

## **Chapter 01**

### **Accounting in Business**

#### **True / False Questions**

1. Accounting is an information and measurement system that identifies, records, and communicates relevant, reliable, and comparable information about an organization's business activities.

True   False

2. Bookkeeping is the recording of transactions and events and is only part of accounting.

True   False

3. An accounting information system communicates data to help businesses make better decisions.

True   False

4. Managerial accounting is the area of accounting that provides internal reports to assist the decision making needs of internal users.

True   False

5. Internal operating activities include research and development, distribution, and human resources.

True   False

6. The primary objective of financial accounting is to provide general purpose financial statements to help external users analyze and interpret an organization's activities.

True   False

7. External auditors examine financial statements to verify that they are prepared according to generally accepted accounting principles.

True False

8. External users include lenders, shareholders, customers, and regulators.

True False

9. Regulators often have legal authority over certain activities of organizations.

True False

10. Internal users include lenders, shareholders, brokers and managers.

True False

11. Opportunities in accounting include auditing, consulting, market research, and tax planning.

True False

12. Identifying the proper ethical path is easy.

True False

13. The Sarbanes-Oxley Act (SOX) requires each issuer of securities to disclose whether it has adopted a code of ethics for its senior financial officers and the contents of that code.

True False

14. Good ethics are good business.

True False

15. The Sarbanes-Oxley Act (SOX) does not require public companies to apply both accounting oversight and stringent internal controls.

True False

16. A partnership is a business owned by two or more people.

True False

17. Owners of a corporation are called shareholders or stockholders.

True False

18. In the partnership form of business, the owners are called stockholders.

True False

19. The balance sheet shows a company's net income or loss due to earnings activities over a period of time.

True False

20. The Financial Accounting Standards Board is the private group that sets both broad and specific accounting principles.

True False

21. The business entity principle means that a business will continue operating for an indefinite period of time.

True False

22. Generally accepted accounting principles are the basic assumptions, concepts, and guidelines for preparing financial statements.

True False

23. The business entity assumption means that a business is accounted for separately from other business entities, including its owner or owners.

True False

24. As a general rule, revenues should not be recognized in the accounting records until it is received in cash.

True False

25. Specific accounting principles are basic assumptions, concepts, and guidelines for preparing financial statements and arise out of long-used accounting practice.

True False

26. General accounting principles arise from long-used accounting practices.

True False

27. A sole proprietorship is a business owned by one or more persons.

True False

28. Unlimited liability is an advantage of a sole proprietorship.

True False

29. Understanding generally accepted accounting principles is not necessary to use and interpret financial statements.

True False

30. The International Accounting Standards board (IASB) has the authority to impose its standards on companies around the world.

True False

31. Objectivity means that financial information is supported by independent unbiased evidence.

True False

32. The idea that a business will continue to operate instead of being closed or sold underlies the going-concern assumption.

True False

33. According to the cost principle, it is preferable for managers to report an estimate of an asset's value.

True False

34. The monetary unit assumption means that all international transactions must be expressed in dollars.

True False

35. The International Accounting Standards Board (IASB) is the government group that establishes reporting requirements for companies that issue stock to the public.

True False

36. A limited liability company offers the limited liability of a partnership or proprietorship and the tax treatment of a corporation.

True False

37. The Securities and Exchange Commission (SEC) is a government agency that has legal authority to establish GAAP.

True False

38. The three common forms of business ownership include sole proprietorship, partnership, and non-profit.

True False

39. The three major types of business activities are operating, financing, and investing.

True False

40. Planning is defining an organization's ideas, goals, and actions.

True False

41. Strategic management is the process of determining the right mix of operating activities for the type of organization, its plans, and its markets.

True False

42. Planning activities are the means an organization uses to pay for resources like land, buildings, and equipment to carry out its plans.

True False

43. Investing activities are the acquiring and disposing of resources that an organization uses to acquire and sell its products or services.

True False

44. Owner financing refers to resources contributed by creditors or lenders.

True False

45. Revenues are increases in equity from a company's earning activities.

True False

46. A net loss occurs when revenues exceed expenses.

True False

47. Net income occurs when revenues exceed expenses.

True False

48. Liabilities are the owner's claim on assets.

True False

49. Assets are the resources of a company and are expected to yield future benefits.

True False

50. Owner's withdrawals are expenses.

True False

51. The accounting equation can be restated as:  $\text{Assets} - \text{Equity} = \text{Liabilities}$ .

True False

52. The accounting equation implies that:  $\text{Assets} + \text{Liabilities} = \text{Equity}$ .

True False

53. Owner's investments are increases in equity from a company's earnings activities.

True False

54. Every business transaction leaves the accounting equation in balance.

True False

55. An external transaction is an exchange of value within an organization.

True False

56. From an accounting perspective, an event is a happening that affects the accounting equation, but cannot be measured.

True False

57. Owner's equity is increased when cash is received from customers in payment of previously recorded accounts receivable.

True False

58. An owner's investment in a business always creates an asset (cash), a liability (note payable), and owner's equity (investment.)

True False

59. Return on assets is often stated in ratio form as the amount of average total assets divided by income.

True False

60. Return on assets is also known as return on investment.

True False

61. Return on assets is useful to decision makers for evaluating management, analyzing and forecasting profits, and in planning activities.

True False



62. Arrow's net income of \$117 million and average assets of \$1,400 million results in a return on assets of 8.36%.

True False

63. Return on assets reflects the effectiveness of a company's ability to generate profit through productive use of its assets.

True False

64. Risk is the uncertainty about the return we expect to earn.

True False

65. Generally the lower the risk, the lower the return that can be expected.

True False

66. U. S. Government Treasury bonds provide high return and low risk to investors.

True False

67. The four basic financial statements include the balance sheet, income statement, statement of owner's equity, and statement of cash flows.

True False

68. An income statement reports on investing and financing activities.

True False

69. A balance sheet covers a period of time such as a month or year.

True False

70. The income statement displays revenues earned and expenses incurred over a specified period of time due to earnings activities.

True False

71. The statement of cash flows shows the net effect of revenues and expenses for a reporting period.

True False

72. The income statement shows the financial position of a business on a specific date.

True False

73. The first section of the income statement reports cash flows from operating activities.

True False

74. The balance sheet is based on the accounting equation.

True False

75. Investing activities involve the buying and selling of assets such as land and equipment that are held for long-term use in the business.

True False

76. Operating activities include long-term borrowing and repaying cash from lenders, and cash investments or withdrawals by the owner.

True False

77. The purchase of supplies appears on the statement of cash flows as an investing activity because it involves the purchase of assets.

True False

78. The income statement reports on operating activities at a point in time.

True False

79. The statement of cash flows identifies cash flows separated into operating, investing, and financing activities over a period of time.

True False

80. Ending capital reported on the statement of owner's equity is calculated by adding owner investments and net losses and subtracting net incomes and withdrawals.

True False

#### Multiple Choice Questions

81. Accounting is an information and measurement system that does all of the following *except*:

- A. Identifies business activities.
- B. Records business activities.
- C. Communicates business activities.
- D. Does not use technology to improve accuracy in reporting.
- E. Helps people make better decisions.

82. Technology

- A. Has replaced accounting.
- B. Has not changed the work that accountants do.
- C. Has closely linked accounting with consulting, planning, and other financial services.
- D. In accounting has replaced the need for decision makers.
- E. In accounting is only available to large corporations.

83. The primary objective of financial accounting is:

- A. To serve the decision-making needs of internal users.
- B. To provide financial statements to help external users analyze an organization's activities.
- C. To monitor and control company activities.
- D. To provide information on both the costs and benefits of looking after products and services.
- E. To know what, when, and how much to produce.

84. The area of accounting aimed at serving the decision making needs of internal users is:

- A. Financial accounting.
- B. Managerial accounting.
- C. External auditing.
- D. SEC reporting.
- E. Bookkeeping.

85. External users of accounting information include all of the following *except*:

- A. Shareholders.
- B. Customers.
- C. Purchasing managers.
- D. Government regulators.
- E. Creditors.

86. All of the following regarding a Certified Public Accountant are True except:

- A. Must meet education and experience requirements.
- B. Must pass an examination.
- C. Must exhibit ethical character.
- D. May also be a Certified Management Accountant.
- E. Cannot hold any certificate other than a CPA.

87. Ethical behavior requires:

- A. That auditors' pay not depend on the success of the client's business.
- B. Auditors to invest in businesses they audit.
- C. Analysts to report information favorable to their companies.
- D. Managers to use accounting information to benefit themselves.
- E. That auditors' pay depend on the success of the client's business.

88. Social responsibility:

- A. Is a concern for the impact of our actions on society.
- B. Is a code that helps in dealing with confidential information.
- C. Is required by the SEC.
- D. Requires that all businesses conduct social audits.
- E. Is limited to large companies.

89. All of the following are True regarding ethics *except*:

- A. Ethics are beliefs that separate right from wrong.
- B. Ethics rules are often set for CPAs.
- C. Ethics do not affect the operations or outcome of a company.
- D. Are critical in accounting.
- E. Ethics can be hard to apply.

90. The accounting concept that requires financial statement information to be supported by independent, unbiased evidence other than someone's belief or opinion is:

- A. Business entity assumption.
- B. Monetary unit assumption.
- C. Going-concern assumption.
- D. Time-period assumption.
- E. Objectivity.

91. A corporation:

- A. Is a business legally separate from its owners.
- B. Is controlled by the FASB.
- C. Has shareholders who have unlimited liability for the acts of the corporation.
- D. Is the same as a limited liability partnership.
- E. Is not subject to double taxation.

92. The group that attempts to create more harmony among the accounting practices of different countries is the:

- A. AICPA.
- B. IASB.
- C. CAP.
- D. SEC.
- E. FASB.

93. The private group that currently has the authority to establish generally accepted accounting principles in the United States is the:

- A. APB.
- B. FASB.
- C. AAA.
- D. AICPA.
- E. SEC.

94. The accounting assumption that requires every business to be accounted for separately from other business entities, including its owner or owners is known as the:

- A. Time-period assumption.
- B. Business entity assumption.
- C. Going-concern assumption.
- D. Revenue recognition principle.
- E. Cost principle.

