shareholders' equity of an entity.

Answer: C

LO: 1-4

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-29

An example of a selling, general, and administrative expense is:

- A) cost of goods sold.
- B) sales.
- C) sales commissions paid to employees.
- D) interest expense.

Answer: C

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-30

Cost of goods sold appears on the:

- A) Statement of Changes in Equity as an addition to beginning retained earnings.
- B) Income Statement as a deduction from sales.
- C) Balance Sheet as a deduction from sales.
- D) Income Statement as a deduction from gross profit.

Answer: B

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-31

The portion of net income that the company has kept over a period of years is called:

- A) share capital.
- B) retained earnings.
- C) revenue.
- D) gross profit.

Answer: B

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-32

A retail store sells t-shirts for \$85 and purchases them for \$60. The store's cost of goods sold would be:

- A) \$25.
- B) \$85.
- C) \$60.
- D) none of the above.

Answer: C

LO: 1-4

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-33

Net income is:

- A) added to assets on the balance sheet.
- B) deducted from beginning retained earnings on the retained earnings statement.
- C) added to beginning retained earnings on the retained earnings statement.
- D) deducted from ending retained earnings on the retained earnings statement.

Answer: C

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-34

Capital and retained earnings are the main components of paid-in capital.

Answer: False

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-35

The balance sheet is also known as the:

- A) statement of profit and loss.
- B) operating statement.
- C) assets statement.
- D) statement of financial position.

Answer: D

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-36

The balance sheet reports information about:

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

Answer: D

LO: 1-4

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-37

The income statement is prepared to determine:

- A) the change in cash due to results of operations.
- B) the change in retained earnings due to the results of operations.
- C) the change in assets and liabilities due to the results of operations.
- D) all of the above.

Answer: B

LO: 1-4

Difficulty: 3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-38

The amount of net income shown on the income statement also appears on the:

- A) balance sheet and operations statement.
- B) statement of assets.
- C) statement of financial position.
- D) Statement of Changes in Equity.

Answer: D

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-39

The balance sheet contains the:

- A) amount of net income or net loss.
- B) beginning balance in retained earnings.
- C) ending balance in retained earnings.
- D) amount of cash dividends paid to shareholders.

Answer: C

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-40

Which of the following is a component of shareholders' equity?

- A) Retained earnings
- B) Notes payable
- C) Cash
- D) Fixed assets

Answer: A

LO: 1-4

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-41

Which financial statement must be prepared before the others?

- A) Statement of Cash Flows
- B) Income Statement
- C) Balance Sheet
- D) Statement of Changes in Equity

Answer: B

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-42

Assets are generally classified as:

- A) producing assets and consumable assets.
- B) current assets and producing assets.
- C) current assets and long-term assets.
- D) long-term assets and consumable assets.

Answer: C

LO: 1-4

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-43

Current assets are assets expected to be converted to cash, sold, or consumed within the next:

- A) 12 months or within the business's normal operating cycle if longer than a year.
- B) 12 months or within the business's normal operating cycle if less than a year.
- C) 6 months.
- D) 24 months.

Answer: A

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-44

Notes receivable due in 60 days would be classified as a:

- A) current liability on the Balance Sheet.
- B) current asset on the Balance Sheet.
- C) non-current asset on the Balance Sheet.
- D) non-current liability on the Balance Sheet.

Answer: B

LO: 1-4

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking



- 1.4-45 Equipment would appear on the:
- A) Balance Sheet with the non-current assets.
  - B) Income Statement with the revenues.
  - C) Income Statement with the operating expenses.
  - D) Balance Sheet with the current assets.

Answer: A

LO: 1-4

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-46 Accumulated depreciation is normally associated with which asset on the Balance Sheet?
- A) Inventory
  - B) Accounts receivable
  - C) Land
  - D) Property, plant and equipment

Answer: D

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-47 Accounts receivable would appear on the:
- A) Balance Sheet with the current liabilities.
  - B) Balance Sheet with the current assets.
  - C) Income Statement with the revenues.
  - D) Statement of Changes in Equity with the net income.

Answer: B

LO: 1-4

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-48 Notes payable (due in 60 days) would appear as a:
- A) current liability on the Balance Sheet.
  - B) current asset on the Balance Sheet.
  - C) non-current asset on the Balance Sheet.
  - D) non-current liability on the Balance Sheet.

Answer: A

LO: 1-4

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-49 Income taxes owed to the federal government would be classified as a(n):
- A) expense on the Income Statement.
  - B) financing activity on the Statement of Cash Flows.
  - C) current asset on the Balance Sheet.
  - D) current liability on the Balance Sheet.

Answer: D

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-50 Liabilities are divided into two categories—
- A) current and payable.
  - B) current and future.
  - C) accounts payable and non-current.
  - D) current and non-current.

Answer: D

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-51 In relation to the cash flow statement, purchases and sales of long-term assets are examples of:
- A) investing activities.
  - B) accrual activities.
  - C) financing activities.
  - D) operating activities.

Answer: A

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-52 Shareholders' equity decreases as a result of:
- A) owner investments.
  - B) a net loss during the period.
  - C) a net income during the period.
  - D) both A and C.

Answer: B

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-53 The Statement of Cash Flows is divided into which three categories?
- A) Operating, investing, and financing activities
  - B) Planning, executing, and evaluating activities
  - C) Increasing, decreasing, and non-cash activities
  - D) Developing, producing, and marketing activities

Answer: A

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-54 What is the proper order for the categories of the statement of cash flows?
- A) Financing activities, investing activities, and operating activities
  - B) Operating activities, investing activities, and financing activities
  - C) Operating activities, financing activities, and investing activities
  - D) Investing activities, financing activities, and operating activities

Answer: B

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-55 Where would cash received from the sale of shares appear on the statement of cash flows?
- A) In the operating activity section
  - B) In the non-cash financing activity section
  - C) In the investing activity section
  - D) In the financing activity section

Answer: D

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-56 The main source of cash from its main business comes from:
- A) current assets on the balance sheet.
  - B) operating activities on the statement of cash flows.
  - C) financing activities on the statement of cash flows.
  - D) investing activities on the statement of cash flows.

Answer: B

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-57 How would the issuance of shares for cash be classified on the Statement of Cash Flows?
- A) As an investing activity
  - B) As a financing activity
  - C) As an operating activity
  - D) As a current asset on the balance sheet

Answer: B

LO: 1-4

Difficulty: 3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-58 How would cash collected from customers appear on the Statement of Cash Flows?
- A) As an operating activity
  - B) As a financing activity
  - C) As an investing activity
  - D) Under the indirect method

Answer: A

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.4-59 Which of the following is NOT an asset?
- A) Inventory
  - B) Accounts payable
  - C) Accounts receivable
  - D) Cash

Answer: B

LO: 1-4

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-60

Examples of liabilities include:

- A) accounts payable and accounts receivable.
- B) accounts payable and land.
- C) investments and owners' equity.
- D) accounts payable and long-term debt.

Answer: D

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-61

The two main components of shareholders' equity are:

- A) retained earnings and paid-in capital.
- B) assets and liabilities.
- C) paid-in capital and assets.
- D) net income and retained earnings.

Answer: A

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-62

The amount that shareholders have invested in a corporation is called:

- A) retained earnings.
- B) investment.
- C) revenue.
- D) paid-in capital.

Answer: D

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-63 The major types of transactions that affect retained earnings are:

- A) paid-in capital and ordinary shares.
- B) assets and liabilities.
- C) revenues, expenses, and dividends.
- D) revenues and liabilities.

Answer: C

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-64 Payables are classified as:

- A) increases in earnings.
- B) decreases in earnings.
- C) liabilities.
- D) assets.

Answer: C

LO: 1-4

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-65 A corporation's paid-in capital includes:

- A) revenues and expenses.
- B) assets and liabilities.
- C) capital from shareholders.
- D) net income.

Answer: C

LO: 1-4

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.4-66

Receivables are classified as:

- A) increases in earnings.
- B) decreases in earnings.
- C) liabilities.
- D) assets.

Answer: D

LO: 1-4

Difficulty: 1

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.5-1

The ethical factor recognizes that while certain actions might be both economically profitable and legal, they may still not be right.