95. The rule that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue, is the:

- A. Going-concern assumption.
- B. Business entity assumption.
- C. Objectivity principle.
- D. Cost Principle.
- E. Monetary unit assumption.

96. If a parcel of land that was originally acquired for \$85,000 is offered for sale at \$150,000, is assessed for tax purposes at \$95,000, is recognized by its purchasers as easily being worth \$140,000, and is sold for \$137,000, the land should be recorded in the purchaser's books at:

- A. \$95,000.
- B. \$137,000.
- C. \$138,500.
- D. \$140,000.
- E. \$150,000.

97. To include the personal assets and transactions of a business's owner in the records and reports of the business would be in conflict with the:

- A. Objectivity principle.
- B. Monetary unit assumption.
- C. Business entity assumption.
- D. Going-concern assumption.
- E. Revenue recognition principle.

98. The accounting principle that requires accounting information to be based on actual cost and requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange, is the:

- A. Accounting equation.
- B. Cost principle.
- C. Going-concern assumption.
- D. Realization principle.
- E. Business entity assumption.

99. The rule that (1) requires revenue to be recognized at the time it is earned, (2) allows the inflow of assets associated with revenue to be in a form other than cash, and (3) measures the amount of revenue as the cash plus the cash equivalent value of any noncash assets received from customers in exchange for goods or services, is called the:

- A. Going-concern assumption.
- B. Cost principle.
- C. Revenue recognition principle.
- D. Objectivity principle.
- E. Business entity assumption.

100. The question of when revenue should be recognized on the income statement (according to GAAP) is addressed by the:

- A. Revenue recognition principle.
- B. Going-concern assumption.
- C. Objectivity principle.
- D. Business entity assumption.
- E. Cost principle.

101. The International Accounting Standards Board (IASB)

- A. Hopes to create harmony among accounting practices of different countries.
- B. Is the government group that establishes reporting requirements for companies that issue stock to the public.
- C. Has the authority to impose its standards on companies.
- D. Is the only source of generally accepted accounting principles (GAAP).
- E. Only applies to companies that are members of the European Union.

102. The Maxim Company acquired a building for \$500,000. Maxim had the building appraised, and found that the building was easily worth \$575,000. The seller had paid \$300,000 for the building 6 years ago. Which accounting principle would require Maxim to record the building on its records at \$500,000?

- A. Monetary unit assumption.
- B. Going-concern assumption.
- C. Cost principle.
- D. Business entity assumption.
- E. Revenue recognition principle.



103. On December 15 of the current year, Myers Legal Services signed a \$50,000 contract with a client to provide legal services to the client in the following year. Which accounting principle would require Myers Legal Services to record the legal fees revenue in the following year and not the year the cash was received?

- A. Monetary unit assumption.
- B. Going-concern assumption.
- C. Cost principle.
- D. Business entity assumption.
- E. Revenue recognition principle.

104. Marian Mosely is the owner of Mosely Accounting Services. Which accounting principle requires Marian to keep her personal financial information separate from the financial information of Mosely Accounting Services?

- A. Monetary unit assumption.
- B. Going-concern assumption.
- C. Cost principle.
- D. Business entity assumption.
- E. Matching principle.

105. A limited partnership:

- A. Includes a general partner with unlimited liability.
- B. Is subject to double taxation.
- C. Has owners called stockholders.
- D. Is the same as a corporation.
- E. May only have two partners.

106. A partnership:

- A. Is also called a sole proprietorship.
- B. Has unlimited liability for its partners.
- C. Has to have a written agreement in order to be legal.
- D. Is a legal organization separate from its owners.
- E. Has owners called shareholders.

107. Which of the following accounting principles would require that all goods and services purchased be recorded at cost?

- A. Going-concern assumption.
- B. Matching principle.
- C. Cost principle.
- D. Business entity assumption.
- E. Consideration assumption.

108. Which of the following accounting principles prescribes that a company record its expenses incurred to generate the revenue reported?

- A. Going-concern assumption.
- B. Matching principle.
- C. Cost principle.
- D. Business entity assumption.
- E. Consideration assumption.

109. Revenue is properly recognized:

- A. When the customer's order is received.
- B. Only if the transaction creates an account receivable.
- C. At the end of the accounting period.
- D. Upon completion of the sale or when services have been performed and the business obtains the right to collect the sales price.
- E. When cash from a sale is received.

110. If a parcel of land that was originally purchased for \$85,000 is offered for sale at \$150,000, is assessed for tax purposes at \$95,000, is recognized by its purchasers as easily being worth \$140,000, and is sold for \$137,000, the land account transaction amount to handle the sale of the land in the seller's books is:

- A. \$85,000 increase.
- B. \$85,000 decrease.
- C. \$137,000 increase.
- D. \$137,000 decrease.
- E. \$140,000 decrease.

111. If a parcel of land that was originally purchased for \$85,000 is offered for sale at \$150,000, is assessed for tax purposes at \$95,000, is recognized by its purchasers as easily being worth \$140,000, and is sold for \$137,000. What is the effect of the sale on the accounting equation for the seller?

- A. Assets increase \$52,000; owner's equity increases \$52,000.
- B. Assets increase \$85,000; owner's equity increases \$85,000.
- C. Assets increase \$137,000; owner's equity increases \$137,000.
- D. Assets increase \$140,000; owner's equity increases \$140,000.
- E. Assets decrease \$85,000; owner's equity decreases \$85,000.

112. If a parcel of land that was originally purchased for \$85,000 is offered for sale at \$150,000, is assessed for tax purposes at \$95,000, is recognized by its purchasers as easily being worth \$140,000, and is sold for \$137,000. At the time of the sale, assume that the seller still owed \$30,000 to TrustOne Bank on the land that was purchased for \$85,000. Immediately after the sale, the seller paid off the loan to TrustOne Bank. What is the effect of the sale and the payoff of the loan on the accounting equation?

- A. Assets increase \$52,000; owner's equity increases \$22,000; liabilities decrease \$30,000
- B. Assets increase \$52,000; owner's equity increases \$30,000; liabilities decrease \$30,000
- C. Assets increase \$22,000; owner's equity increases \$52,000; liabilities decrease \$30,000
- D. Assets decrease \$30,000; owner's equity decreases \$30,000; liabilities decrease \$30,000
- E. Assets decrease \$55,000; owner's equity decreases \$55,000; liabilities decrease \$30,000

113. An example of a financing activity is:

- A. Buying office supplies.
- B. Obtaining a long-term loan.
- C. Buying office equipment.
- D. Selling inventory.
- E. Buying land.

114. An example of an operating activity is:

- A. Paying wages.
- B. Purchasing office equipment.
- C. Borrowing money from a bank.
- D. Selling stock.
- E. Paying off a loan.

115. Operating activities:

- A. Are the means organizations use to pay for resources like land, buildings and equipment.
- B. Involve using resources to research, develop, purchase, produce, distribute and market products and services.
- C. Involve acquiring and disposing of resources that a business uses to acquire and sell its products or services.
- D. Are also called asset management.
- E. Are also called strategic management.

116. An example of an investing activity is:

- A. Paying wages of employees.
- B. Withdrawals by the owner.
- C. Purchase of land.
- D. Selling inventory.
- E. Contribution from owner.

117. Net Income:

- A. Decreases equity.
- B. Represents the amount of assets owners put into a business.
- C. Equals assets minus liabilities.
- D. Is the excess of revenues over expenses.
- E. Represents owners' claims against assets.

118. If equity is \$300,000 and liabilities are \$192,000, then assets equal:

- A. \$108,000.
- B. \$192,000.
- C. \$300,000.
- D. \$492,000.
- E. \$792,000.

119. Resources that are expected to yield future benefits are:

- A. Assets.
- B. Revenues.
- C. Liabilities.
- D. Owner's Equity.
- E. Expenses.

120. Increases in equity from a company's earnings activities are:

- A. Assets.
- B. Revenues.
- C. Liabilities.
- D. Owner's Equity.
- E. Expenses.

121. The difference between a company's assets and its liabilities, or net assets is:

- A. Net income.
- B. Expense.
- C. Equity.
- D. Revenue.
- E. Net loss.

122. Creditors' claims on the assets of a company are called:

- A. Net losses.
- B. Expenses.
- C. Revenues.
- D. Equity.
- E. Liabilities.

123. Decreases in equity that represent costs of assets or services used to earn revenues are called:

- A. Liabilities.
- B. Equity.
- C. Withdrawals.
- D. Expenses.
- E. Owner's Investment.

124. The description of the relation between a company's assets, liabilities, and equity, which is expressed as  $\text{Assets} = \text{Liabilities} + \text{Equity}$ , is known as the:

- A. Income statement equation.
- B. Accounting equation.
- C. Business equation.
- D. Return on equity ratio.
- E. Net income.

125. Revenues are:

- A. The same as net income.
- B. The excess of expenses over assets.
- C. Resources owned or controlled by a company.
- D. The increase in equity from a company's earning activities.
- E. The costs of assets or services used.

126. If assets are \$99,000 and liabilities are \$32,000, then equity equals:

- A. \$32,000.
- B. \$67,000.
- C. \$99,000.
- D. \$131,000.
- E. \$198,000.

127. Another name for equity is:

- A. Net income.
- B. Expenses.
- C. Net assets.
- D. Revenue.
- E. Net loss.

128. The excess of expenses over revenues for a period is:

- A. Net assets.
- B. Equity.
- C. Net loss.
- D. Net income.
- E. A liability.

129. A payment to an owner is called a(n):

- A. Liability.
- B. Withdrawal.
- C. Expense.
- D. Contribution.
- E. Investment.

130. Distributions of assets by a business to its owners are called:

- A. Withdrawals.
- B. Expenses.
- C. Assets.
- D. Retained earnings.
- E. Net Income.

131. The assets of a company total \$700,000; the liabilities, \$200,000. What are the claims of the owners?

- A. \$900,000.
- B. \$700,000.
- C. \$500,000.
- D. \$200,000.
- E. It is impossible to determine unless the amount of this owners' investment is known.

132. On June 30 of the current year, the assets and liabilities of Phoenix, Inc. are as follows: Cash \$20,500; Accounts Receivable, \$7,250; Supplies, \$650; Equipment, \$12,000; Accounts Payable, \$9,300. What is the amount of owner's equity as of July 1 of the current year?

- A. \$8,300
- B. \$13,050
- C. \$20,500
- D. \$31,100
- E. \$40,400

133. Assets created by selling goods and services on credit are:

- A. Accounts payable.
- B. Accounts receivable.
- C. Liabilities.
- D. Expenses.
- E. Equity.

134. An exchange of value between two entities is called:

- A. The accounting equation.
- B. Recordkeeping or bookkeeping.
- C. An external transaction.
- D. An asset.
- E. Net Income.



135. Photometer Company paid off \$30,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?

- A. Assets, \$30,000 increase; liabilities, no effect; equity, \$30,000 increase.
- B. Assets, \$30,000 decrease; liabilities, \$30,000 decrease; equity, no effect.
- C. Assets, \$30,000 decrease; liabilities, \$30,000 increase; equity, no effect.
- D. Assets, no effect; liabilities, \$30,000 decrease; equity, \$30,000 increase.
- E. Assets, \$30,000 decrease; liabilities, no effect; equity \$30,000 decrease.

136. How would the accounting equation of Boston Company be affected by the billing of a client for \$10,000 of consulting work completed?

- A. +\$10,000 accounts receivable, -\$10,000 accounts payable.
- B. +\$10,000 accounts receivable, +\$10,000 accounts payable.
- C. +\$10,000 accounts receivable, +\$10,000 cash.
- D. +\$10,000 accounts receivable, +\$10,000 revenue.
- E. +\$10,000 accounts receivable, -\$10,000 revenue.

137. Zion Company has assets of \$600,000, liabilities of \$250,000, and equity of \$350,000. It buys office equipment on credit for \$75,000. What would be the effects of this transaction on the accounting equation?

- A. Assets increase by \$75,000 and expenses increase by \$75,000.
- B. Assets increase by \$75,000 and expenses decrease by \$75,000.
- C. Liabilities increase by \$75,000 and expenses decrease by \$75,000.
- D. Assets decrease by \$75,000 and expenses decrease by \$75,000.
- E. Assets increase by \$75,000 and liabilities increase by \$75,000.

138. Viscount Company collected \$42,000 cash on its accounts receivable. The effects of this transaction as reflected in the accounting equation are:

- A. Total assets decrease and equity increases.
- B. Both total assets and total liabilities decrease.
- C. Total assets, total liabilities, and equity are unchanged.
- D. Both total assets and equity are unchanged and liabilities increase.
- E. Total assets increase and equity decreases.

139. If the liabilities of a business increased \$75,000 during a period of time and the owner's equity in the business decreased \$30,000 during the same period, the assets of the business must have:

- A. Decreased \$105,000.
- B. Decreased \$45,000.
- C. Increased \$30,000.
- D. Increased \$45,000.
- E. Increased \$105,000.

140. If the assets of a business increased \$89,000 during a period of time and its liabilities increased \$67,000 during the same period, equity in the business must have:

- A. Increased \$22,000.
- B. Decreased \$22,000.
- C. Increased \$89,000.
- D. Decreased \$156,000.
- E. Increased \$156,000.

141. If the liabilities of a company increased \$74,000 during a period of time and equity in the company decreased \$19,000 during the same period, what was the effect on the assets?

- A. Assets would have increased \$55,000.
- B. Assets would have decreased \$55,000.
- C. Assets would have increased \$19,000.
- D. Assets would have decreased \$19,000.
- E. None of these.

142. If a company paid \$38,000 of its accounts payable in cash, what was the effect on the assets, liabilities, and equity?

- A. Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would decrease \$38,000.
- B. Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would increase \$38,000.
- C. Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would not change.
- D. There would be no effect on the accounts because the accounts are affected by the same amount.
- E. None of these.

143. If assets are \$365,000 and equity is \$120,000, then liabilities are:

- A. \$120,000.
- B. \$245,000.
- C. \$365,000.
- D. \$485,000.
- E. \$610,000.

144. Reston had income of \$150 million and average invested assets of \$1,800 million. Its return on assets is:

- A. 8.3%.
- B. 83.3%.
- C. 12%.
- D. 120%.
- E. 16.7%.

145. Nick's had income of \$350 million and average invested assets of \$2,000 million. Its ROA is:

- A. 1.8%.
- B. 35%.
- C. 17.5%.
- D. 5.7%.
- E. 3.5%.

146. FastLane has net income of \$18,955, and assets at the beginning of the year of \$200,000. Assets at the end of the year total \$246,000. Compute its return on assets.

- A. 7.7%.
- B. 8.5%.
- C. 9.5%.
- D. 11.8%.
- E. 13.0%.

147. Harris Co. has a net income of \$43,000, assets at the beginning of the year are \$250,000 and assets at the end of the year are \$300,000. Compute its return on assets.

- A. 8.4%
- B. 17.2%
- C. 14.3%
- D. 15.6%
- E. 1.5%

148. U. S. government bonds are:

- A. High-risk and high-return investments.
- B. Low-risk and low-return investments.
- C. High-risk and low-return investments.
- D. Low-risk and high-return investments.
- E. High risk and no-return investments.

149. Risk is:

- A. Net income divided by average total assets.
- B. The reward for investment.
- C. The uncertainty about the expected return to be earned.
- D. Unrelated to expected return.
- E. Derived from the idea of getting something back from an investment.

150. The statement of cash flows reports all of the following *except*:

- A. Cash flows from operating activities.
- B. Cash flows from investing activities.
- C. Cash flows from financing activities.
- D. The net increase or decrease in assets for the period reported.
- E. The net increase or decrease in cash for the period reported.

151. The basic financial statements include all of the following *except*:

- A. Balance Sheet.
- B. Income Statement.
- C. Statement of Owner's Equity.
- D. Statement of Cash Flows.
- E. Trial Balance.

152. The statement of owner's equity:

- A. Reports how equity changes at a point in time.
- B. Reports how equity changes over a period of time.
- C. Reports on cash flows for operating, financing, and investing activities over a period of time.
- D. Reports on cash flows for operating, financing, and investing activities at a point in time.
- E. Reports on amounts for assets, liabilities, and equity at a point in time.

153. The financial statement that reports whether the business earned a profit and also lists the revenues and expenses is called:

- A. A Balance sheet.
- B. A Statement of owner's equity.
- C. A Statement of cash flows.
- D. An Income statement.
- E. A Statement of financial position.

154. A balance sheet lists:

- A. The types and amounts of the revenues and expenses of a business.
- B. Only the information about what happened to equity during a time period.
- C. The types and amounts of assets, liabilities, and equity of a business as of a specific date.
- D. The inflows and outflows of cash during the period.
- E. The assets and liabilities of a company but not the owner's equity.

155. A financial statement providing information that helps users understand a company's financial status, and which lists the types and amounts of assets, liabilities, and equity as of a specific date, is called a(n):

- A. Balance sheet.
- B. Income statement.
- C. Statement of cash flows.
- D. Statement of owner's equity.
- E. Financial Status Statement.

156. The financial statement that identifies where a company's cash came from and where it went during the period is the:

- A. Statement of financial position.
- B. Statement of cash flows.
- C. Balance sheet.
- D. Income statement.
- E. Statement of changes in owner's equity.

157. The financial statement that shows the beginning balance of owner's equity; the changes in equity that resulted from new investments by the owner, net income (or net loss); withdrawals; and the ending balance, is the:

- A. Statement of financial position.
- B. Statement of cash flows.
- C. Balance sheet.
- D. Income statement.
- E. Statement of owner's equity.

158. Cash investments by owners are listed on which of the following statements?

- A. Balance sheet.
- B. Income statement.
- C. Statement of owner's equity only.
- D. Statement of cash flows only.
- E. Statement of owner's equity and statement of cash flows.

159. Accounts payable appear on which of the following statements?

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

160. The income statement reports all of the following except:

- A. Revenues earned by a business.
- B. Expenses incurred by a business.
- C. Assets owned by a business.
- D. Net income or loss earned by a business.
- E. The time period over which the earnings occurred.

161. Use the following information as of December 31 to determine equity.

Liabilities .....	\$141,000
Cash.....	57,000
Equipment .....	206,000
Buildings .....	175,000

- A. \$57,000.
- B. \$141,000.
- C. \$297,000.
- D. \$438,000.
- E. \$579,000.

162. Determine the net income of a company for which the following information is available for the month of May.

Employee salaries expense....	\$180,000
Interest expense.....	10,000
Rent expense.....	20,000
Consulting revenue.....	400,000

- A. \$190,000.
- B. \$210,000.
- C. \$230,000.
- D. \$400,000.
- E. \$610,000.

163. A company acquires equipment for \$75,000 cash. This represents a(n)

- A. Operating activity.
- B. Investing activity.
- C. Financing activity.
- D. Revenue activity.
- E. Expense activity.

164. A company borrows \$125,000 from the Eastside Bank and receives the loan proceeds in cash. This represents a(n):

- A. Revenue activity.
- B. Operating activity.
- C. Expense activity.
- D. Investing activity.
- E. Financing activity.

165. Flash had cash inflows from operations \$62,500; cash outflows from investing activities of \$47,000; and cash inflows from financing of \$25,000. The net change in cash was:

- A. \$40,500 increase.
- B. \$40,500 decrease.
- C. \$134,500 decrease.
- D. \$134,000 increase.
- E. \$9,500 increase.



166. Flash has beginning equity of \$257,000, net income of \$51,000, withdrawals of \$40,000 and investments by owners of \$6,000. Its ending equity is:

- A. \$223,000.
- B. \$240,000.
- C. \$268,000.
- D. \$274,000.
- E. \$208,000.

167. Rent expense that is paid with cash appears on which of the following statements?

- A. Balance sheet.
- B. Income statement.
- C. Statement of owner's equity.
- D. Income statement and statement of cash flows.
- E. Statement of cash flows only.