Answer: True

LO: 1-5

Difficulty: 2

AACSB: Ethical understanding

AICPA Functional Competencies: Decision modeling

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory

1.5-2

Retained earnings appears on which of the following financial statements?

- A) Statement of Changes in Equity, Statement of Cash Flows, and Balance Sheet, but not the Income Statement
- B) Statement of Changes in Equity, Statement of Cash Flows, and Income Statement, but not the Balance Sheet
- C) Statement of Changes in Equity and Statement of Cash Flows, but not the Income Statement or Balance Sheet
- D) Statement of Changes in Equity and Balance Sheet, but not the Income Statement or Statement of Cash Flows

Answer: D

LO: 1-5

Difficulty: 3

AACSB: Analytical skills

AICPA Functional Competencies: Measurement

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.5-3

An investor who wished to answer the question, "Can the company sell its products?" should investigate the:

- A) operating activities section of the cash flow statement.
- B) current and projected inventory levels.
- C) sales revenue trends and projected sales.
- D) net income for the current period and projected net income for the next period.

Answer: C

LO: 1-5

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Decision modeling

AICPA Business Perspective Competencies: Strategic/Critical Thinking



- 1.5-4 An investor who wished to answer the question, "Can the company pay its current liabilities?" should investigate:
- A) the financing activities section of the cash flow statement.
  - B) the current assets and current liabilities on the balance sheet.
  - C) the sales revenue trend.
  - D) none of the above.

Answer: B

LO: 1-5

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Decision modeling

AICPA Business Perspective Competencies: Strategic/Critical Thinking

- 1.5-5 Generally, three factors influence business and accounting decisions—
- A) operating, investing, and financing activities.
  - B) assets, liabilities, and equity.
  - C) economic, legal, and ethical.
  - D) revenues, expenses, and dividends.

Answer: C

LO: 1-5

Difficulty: 2

AACSB: Ethical understanding

AICPA Functional Competencies: Decision modeling

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory

- 1.5-6 Which of the following questions should be asked in making an ethical analysis?
- A) Which option results in treating others as I would want to be treated?
  - B) Which options are the most honest, open, and truthful?
  - C) Which options create the greatest good for the greatest number of stakeholders?
  - D) All of the above questions should be considered.

Answer: D

LO: 1-5

Difficulty: 2

AACSB: Ethical understanding

AICPA Functional Competencies: Decision modeling

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory

1.5-7

The decision framework for making ethical judgments does NOT consider the following question?

- A) What is the issue?
- B) What are the alternatives?
- C) What alternative maximizes profit?
- D) Who are the stakeholders?

Answer: C

LO: 1-5

Difficulty: 2

AACSB: Ethical understanding

AICPA Functional Competencies: Decision modeling

AICPA Business Perspective Competencies: Strategic/Critical Thinking, Legal/Regulatory

1.5-8

Use the following Balance Sheet and Income Statement to answer the question.

Jane Austin Bookstore					
Balance Sheet					
December 31, 20X6					
<b>Assets</b>			<b>Liabilities and Shareholders' Equity</b>		
Cash and equivalents		\$5,000	Accounts payable	\$10,000	
Accounts receivable		12,000	Taxes payable	4,500	
Inventory		25,000	Other liabilities	2,500	
Prepaid expenses		3,000	Mortgage payable	60,000	
Land		54,000	Total liabilities		77,000
Building	63,000				
Accumulated depreciation--Building	????	51,000	Capital	30,000	
Trucks	20,000		Retained earnings	???	
Accumulated depreciation--Trucks	18,000	2,000	Total shareholders' equity		???
<b>Total Assets</b>		\$152,000	<b>Total Liabilities and</b>		
			<b>Shareholders' Equity</b>		????

Jane Austin Bookstore		
Income Statement		
For the Year Ended December 31, 20X6		
Book sales		\$100,000
Cost of goods sold		???
Gross profit		???
Operating expenses:		
Selling and administrative expenses	14,000	
Depreciation expenses	8,000	
Total operating expenses		22,000
Income from operations		13,000
Income tax (35%) expense		4,550
Net income		\$8,450

What is the Accumulated Depreciation for Buildings on December 31, 20X6?

- A) \$20,000
- B) \$12,000
- C) \$ 8,000
- D) \$30,000

Answer: B

Calculations:  $63,000 - 51,000 = 12,000$ 

LO: 1-5

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.5-9

Use the following Balance Sheet and Income Statement to answer the question.

Jane Austin Bookstore					
Balance Sheet					
December 31, 20X6					
<b>Assets</b>			<b>Liabilities and Shareholders' Equity</b>		
Cash and equivalents		\$5,000	Accounts payable	\$10,000	
Accounts receivable		12,000	Taxes payable	4,500	
Inventory		25,000	Other liabilities	2,500	
Prepaid expenses		3,000	Mortgage payable	60,000	
Land		54,000	Total liabilities		77,000
Building	63,000				
Accumulated depreciation--Building	????	51,000	Capital	30,000	
Trucks	20,000		Retained earnings	???	
Accumulated depreciation--Trucks	18,000	2,000	Total shareholders' equity		???
<b>Total Assets</b>		\$152,000	<b>Total Liabilities and</b>		
			<b>Shareholders' Equity</b>		????

Jane Austin Bookstore		
Income Statement		
For the Year ended December 31, 20X6		
Book sales		\$100,000
Cost of goods sold		???
Gross profit		???
Operating expenses:		
Selling and administrative expenses	14,000	
Depreciation expense	8,000	
Total operating expenses		22,000
Income from operations		13,000
Income tax (35%) expense		4,550
Net income		\$8,450

What is the Gross Profit for the period ended December 31, 20X6?

- A) \$35,000
- B) \$13,000
- C) \$22,000
- D) \$ 7,000

Answer: A

Calculations: income from operations plus operating expenses 22,000+13,000=35,000

LO: 1-5

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.5-10

Use the following Balance Sheet and Income Statement to answer the question.

Jane Austin Bookstore					
Balance Sheet					
December 31, 20X6					
<b>Assets</b>			<b>Liabilities and Shareholders' Equity</b>		
Cash and equivalents		\$5,000	Accounts payable	\$10,000	
Accounts receivable		12,000	Taxes payable	4,500	
Inventory		25,000	Other liabilities	2,500	
Prepaid expenses		3,000	Mortgage payable	60,000	
Land		54,000	Total liabilities		77,000
Building	63,000				
Accumulated depreciation--Building	????	51,000	Capital	30,000	
Trucks	20,000		Retained earnings	???	
Accumulated depreciation--Trucks	18,000	2,000	Total shareholders' equity		???
<b>Total Assets</b>		\$152,000	<b>Total Liabilities and</b>		
			<b>Shareholders' Equity</b>		????

Jane Austin Bookstore		
Income Statement		
For the Year Ended December 31, 20X6		
Book sales		\$100,000
Cost of goods sold		???
Gross profit		???
Operating expenses:		
Selling and administrative expenses	14,000	
Depreciation expense	8,000	
Total operating expenses		22,000
Income from operations		13,000
Income tax (35%) expense		4,550
Net income		\$8,450

What are Total Liabilities and Shareholders' Equity as of December 31, 20X6?

- A) \$ 77,000
- B) \$150,000
- C) \$152,000
- D) \$ 75,000

Answer: C

Calculations: Total liabilities plus shareholders' equity must equal total assets of 152,000

LO: 1-5

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.5-11

Use the following Balance Sheet and Income Statement to answer the question.

Jane Austin Bookstore					
Balance Sheet					
December 31, 20X6					
<b>Assets</b>			<b>Liabilities and Shareholders' Equity</b>		
Cash and equivalents		\$5,000	Accounts payable	\$10,000	
Accounts receivable		12,000	Taxes payable	4,500	
Inventory		25,000	Other liabilities	2,500	
Prepaid expenses		3,000	Mortgage payable	60,000	
Land		54,000	Total liabilities		77,000
Building	63,000				
Accumulated depreciation--Building	????	51,000	Capital	30,000	
Trucks	20,000		Retained earnings	???	
Accumulated depreciation--Trucks	18,000	2,000	Total shareholders' equity		???
<b>Total Assets</b>		\$152,000	<b>Total Liabilities and</b>		
			<b>Shareholders' Equity</b>		????