168. A company's balance sheet shows: cash \$22,000, accounts receivable \$16,000, office equipment \$50,000, and accounts payable \$17,000. What is the amount of owner's equity?

- A. \$17,000.
- B. \$29,000.
- C. \$71,000.
- D. \$88,000.
- E. \$105,000.

169. A company reported total equity of \$145,000 at the beginning of the year. The company reported \$210,000 in revenues and \$165,000 in expenses for the year. Liabilities at the end of the year totaled \$92,000. What are the total assets of the company at the end of the year?

- A. \$45,000.
- B. \$92,000.
- C. \$98,000.
- D. \$210,000.
- E. \$282,000.

170. Flash reported net income of \$17,500 for the past year. At the beginning of the year the company had \$200,000 in assets and \$50,000 in liabilities. By the end of the year, assets had increased to \$300,000 and liabilities were \$75,000. Calculate its return on assets:

- A. 8.8%
- B. 7.0%
- C. 5.8%
- D. 35.0%
- E. 23.3%

171. Quick Computer Service had revenues of \$80,000 and expenses of \$50,000 for the year. Its assets at the beginning of the year were \$400,000. At the end of the year assets were worth \$450,000. Calculate its return on assets.

- A. 7.1%
- B. 7.5%
- C. 6.7%
- D. 20.0%
- E. 18.8%

172. Della's Donuts had cash inflows from operating activities of \$27,000; cash outflows from investing activities of \$22,000, and cash outflows from financing activities of \$12,000. Calculate the net increase or decrease in cash.

- A. \$61,000 increase.
- B. \$37,000 increase.
- C. \$7,000 decrease.
- D. \$7,000 increase.
- E. \$34,000 decrease.

173. Della's Donuts owner made investments of \$50,000 and withdrawals of \$20,000. The company has revenues of \$83,000 and expenses of \$64,000. Calculate its net income.

- A. \$30,000.
- B. \$83,000.
- C. \$64,000.
- D. \$19,000.
- E. \$49,000.

174. Cool Tours had beginning equity of \$72,000; revenues of \$90,000, expenses of \$65,000, and withdrawals by owners of \$9,000. Calculate the ending equity.

- A. \$88,000.
- B. \$25,000.
- C. \$97,000.
- D. \$38,000.
- E. \$47,000.

175. A company's balance sheet shows: cash \$24,000, accounts receivable \$30,000, equipment \$50,000, and equity \$72,000. What is the amount of liabilities?

- A. \$104,000.
- B. \$76,000.
- C. \$32,000.
- D. \$68,000.
- E. \$176,000.

**Matching Questions**

176. Match the following terms with the appropriate definition.

- |                          |   |       |
|--------------------------|---|-------|
|                          | An information and measurement system that identifies, records and communicates relevant reliable and comparable information about an organization's business activities. | _____ |
| 1. Recordkeeping         | The part of accounting that involves recording transactions and events, either electronically or manually.  | _____ |
| 2. Internal users        | Persons using accounting information who are not directly involved in the running of the organization.  | _____ |
| 3. Ethics                | Persons using accounting information who are directly involved in managing the organization.  | _____ |
| 4. Accounting            | The use of resources to research, develop, purchase, produce, distribute, and market products and services.   | _____ |
| 5. Operating activities  | The acquisition and disposing of resources that an organization uses to acquire and sell products and services.   | _____ |
| 6. External users        | Provide the means organizations use to pay for resources such as land, buildings, and equipment to carry out plans.   | _____ |
| 7. Financing activities  |   |       |
| 8. Social responsibility | Beliefs that distinguish right from wrong.  | _____ |
| 9. Investing activities  | Concern for the impact of actions on society.   | _____ |

177. Match each of the following terms with the most appropriate definition.

- |                          |  |       |
|--------------------------|--|-------|
| 1. Expenses              | The uncertainty about the expected return to be earned.  | _____ |
| 2. Financial accounting  | Area of accounting aimed at serving the decision making needs of internal users.                               | _____ |
| 3. Planning              | A financial ratio useful in evaluating management, analyzing and forecasting profits, and planning activities. | _____ |
| 4. Risk                  | Creditor's claims on a company's assets.   | _____ |
| 5. Managerial accounting | Costs of assets or services used to earn revenues.   | _____ |
| 6. Net income            | Defining the idea, goals, and actions of an organization.  | _____ |
| 7. Return on assets      | Area of accounting aimed at serving external users.  | _____ |
| 8. Liabilities           | The excess of revenue over expenses.   | _____ |

178. The following is a list of selected users of accounting information. Match the appropriate user to the following information needs.

- |                        |  |       |
|------------------------|--|-------|
| 1. Production Managers | Monitor costs and ensure quality.                                | _____ |
|                        | Judge the soundness of a customer before making sales on credit. | _____ |
| 2. Lenders             | Assessing employment opportunities.                              | _____ |
| 3. Shareholders        | Measuring risk and return of loans.                              | _____ |
| 4. Employees           | Assessing the risk and return of acquiring shares.               | _____ |
| 5. Suppliers           |  |       |

179. Match the following definitions with terms 1 through 8. Place the letter that identifies the best definition in the blank space next to the term.

- |  |                              |       |
|--|------------------------------|-------|
| 1. Assets an owner takes from the company for personal use   | Assets                       | _____ |
| 2. A principle that requires the information in financial statements to be supported by independent unbiased evidence  | Going-concern principle      | _____ |
| 3. A principle that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold.   | Statement of owner's equity. | _____ |
| 4. The accounting principle that requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange   | Net assets                   | _____ |
| 5. A financial statement that reports the changes in equity over the reporting period; including increases such as owner investment and net income and for decreases such as owner withdrawals or net loss | Objectivity principle        | _____ |
| 6. Resources owned or controlled by a company that are expected to yield future benefits   | Cost principle               | _____ |
|  | Owner withdrawal             | _____ |
| 7. Another term for equity   | Revenues                     | _____ |
| 8. Gross increase in equity from a company's earnings activities   |                              |       |

180. Match the following definitions with the terms 1 through 9. Place the letter that identifies the best definition in the blank space next to the term.

1. The cost of assets or services used to earn revenue	Statement of cash flows _____
2. An exchange of value between two parties	Business transaction _____
3. A financial statement that lists cash inflows (receipts) and cash outflows (payments); the cash flows are arranged by operating, investing, and financing activities	Monetary unit principle _____
4. Creditor's claims on assets	Business entity principle _____
5. A financial statement that reports the changes in equity over the reporting period; adjusted for increases such as owner investment and net income and for decreases such as owner withdrawals or net loss	Revenue recognition principle _____
6. The principle that requires a business to be accounted for separately from its owners	Accounting equation _____
7. The relation between a company's assets, liabilities, and equity	Statement of owner's equity _____
8. The principle that assumes transactions and events can be expressed in money units	Expenses _____
9. The principle that revenue is recognized when earned	Liabilities _____

181. Identify each of the following business activities 1 through 6 into the appropriate category a, b, and c.

1. Operating	Paid utilities expenses. _____
2. Financing	Withdrawal of funds by owners. _____
3. Investing	Purchase of land. _____
4. Investing	Sale of used equipment. _____
5. Operating	Borrowed money from a bank on a long-term note. _____
6. Financing	Paid employee wages. _____

182. Match each of the following items 1 through 8 with the financial statement a through d in which each item would most likely appear. An item may appear on more than one statement.

1. Statement of owner's equity	Assets. _____
2. Income statement	Withdrawals. _____
3. Statement of cash flows	Revenues. _____
	Cash from investing
4. Balance sheet	activities. _____
5. Income statement	Expenses. _____
6. Balance sheet	Liabilities. _____
	Cash from operating
7. Statement of cash flows	activities. _____
8. Statement of owner's equity and Balance sheet	Equity. _____

183. Select the appropriate financial statement for each of the following accounts.  
(Note: Some items may appear on more than one financial statement.)

1. Income statement	Cash _____
2. Income statement	Cash Withdrawals _____
3. Balance sheet	Notes payable _____
4. Balance sheet	Fees earned _____
5. Income statement	Jay Miller, Capital _____
	Accounts
6. Statement of owner's equity, Balance sheet	receivable _____
7. Statement of owner's equity, Statement of cash flows	Rent Expense _____
8. Balance sheet, Statement of cash flows	Supplies Expense _____



184. Select the appropriate financial statement for each of the following items.  
(Note: some items may appear on more than one financial statement.)

1. Balance sheet	Supplies	_____
2. Statement of cash flows	Cash withdrawals by owner.	_____
3. Statement of owner's equity, Balance sheet	Ahmad Khan, Capital	_____
4. Statement of owner's equity, Statement of cash flows	Advertising Expense	_____
5. Statement of owner's equity, Statement of cash flows	Cash payments to purchase equipment	_____
6. Statement of cash flows	Cash investments by owner	_____
7. Income statement	Consulting Revenue	_____
8. Income statement	Cash proceeds from a long-term loan	_____

185. Classify the following activities according to the appropriate section of the statement of cash flows.

1. Investing activity	Cash received from a one-time sale of used office equipment.	_____
2. Financing activity	Cash paid for withdrawals by owners.	_____
3. Financing activity	Cash received from customers.	_____
4. Investing activity	Cash received from owner contributions.	_____
5. Operating activity	Cash paid for utilities.	_____
6. Operating activity	Cash paid for a delivery van to be used in the business.	_____

**Short Answer Questions**

186. Explain the role of accounting in the information age.

187. What is the balance sheet? What is its purpose?

188. Identify the users and uses of accounting information.

189. Identify several opportunities in accounting and its related fields.

190. Explain why ethics are an integral part of accounting.

191. Describe the three important guidelines for revenue recognition.

192. Identify the three basic forms of business organizations.

193. How does the objectivity principle support ethical behavior?

194. Identify the two main groups involved in establishing generally accepted accounting principles.

195. How does the going-concern principle affect reporting asset values of a business?

196. Describe the relation between revenues, expenses, and net income.

197. Explain the accounting equation, and define its terms.

198. What distinguishes liabilities from equity?

199. What is the purpose of return on assets as an analytical tool?

200. Discuss the relation between risk and return.

201. Describe the three types of activities reported on the statement of cash flows.

202. Identify and describe the four basic financial statements:

**Essay Questions**

203. The characteristics below apply to at least one of the forms of business organization.

- a. Is a separate legal entity.
- b. Is allowed to be owned by one person only.
- c. Owner or owners are personally liable for debts of the business.
- d. Is a taxable entity.
- e. Is a business entity.
- f. May have a contract specifying the division of profits among the owners.
- g. Has an unlimited life

Use the following format to indicate (with a "yes" or "no") whether or not a characteristic applies to each type of business organization.

	<u>Proprietorship</u>	<u>Partnership</u>	<u>Corporation</u>
a.			
b.			
c.			
d.			
e.			
f.			
g.			

204. A parcel of land is offered for sale at \$600,000, is assessed for tax purposes at \$500,000, is recognized by its purchasers as easily being worth \$575,000, and is sold for \$570,000. At what amount should the land be recorded in the purchaser's books? What accounting principle supports your answer?

205. You are reviewing the accounting records of Cathy's Antiques, owned by Cathy Miller. You have uncovered the following situations. Compose a memo to Ms. Miller. Cite the appropriate accounting principle and suggest an action for each separate item.

1. In August, a check for \$500 was written to Wee Day Care Center. This amount represents child care for her son Brandon.
2. Cathy plans a Going Out of Business Sale for May, since she will be closing her business for a month-long vacation in June. She plans to reopen July 1 and will continue operating Cathy's Antiques indefinitely.
3. Cathy received a shipment of pine furniture from Quebec, Canada. The invoice was stated in Canadian dollars.
4. Joseph Clark paid \$1,500 for a dining table. The amount was recorded as revenue. The table will be delivered to Mr. Clark in six weeks.

206. At the beginning of the year, a company had \$120,000 worth of liabilities. During the year, assets increased by \$160,000 and at year-end they equaled \$360,000. Liabilities decreased \$20,000 during the year. Calculate the beginning and ending values of equity.

207. The accounts of Garfield Company with the increases or decreases that occurred during the past year are as follows:

<u>Account</u>	<u>Increase</u>	<u>Decrease</u>
Cash.....	\$25,000	
Accounts receivable .....		\$(5,000)
Accounts payable .....		(11,000)
Notes payable.....	16,000	

Except for net income, an investment of \$3,000 by the owner, and a withdrawal of \$11,000 by the owner, no other items affected the owner's capital account. Using the balance sheet equation, compute net income for the past year.

208. Annie's Attic has the following account balances for the dates given:

	<u>September 1</u>	<u>September 30</u>
Cash.....	\$40,000	60,000
Accounts Receivable .....	40,000	38,000
Accounts payable .....	6,000	?

Also, its net income, for September 1 through September 30 was \$20,000 and there were no investments or withdrawals by the owner. Determine the equity at both September 1 and September 30.



209. If the liabilities of a company increased \$92,000 during a period of time and equity in the business decreased \$30,000 during the same period, did the assets of the company increase or decrease? By what amount?

210. Hal Burton began a Web Consulting practice and completed these transactions during September of the current year:

- Sept.      1    Invested \$100,000 of his personal savings into a checking account opened in the name of the business.
- 2    Rented office space and paid \$1,200 cash for the month of September.
- 3    Purchased office equipment for \$30,000, paying \$8,000 cash and agreeing to pay the balance in one year.
- 4    Purchased office supplies for \$750 cash.
- 8    Completed work for a client and immediately collected \$2,700 cash for the services.
- 15    Completed \$3,600 services for a client on credit.
- 20    Received \$3,600 from a client for the work completed on September 15.
- 30    Paid the office secretary's monthly salary, \$3,000 cash.
- 30    Burton withdrew \$2,000 for personal use.

Show the effects of the above transactions on the accounting equation of Halley Burton, Consultant. Use the following format for your answers. The first item is shown as an example. Increase = I Decrease = D No effect = N

Date	Assets	Liabilities	Equity
<b>Example:</b>			
September 1	I	N	I

211. For each of the following transactions, identify the effects as reflected in the accounting equation. Use "+" to indicate an increase and "-" to indicate a decrease. Use "A", "L", and "E" to indicate assets, liabilities, and equity, respectively. Part A has been completed as an example.

a.	L. Berryman invested \$100,000 in a sole proprietorship	<u>+A</u>	<u>+E</u>
b.	Land was purchased for \$50,000. A down payment of \$15,000 cash was made and a note was signed for the balance.	<u>          </u>	<u>          </u>
c.	Services were rendered to customers for cash.	<u>          </u>	<u>          </u>
d.	A building was purchased for cash.	<u>          </u>	<u>          </u>
e.	Supplies were purchased for cash.	<u>          </u>	<u>          </u>
f.	Paid the office secretary's salary.	<u>          </u>	<u>          </u>
g.	The amount owed on the land from Part (b) was paid.	<u>          </u>	<u>          </u>

212. The following schedule reflects shows the first month's transactions of the Bill Blue Real Estate Company:

	<b>Cash</b>	+	<b>Accounts Receivable</b>	+	<b>Supplies</b>	+	<b>Equipment</b>	=	<b>Accounts Payable</b>	+	<b><u>B. Blue Capital</u></b>
1.	+20,000										+20,000
2.	-5,000						+5,000				
3.					+\$1,500				+1,500		
4.	+3,000										+3,000
5.	+1,000		+1,500								+2,500
6.	-750								-750		
7.	+500		-500								
8.					-400						-400
9.	-2,000										-2,000

Provide descriptions for each transaction.

213. The accountant of Magic Video Games prepared a balance sheet immediately after each transaction was recorded. During September, the first month of operation, the following balance sheets were prepared:

MAGIC VIDEO GAMES			
Balance Sheet			
September 1			
Assets		Equity	
Cash.....	<u>\$60,000</u>	I. Magic, Capital .....	<u>\$60,000</u>
Total assets.....	<u>\$60,000</u>	Total liabilities	
		and equity .....	<u>\$60,000</u>

MAGIC VIDEO GAMES			
Balance Sheet			
September 5			
Assets		Liabilities	
Cash.....	\$48,000	Notes payable .....	\$18,000
Land .....	10,000	Equity	
Building.....	<u>20,000</u>	I. Magic, Capital .....	<u>60,000</u>
Total assets.....	<u>\$78,000</u>	Total liabilities and	
		equity .....	<u>\$78,000</u>

MAGIC VIDEO GAMES			
Balance Sheet			
September 9			
Assets		Liabilities	
Cash.....	\$48,000	Accounts payable.....	\$ 2,000
Office supplies .....	2,000	Notes payable .....	18,000
Land .....	10,000	Equity	
Building.....	<u>20,000</u>	I. Magic, Capital .....	<u>60,000</u>
Total assets.....	<u>\$80,000</u>	Total liabilities and	
		equity .....	<u>\$80,000</u>

MAGIC VIDEO GAMES			
Balance Sheet			
September 11			
Assets		Liabilities	
Cash.....	\$42,000	Accounts payable.....	\$ 2,000
Office supplies .....	2,000	Notes payable .....	18,000
Land .....	10,000	Equity	
Building.....	20,000	I. Magic, Capital .....	<u>60,000</u>
Office furniture .....	<u>6,000</u>		
Total assets.....	<u>\$80,000</u>	Total liabilities and	
		equity .....	<u>\$80,000</u>

MAGIC VIDEO GAMES			
Balance Sheet			
September 15			
Assets		Liabilities	
Cash.....	\$32,000	Accounts payable.....	\$ 2,000
Office supplies .....	2,000	Notes Payable .....	8,000
Land .....	10,000	Equity	
Building.....	20,000	I. Magic, Capital .....	<u>60,000</u>
Office furniture .....	<u>6,000</u>	Total liabilities and	
Total assets.....	<u>\$70,000</u>	equity .....	<u>\$70,000</u>

Required: Describe the nature of each of these five transactions for the month of September.

Sept

1	_____
5	_____
9	_____
11	_____
15	_____

214. Identify the risk and the return in each of the following examples.

- a. Investing \$500 in a CD at 4.5% interest.
- b. Placing a \$100 bet on an NBA game.
- c. Investing \$10,000 in Microsoft stock.
- d. Borrowing \$20,000 in student loans.

215. Prepare a November 30 balance sheet in proper form for Green Bay Delivery Service from the following alphabetical list of the accounts at November 30:

Accounts receivable .....	\$10,000
Accounts payable .....	18,000
Building.....	28,000
Cash.....	8,000
Notes payable.....	45,000
Office equipment .....	12,000
R. Perkins, Capital .....	?
Trucks .....	55,000

216. Prepare a December 31 balance sheet in proper form for Surety Insurance using the following accounts and amounts:

Commissions earned .....	\$40,000
Accounts payable .....	3,500
Accounts receivable .....	5,000
M. Bruno, Capital .....	103,500
Office equipment .....	10,000
Advertising expense .....	3,200
Cash.....	7,500
Land .....	35,000
Note payable .....	50,000
Office supplies .....	500
Salaries expense .....	12,000
Salaries payable .....	1,000
Building.....	100,000



217. From the information given below, prepare a November income statement, a November statement of owner's equity, and a November 30 balance sheet. On November 1 of the current year, Lois Bell began Lois Bell, Interior Design with an initial investment of \$50,000 cash. On November 30 her records showed the following (alphabetically arranged) items and amounts.

Accounts payable .....	\$12,000	Office furnishings.....	\$40,000
Accounts receivable .....	23,000	Owner's withdrawals .....	6,000
Cash.....	17,200	Rent expense .....	3,600
Fees earned.....	30,000	Salaries expense .....	6,200
Notes payable.....	4,250	Telephone expense .....	250

218. Data for Madison Realty are as follows:

	Total assets at January 1 .....	\$100,000
	Total liabilities at January 1 .....	35,000
	Total revenues for the year .....	79,000
	Total expenses for the year.....	47,000

The owner, Mary Madison, withdrew a total of \$30,000 for personal use during the year. Using the above data, prepare Madison Realty's Statement of Owner's Equity for the year ended December 31.