Jane Austin Bookstore		
Income Statement		
For the Year Ended December 31, 20X6		
Book sales		\$100,000
Cost of goods sold		???
Gross profit		???
Operating expenses:		
Selling and Administrative expenses	14,000	
Depreciation expense	8,000	
Total Operating expenses		22,000
Income from operations		13,000
Income tax (35%) expense		4,550
Net income		\$8,450

If Jane Austin Bookstore paid \$5,450 in dividends for 20X6, what was the balance in Retained Earnings on December 31, 2009?

- A) \$42,000
- B) \$58,900
- C) \$48,000
- D) \$45,000

Answer: A

Calculations: Beg Re + NI – Div = end RE  
 $X + 8,450 - 5,450 = 45,000$

LO: 1-5

Difficulty: 32

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.5-12

Use the following Balance Sheet and Income Statement to answer the question.

Jane Austin Bookstore					
Balance Sheet					
December 31, 20X6					
<b>Assets</b>			<b>Liabilities and Shareholders' Equity</b>		
Cash and equivalents		\$5,000	Accounts payable	\$10,000	
Accounts receivable		12,000	Taxes payable	4,500	
Inventory		25,000	Other liabilities	2,500	
Prepaid expenses		3,000	Mortgage payable	60,000	
Land		54,000	Total liabilities		77,000
Building	63,000				
Accumulated depreciation--Building	????	51,000	Capital	30,000	
Trucks	20,000		Retained earnings	???	
Accumulated depreciation--Trucks	18,000	2,000	Total shareholders' equity		???
<b>Total Assets</b>		\$152,000	<b>Total Liabilities and</b>		
			<b>Shareholders' Equity</b>		????

Jane Austin Bookstore		
Income Statement		
For the Year Ended December 31, 20X6		
Book sales		\$100,000
Cost of goods sold		???
Gross profit		???
Operating expenses:		
Selling and administrative expenses	14,000	
Depreciation expense	8,000	
Total operating expenses		22,000
Income from operations		13,000
Income tax (35%) expense		4,550
Net income		\$8,450

If Jane Austin Bookstore sold 10,000 books during 20X6, what is the average selling price per book?

- A) \$7.25
- B) \$ 6.50
- C) \$3.50
- D) \$10.00

Answer: D

Calculations:  $100,000/10,000=10$

LO: 1-5

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking

1.5-13

Use the following Balance Sheet and Income Statement to answer the question.

Jane Austin Bookstore					
Balance Sheet					
December 31, 20X6					
<b>Assets</b>			<b>Liabilities and Shareholders' Equity</b>		
Cash and equivalents		\$5,000	Accounts payable	\$10,000	
Accounts receivable		12,000	Taxes payable	4,500	
Inventory		25,000	Other liabilities	2,500	
Prepaid expenses		3,000	Mortgage payable	60,000	
Land		54,000	Total liabilities		77,000
Building	63,000				
Accumulated depreciation--Building	????	51,000	Capital	30,000	
Trucks	20,000		Retained earnings	???	
Accumulated depreciation--Trucks	18,000	2,000	Total shareholders' equity		???
<b>Total Assets</b>		\$152,000	<b>Total Liabilities and</b>		
			<b>Shareholders' Equity</b>		????

Jane Austin Bookstore		
Income Statement		
For the Year Ended December 31, 20X6		
Book sales		\$100,000
Cost of goods sold		???
Gross profit		???
Operating expenses:		
Selling and administrative expenses	14,000	
Depreciation expense	8,000	
Total operating expenses		22,000
Income from operations		13,000
Income tax (35%) expense		4,550
Net income		\$8,450

If trucks are depreciated over ten years with no residual value, how many years has Jane Austin Bookstore had this truck?

- A) 1 year
- B) 6 years
- C) 9 years
- D) 8 years

Answer: C

Calculations:  $20,000/10 = 2,000$  per year  $18,000/2,000 = 9$  years

LO: 1-5

Difficulty: 2

AACSB: Analytical skills

AICPA Functional Competencies: Measurement, Reporting

AICPA Business Perspective Competencies: Strategic/Critical Thinking