219. FastForward has the following beginning cash balance and cash transactions for the month of January. Using this information prepare a statement of cash flows.

a.	Beginning cash balance .....	\$ 3,200
b.	Cash investment by owner.....	15,000
c.	Cash payment toward long-term loan	1,000
d.	Cash payment of rent.....	1,800
e.	Purchased equipment for cash .....	7,500
f.	Purchased store supplies for cash ....	1,500
g.	Cash collected from customers.....	7,750
h.	Cash withdrawal by owner .....	2,000
i.	Cash payment of wages .....	4,000

220. The records of Skymaster Airplane Rentals show the following information as of December 31. Skymaster withdrew \$52,000 during the year for personal expenses. Prepare a December income statement, a December statement of owner's equity, and a December 30 balance sheet.

Accounts payable .....	\$36,000	Wages expense .....	\$75,000
Insurance expense .....	2,000	Advertising expense.....	22,000
Accounts receivable .....	24,000	Cash .....	11,000
H. Skymaster, capital,			
January 1 .....	150,000	Office Furniture.....	15,000
Airplanes .....	150,000	Maintenance expense.....	39,000
Notes payable .....	47,000	Revenues .....	217,000
Hangar .....	60,000		

221. Graham Roofing Company, owned by R. Graham, began operations in May and completed the following transactions during that first month of operations. Show the effects of the transactions on the accounts of the accounting equation by recording increases and decreases in the appropriate columns in the table below. Do not determine new account balances after each transaction. Determine the final total for each account and verify that the equation is in balance.

May	1	R. Graham invested \$90,000 cash in the company.
	2	The company purchased \$25,000 in office equipment. It paid \$10,000 in cash and signed a note payable promising to pay the \$15,000 over the next three years.
	2	The company rented office space and paid \$3,000 for the May rent.
	6	The company installed a new roof for a customer and immediately collected \$5,000.
	7	The company paid a supplier \$2,000 for roofing materials used on the May 6 job.
	8	The company purchased a \$2,500 copy machine for office use on credit.
	9	The company completed work for additional customers on credit in the amount of \$16,000.
	15	The company paid its employees salaries \$2,300 for the first half of the month.
	17	The company installed a new roof for a customer and immediately collected \$2,400.
	20	The company received \$10,000 in payments from the customers billed on May 9.
	28	The company paid \$1,500 on the copy machine purchased on May 8. It will pay the remaining balance in June.
	31	The company paid its employees salaries \$2,400 for the second half of the month.
	31	The company paid a supplier \$5,300 for roofing materials used on the remaining jobs completed during May.
	31	The company paid \$450 for this month's utility bill.

GRAHAM ROOFING CO.

Assets = Liabilities + Equity									
Date	Cash	Accounts Receivable	Equipment	Accounts Payable	Notes Payable	R. Graham Capital	R. Graham Withdrawals	Revenues	Expenses
May									
1									
2									
2									
6									
7									
8									
9									
15									
17									
20									
28									
31									
31									
31									
	\$				\$				
	-	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ -

Fill in the Blank Questions

222. Accounting is an \_\_\_\_\_ that identifies, records and communicates relevant, reliable and comparable information about an organization's economic activities.

\_\_\_\_\_

223. A \_\_\_\_\_ is a business that is owned by only one person.

\_\_\_\_\_

224. \_\_\_\_\_ users of accounting information are not directly involved in running the organization.

\_\_\_\_\_

225. \_\_\_\_\_ is the area of accounting aimed at serving external users.

\_\_\_\_\_

226. Congress passed the \_\_\_\_\_ to help curb financial abuses at companies that issue their stock to the public.

\_\_\_\_\_

227. \_\_\_\_\_ are beliefs that separate right from wrong.

\_\_\_\_\_

228. The assumption that requires that a business be accounted for separately from its owners is the \_\_\_\_\_ assumption.

\_\_\_\_\_

229. The \_\_\_\_\_ assumption requires that financial information is supported by independent, unbiased evidence.

\_\_\_\_\_

230. The \_\_\_\_\_ assumption assumes business will continue operating indefinitely instead of being closed or sold.

\_\_\_\_\_

231. The \_\_\_\_\_ assumption states that transactions and events are expressed in money units.

\_\_\_\_\_

232. In accounting, the rule that requires that assets, services, and liabilities be recorded initially at the cash or cash-equivalent value of what was given up or of the item received is called \_\_\_\_\_.

\_\_\_\_\_

233. A disadvantage of a sole proprietorship is the fact that the owner has \_\_\_\_\_.

\_\_\_\_\_

234. There are at least three types of partnerships that limit the partners' liability. They are 1) \_\_\_\_\_, 2) \_\_\_\_\_, and 3) \_\_\_\_\_.

\_\_\_\_\_

235. \_\_\_\_\_ activities are the means organizations use to pay for resources such as land, building, and equipment.

\_\_\_\_\_

236. \_\_\_\_\_ activities involve the acquisition and disposal of resources that an organization uses to acquire and sell its products or services.

\_\_\_\_\_

237. \_\_\_\_\_ activities involve using resources to research, develop, purchase, produce, distribute, and market products and services.

\_\_\_\_\_

238. Assets removed from the business by the business owner for personal use are called \_\_\_\_\_.

\_\_\_\_\_

239. \_\_\_\_\_ are the increases in equity from a company's earnings activities

\_\_\_\_\_

240. A common characteristic of \_\_\_\_\_ is their ability to provide expected future benefits to a business.

\_\_\_\_\_

241. Creditors claims on assets that reflect obligations to transfer assets are called \_\_\_\_\_.

\_\_\_\_\_

242. The owner's claim on assets is called \_\_\_\_\_.

\_\_\_\_\_

243. The accounting equation is \_\_\_\_\_.

\_\_\_\_\_

244. The term \_\_\_\_\_ refers to a liability that promises a future outflow of resources.

\_\_\_\_\_

245. Using the accounting equation, equity is equal to \_\_\_\_\_.

\_\_\_\_\_



246. \_\_\_\_\_ is the recording of financial transactions and events, either manually or electronically.

\_\_\_\_\_

247. \_\_\_\_\_ is net income divided by average total assets.

\_\_\_\_\_

248. Risk is the \_\_\_\_\_ about the return an investor expects to earn.

\_\_\_\_\_

249. \_\_\_\_\_ reports changes in the owner's claim on the business's assets over a period of time.

\_\_\_\_\_

250. The \_\_\_\_\_ describes a company's revenues and expenses over a period of time due to earnings activities.

\_\_\_\_\_

## Chapter 01 Accounting in Business **Answer Key**

### **True / False Questions**

1. Accounting is an information and measurement system that identifies, records, and communicates relevant, reliable, and comparable information about an organization's business activities.

**TRUE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C1 Explain the purpose and importance of accounting.*

2. Bookkeeping is the recording of transactions and events and is only part of accounting.

**TRUE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C1 Explain the purpose and importance of accounting.*

3. An accounting information system communicates data to help businesses make better decisions.

**TRUE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C1 Explain the purpose and importance of accounting.*

4. Managerial accounting is the area of accounting that provides internal reports to assist the decision making needs of internal users.

**TRUE**

*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Bloom's: Remember*  
*Difficulty: Easy*  
*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

5. Internal operating activities include research and development, distribution, and human resources.

**TRUE**

*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Bloom's: Remember*  
*Difficulty: Easy*  
*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

6. The primary objective of financial accounting is to provide general purpose financial statements to help external users analyze and interpret an organization's activities.

**TRUE**

*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Bloom's: Remember*  
*Difficulty: Easy*  
*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

7. External auditors examine financial statements to verify that they are prepared according to generally accepted accounting principles.

**TRUE**

*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Bloom's: Remember*  
*Difficulty: Easy*  
*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

8. External users include lenders, shareholders, customers, and regulators.

**TRUE**

*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

9. Regulators often have legal authority over certain activities of organizations.

**TRUE**

*AACSB: Communications*  
*AICPA BB: Legal*  
*AICPA FN: Decision Making*  
*Bloom's: Remember*  
*Difficulty: Easy*  
*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

10. Internal users include lenders, shareholders, brokers and managers.

**FALSE**

*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

11. Opportunities in accounting include auditing, consulting, market research, and tax planning.

**TRUE**

*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

12. Identifying the proper ethical path is easy.

**FALSE**

*AACSB: Ethics*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: C3 Explain why ethics are crucial to accounting.*

13. The Sarbanes-Oxley Act (SOX) requires each issuer of securities to disclose whether it has adopted a code of ethics for its senior financial officers and the contents of that code.

**TRUE**

*AACSB: Ethics*  
*AICPA BB: Legal*  
*AICPA FN: Reporting*  
*Bloom's: Remember*  
*Difficulty: Easy*  
*Learning Objective: C3 Explain why ethics are crucial to accounting.*

14. Good ethics are good business.

**TRUE**

*AACSB: Ethics*  
*AICPA BB: Resource Management*  
*AICPA FN: Decision Making*  
*Bloom's: Remember*  
*Difficulty: Easy*  
*Learning Objective: C3 Explain why ethics are crucial to accounting.*

15. The Sarbanes-Oxley Act (SOX) does not require public companies to apply both accounting oversight and stringent internal controls.

**FALSE**

*AACSB: Ethics*  
*AICPA BB: Legal*  
*AICPA FN: Reporting*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

16. A partnership is a business owned by two or more people.

**TRUE**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

17. Owners of a corporation are called shareholders or stockholders.

**TRUE**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

18. In the partnership form of business, the owners are called stockholders.

**FALSE**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

19. The balance sheet shows a company's net income or loss due to earnings activities over a period of time.

**FALSE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

20. The Financial Accounting Standards Board is the private group that sets both broad and specific accounting principles.

**TRUE**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

21. The business entity principle means that a business will continue operating for an indefinite period of time.

**FALSE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

22. Generally accepted accounting principles are the basic assumptions, concepts, and guidelines for preparing financial statements.

**TRUE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

23. The business entity assumption means that a business is accounted for separately from other business entities, including its owner or owners.

**TRUE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

24. As a general rule, revenues should not be recognized in the accounting records until it is received in cash.

**FALSE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

25. Specific accounting principles are basic assumptions, concepts, and guidelines for preparing financial statements and arise out of long-used accounting practice.

**FALSE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

26. General accounting principles arise from long-used accounting practices.

**TRUE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

27. A sole proprietorship is a business owned by one or more persons.

**FALSE**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*



28. Unlimited liability is an advantage of a sole proprietorship.

**FALSE**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

29. Understanding generally accepted accounting principles is not necessary to use and interpret financial statements.

**FALSE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

30. The International Accounting Standards board (IASB) has the authority to impose its standards on companies around the world.

**FALSE**

*AACSB: Communications*

*AICPA BB: Global*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

31. Objectivity means that financial information is supported by independent unbiased evidence.

**TRUE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

32. The idea that a business will continue to operate instead of being closed or sold underlies the going-concern assumption.

**TRUE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

33. According to the cost principle, it is preferable for managers to report an estimate of an asset's value.

**FALSE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

34. The monetary unit assumption means that all international transactions must be expressed in dollars.

**FALSE**

*AACSB: Communications*

*AICPA BB: Global*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

35. The International Accounting Standards Board (IASB) is the government group that establishes reporting requirements for companies that issue stock to the public.

**FALSE**

*AACSB: Communications*

*AICPA BB: Global*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

36. A limited liability company offers the limited liability of a partnership or proprietorship and the tax treatment of a corporation.

**FALSE**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Hard*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

37. The Securities and Exchange Commission (SEC) is a government agency that has legal authority to establish GAAP.

**TRUE**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

38. The three common forms of business ownership include sole proprietorship, partnership, and non-profit.

**FALSE**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

39. The three major types of business activities are operating, financing, and investing.

**TRUE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C5 Appendix 1B—Identify and describe the three major activities of organizations.*

40. Planning is defining an organization's ideas, goals, and actions.

**TRUE**

*AACSB: Communications*

*AICPA BB: Critical Thinking*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C5 Appendix 1B—Identify and describe the three major activities of organizations.*

41. Strategic management is the process of determining the right mix of operating activities for the type of organization, its plans, and its markets.

**TRUE**

*AACSB: Communications*

*AICPA BB: Critical Thinking*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C5 Appendix 1B—Identify and describe the three major activities of organizations.*

42. Planning activities are the means an organization uses to pay for resources like land, buildings, and equipment to carry out its plans.

**FALSE**

*AACSB: Communications*

*AICPA BB: Critical Thinking*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C5 Appendix 1B—Identify and describe the three major activities of organizations.*

43. Investing activities are the acquiring and disposing of resources that an organization uses to acquire and sell its products or services.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C5 Appendix 1B—Identify and describe the three major activities of organizations.*

44. Owner financing refers to resources contributed by creditors or lenders.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C5 Appendix 1B—Identify and describe the three major activities of organizations.*

45. Revenues are increases in equity from a company's earning activities.

**TRUE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

46. A net loss occurs when revenues exceed expenses.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

47. Net income occurs when revenues exceed expenses.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

48. Liabilities are the owner's claim on assets.

**FALSE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

49. Assets are the resources of a company and are expected to yield future benefits.

**TRUE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

50. Owner's withdrawals are expenses.

**FALSE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

51. The accounting equation can be restated as: Assets - Equity = Liabilities.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

52. The accounting equation implies that: Assets + Liabilities = Equity.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

53. Owner's investments are increases in equity from a company's earnings activities.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

54. Every business transaction leaves the accounting equation in balance.

**TRUE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P1 Analyze business transactions using the accounting equation.*

55. An external transaction is an exchange of value within an organization.

**FALSE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P1 Analyze business transactions using the accounting equation.*

56. From an accounting perspective, an event is a happening that affects the accounting equation, but cannot be measured.

**FALSE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P1 Analyze business transactions using the accounting equation.*



57. Owner's equity is increased when cash is received from customers in payment of previously recorded accounts receivable.

**FALSE**

*AACSB: Analytic*  
*AICPA BB: Critical Thinking*  
*AICPA FN: Measurement*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: P1 Analyze business transactions using the accounting equation.*

58. An owner's investment in a business always creates an asset (cash), a liability (note payable), and owner's equity (investment.)

**FALSE**

*AACSB: Analytic*  
*AICPA BB: Critical Thinking*  
*AICPA FN: Measurement*  
*Bloom's: Apply*  
*Difficulty: Hard*  
*Learning Objective: P1 Analyze business transactions using the accounting equation.*

59. Return on assets is often stated in ratio form as the amount of average total assets divided by income.

**FALSE**

*AACSB: Analytic*  
*AICPA BB: Resource Management*  
*AICPA FN: Measurement*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: A2 Compute and interpret return on assets.*

60. Return on assets is also known as return on investment.

**TRUE**

*AACSB: Communications*  
*AICPA BB: Resource Management*  
*AICPA FN: Decision Making*  
*Bloom's: Remember*  
*Difficulty: Easy*  
*Learning Objective: A2 Compute and interpret return on assets.*

61. Return on assets is useful to decision makers for evaluating management, analyzing and forecasting profits, and in planning activities.

**TRUE**

*AACSB: Communications*  
*AICPA BB: Resource Management*  
*AICPA FN: Decision Making*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: A2 Compute and interpret return on assets.*

62. Arrow's net income of \$117 million and average assets of \$1,400 million results in a return on assets of 8.36%.

**TRUE**

*AACSB: Analytic*  
*AICPA BB: Resource Management*  
*AICPA FN: Measurement*  
*Bloom's: Apply*  
*Difficulty: Hard*  
*Learning Objective: A2 Compute and interpret return on assets.*

63. Return on assets reflects the effectiveness of a company's ability to generate profit through productive use of its assets.

**TRUE**

*AACSB: Analytic*  
*AICPA BB: Resource Management*  
*AICPA FN: Measurement*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: A2 Compute and interpret return on assets.*

64. Risk is the uncertainty about the return we expect to earn.

**TRUE**

*AACSB: Reflective Thinking*  
*AICPA BB: Industry*  
*AICPA FN: Risk Analysis*  
*Bloom's: Remember*  
*Difficulty: Easy*  
*Learning Objective: A3 Appendix 1A—Explain the relation between return and risk.*

65. Generally the lower the risk, the lower the return that can be expected.

**TRUE**

*AACSB: Reflective Thinking*

*AICPA BB: Industry*

*AICPA FN: Risk Analysis*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: A3 Appendix 1A—Explain the relation between return and risk.*

66. U. S. Government Treasury bonds provide high return and low risk to investors.

**FALSE**

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*AICPA FN: Risk Analysis*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: A3 Appendix 1A—Explain the relation between return and risk.*

67. The four basic financial statements include the balance sheet, income statement, statement of owner's equity, and statement of cash flows.

**TRUE**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

68. An income statement reports on investing and financing activities.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

69. A balance sheet covers a period of time such as a month or year.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

70. The income statement displays revenues earned and expenses incurred over a specified period of time due to earnings activities.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

71. The statement of cash flows shows the net effect of revenues and expenses for a reporting period.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

72. The income statement shows the financial position of a business on a specific date.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

73. The first section of the income statement reports cash flows from operating activities.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

74. The balance sheet is based on the accounting equation.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

75. Investing activities involve the buying and selling of assets such as land and equipment that are held for long-term use in the business.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

76. Operating activities include long-term borrowing and repaying cash from lenders, and cash investments or withdrawals by the owner.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

77. The purchase of supplies appears on the statement of cash flows as an investing activity because it involves the purchase of assets.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

78. The income statement reports on operating activities at a point in time.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

79. The statement of cash flows identifies cash flows separated into operating, investing, and financing activities over a period of time.

**TRUE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

80. Ending capital reported on the statement of owner's equity is calculated by adding owner investments and net losses and subtracting net incomes and withdrawals.

**FALSE**

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

**Multiple Choice Questions**

81. Accounting is an information and measurement system that does all of the following *except*:

- A. Identifies business activities.
- B. Records business activities.
- C. Communicates business activities.
- D.** Does not use technology to improve accuracy in reporting.
- E. Helps people make better decisions.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C1 Explain the purpose and importance of accounting.*

82. Technology

- A. Has replaced accounting.
- B. Has not changed the work that accountants do.
- C.** Has closely linked accounting with consulting, planning, and other financial services.
- D. In accounting has replaced the need for decision makers.
- E. In accounting is only available to large corporations.

*AACSB: Technology*

*AICPA BB: Industry*

*AICPA FN: Leveraging Technology*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C1 Explain the purpose and importance of accounting.*

83. The primary objective of financial accounting is:

- A. To serve the decision-making needs of internal users.
- B. To provide financial statements to help external users analyze an organization's activities.**
- C. To monitor and control company activities.
- D. To provide information on both the costs and benefits of looking after products and services.
- E. To know what, when, and how much to produce.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

84. The area of accounting aimed at serving the decision making needs of internal users is:

- A. Financial accounting.
- B. Managerial accounting.**
- C. External auditing.
- D. SEC reporting.
- E. Bookkeeping.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

85. External users of accounting information include all of the following *except*:

- A. Shareholders.
- B. Customers.
- C. Purchasing managers.**
- D. Government regulators.
- E. Creditors.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*



86. All of the following regarding a Certified Public Accountant are True except:

- A. Must meet education and experience requirements.
- B. Must pass an examination.
- C. Must exhibit ethical character.
- D. May also be a Certified Management Accountant.
- E.** Cannot hold any certificate other than a CPA.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

87. Ethical behavior requires:

- A.** That auditors' pay not depend on the success of the client's business.
- B. Auditors to invest in businesses they audit.
- C. Analysts to report information favorable to their companies.
- D. Managers to use accounting information to benefit themselves.
- E. That auditors' pay depend on the success of the client's business.

*AACSB: Ethics*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C3 Explain why ethics are crucial to accounting.*

88. Social responsibility:

- A.** Is a concern for the impact of our actions on society.
- B. Is a code that helps in dealing with confidential information.
- C. Is required by the SEC.
- D. Requires that all businesses conduct social audits.
- E. Is limited to large companies.

*AACSB: Ethics*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C3 Explain why ethics are crucial to accounting.*

89. All of the following are True regarding ethics *except*:

- A. Ethics are beliefs that separate right from wrong.
- B. Ethics rules are often set for CPAs.
- C. Ethics do not affect the operations or outcome of a company.**
- D. Are critical in accounting.
- E. Ethics can be hard to apply.

*AACSB: Ethics*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C3 Explain why ethics are crucial to accounting.*

90. The accounting concept that requires financial statement information to be supported by independent, unbiased evidence other than someone's belief or opinion is:

- A. Business entity assumption.
- B. Monetary unit assumption.
- C. Going-concern assumption.
- D. Time-period assumption.
- E. Objectivity.**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

91. A corporation:

- A. Is a business legally separate from its owners.**
- B. Is controlled by the FASB.
- C. Has shareholders who have unlimited liability for the acts of the corporation.
- D. Is the same as a limited liability partnership.
- E. Is not subject to double taxation.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

92. The group that attempts to create more harmony among the accounting practices of different countries is the:

- A. AICPA.
- B. IASB.**
- C. CAP.
- D. SEC.
- E. FASB.

*AACSB: Communications*

*AICPA BB: Global*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

93. The private group that currently has the authority to establish generally accepted accounting principles in the United States is the:

- A. APB.
- B. FASB.**
- C. AAA.
- D. AICPA.
- E. SEC.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

94. The accounting assumption that requires every business to be accounted for separately from other business entities, including its owner or owners is known as the:

- A. Time-period assumption.
- B. Business entity assumption.**
- C. Going-concern assumption.
- D. Revenue recognition principle.
- E. Cost principle.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

95. The rule that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue, is the:

- A. Going-concern assumption.**
- B. Business entity assumption.
- C. Objectivity principle.
- D. Cost Principle.
- E. Monetary unit assumption.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

96. If a parcel of land that was originally acquired for \$85,000 is offered for sale at \$150,000, is assessed for tax purposes at \$95,000, is recognized by its purchasers as easily being worth \$140,000, and is sold for \$137,000, the land should be recorded in the purchaser's books at:

- A. \$95,000.
- B.** \$137,000.
- C. \$138,500.
- D. \$140,000.
- E. \$150,000.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

97. To include the personal assets and transactions of a business's owner in the records and reports of the business would be in conflict with the:

- A. Objectivity principle.
- B. Monetary unit assumption.
- C.** Business entity assumption.
- D. Going-concern assumption.
- E. Revenue recognition principle.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

98. The accounting principle that requires accounting information to be based on actual cost and requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange, is the:

- A. Accounting equation.
- B. Cost principle.**
- C. Going-concern assumption.
- D. Realization principle.
- E. Business entity assumption.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

99. The rule that (1) requires revenue to be recognized at the time it is earned, (2) allows the inflow of assets associated with revenue to be in a form other than cash, and (3) measures the amount of revenue as the cash plus the cash equivalent value of any noncash assets received from customers in exchange for goods or services, is called the:

- A. Going-concern assumption.
- B. Cost principle.
- C. Revenue recognition principle.**
- D. Objectivity principle.
- E. Business entity assumption.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

100. The question of when revenue should be recognized on the income statement (according to GAAP) is addressed by the:

- A. Revenue recognition principle.
- B. Going-concern assumption.
- C. Objectivity principle.
- D. Business entity assumption.
- E. Cost principle.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

101. The International Accounting Standards Board (IASB)

- A. Hopes to create harmony among accounting practices of different countries.
- B. Is the government group that establishes reporting requirements for companies that issue stock to the public.
- C. Has the authority to impose its standards on companies.
- D. Is the only source of generally accepted accounting principles (GAAP).
- E. Only applies to companies that are members of the European Union.

*AACSB: Communications*

*AICPA BB: Global*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

102. The Maxim Company acquired a building for \$500,000. Maxim had the building appraised, and found that the building was easily worth \$575,000. The seller had paid \$300,000 for the building 6 years ago. Which accounting principle would require Maxim to record the building on its records at \$500,000?

- A. Monetary unit assumption.
- B. Going-concern assumption.
- C. Cost principle.
- D. Business entity assumption.
- E. Revenue recognition principle.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

103. On December 15 of the current year, Myers Legal Services signed a \$50,000 contract with a client to provide legal services to the client in the following year. Which accounting principle would require Myers Legal Services to record the legal fees revenue in the following year and not the year the cash was received?

- A. Monetary unit assumption.
- B. Going-concern assumption.
- C. Cost principle.
- D. Business entity assumption.
- E. Revenue recognition principle.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*



104. Marian Mosely is the owner of Mosely Accounting Services. Which accounting principle requires Marian to keep her personal financial information separate from the financial information of Mosely Accounting Services?

- A. Monetary unit assumption.
- B. Going-concern assumption.
- C. Cost principle.
- D. Business entity assumption.**
- E. Matching principle.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

105. A limited partnership:

- A. Includes a general partner with unlimited liability.**
- B. Is subject to double taxation.
- C. Has owners called stockholders.
- D. Is the same as a corporation.
- E. May only have two partners.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

106. A partnership:

- A. Is also called a sole proprietorship.
- B. Has unlimited liability for its partners.**
- C. Has to have a written agreement in order to be legal.
- D. Is a legal organization separate from its owners.
- E. Has owners called shareholders.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

107. Which of the following accounting principles would require that all goods and services purchased be recorded at cost?

- A. Going-concern assumption.
- B. Matching principle.
- C. Cost principle.**
- D. Business entity assumption.
- E. Consideration assumption.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

108. Which of the following accounting principles prescribes that a company record its expenses incurred to generate the revenue reported?

- A. Going-concern assumption.
- B. Matching principle.**
- C. Cost principle.
- D. Business entity assumption.
- E. Consideration assumption.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

109. Revenue is properly recognized:

- A. When the customer's order is received.
- B. Only if the transaction creates an account receivable.
- C. At the end of the accounting period.
- D.** Upon completion of the sale or when services have been performed and the business obtains the right to collect the sales price.
- E. When cash from a sale is received.

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

110. If a parcel of land that was originally purchased for \$85,000 is offered for sale at \$150,000, is assessed for tax purposes at \$95,000, is recognized by its purchasers as easily being worth \$140,000, and is sold for \$137,000, the land account transaction amount to handle the sale of the land in the seller's books is:

- A. \$85,000 increase.
- B.** \$85,000 decrease.
- C. \$137,000 increase.
- D. \$137,000 decrease.
- E. \$140,000 decrease.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: P1 Analyze business transactions using the accounting equation.*

111. If a parcel of land that was originally purchased for \$85,000 is offered for sale at \$150,000, is assessed for tax purposes at \$95,000, is recognized by its purchasers as easily being worth \$140,000, and is sold for \$137,000. What is the effect of the sale on the accounting equation for the seller?

- A. Assets increase \$52,000; owner's equity increases \$52,000.
- B. Assets increase \$85,000; owner's equity increases \$85,000.
- C. Assets increase \$137,000; owner's equity increases \$137,000.
- D. Assets increase \$140,000; owner's equity increases \$140,000.
- E. Assets decrease \$85,000; owner's equity decreases \$85,000.

$$\$137,000 - \$85,000 = \$52,000$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Bloom's: Apply

Difficulty: Hard

Learning Objective: P1 Analyze business transactions using the accounting equation.

112. If a parcel of land that was originally purchased for \$85,000 is offered for sale at \$150,000, is assessed for tax purposes at \$95,000, is recognized by its purchasers as easily being worth \$140,000, and is sold for \$137,000. At the time of the sale, assume that the seller still owed \$30,000 to TrustOne Bank on the land that was purchased for \$85,000.

Immediately after the sale, the seller paid off the loan to TrustOne Bank. What is the effect of the sale and the payoff of the loan on the accounting equation?

- A. Assets increase \$52,000; owner's equity increases \$22,000; liabilities decrease \$30,000
- B. Assets increase \$52,000; owner's equity increases \$30,000; liabilities decrease \$30,000
- C. Assets increase \$22,000; owner's equity increases \$52,000; liabilities decrease \$30,000
- D. Assets decrease \$30,000; owner's equity decreases \$30,000; liabilities decrease \$30,000
- E. Assets decrease \$55,000; owner's equity decreases \$55,000; liabilities decrease \$30,000

$$\$137,000 - \$85,000 - 30,000 = 22,000$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Bloom's: Apply

Difficulty: Hard

Learning Objective: P1 Analyze business transactions using the accounting equation.

113. An example of a financing activity is:

- A. Buying office supplies.
- B. Obtaining a long-term loan.**
- C. Buying office equipment.
- D. Selling inventory.
- E. Buying land.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

114. An example of an operating activity is:

- A. Paying wages.**
- B. Purchasing office equipment.
- C. Borrowing money from a bank.
- D. Selling stock.
- E. Paying off a loan.

*AACSB: Analytic*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

115. Operating activities:

- A. Are the means organizations use to pay for resources like land, buildings and equipment.
- B. Involve using resources to research, develop, purchase, produce, distribute and market products and services.**
- C. Involve acquiring and disposing of resources that a business uses to acquire and sell its products or services.
- D. Are also called asset management.
- E. Are also called strategic management.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

116. An example of an investing activity is:

- A. Paying wages of employees.
- B. Withdrawals by the owner.
- C. Purchase of land.**
- D. Selling inventory.
- E. Contribution from owner.

*AACSB: Analytic*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

117. Net Income:

- A. Decreases equity.
- B. Represents the amount of assets owners put into a business.
- C. Equals assets minus liabilities.
- D. Is the excess of revenues over expenses.**
- E. Represents owners' claims against assets.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

118. If equity is \$300,000 and liabilities are \$192,000, then assets equal:

- A. \$108,000.
- B. \$192,000.
- C. \$300,000.
- D. \$492,000.**
- E. \$792,000.

$$\text{Assets} = \$192,000 + \$300,000 = \$492,000$$

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

119. Resources that are expected to yield future benefits are:

- A. Assets.
- B. Revenues.
- C. Liabilities.
- D. Owner's Equity.
- E. Expenses.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

120. Increases in equity from a company's earnings activities are:

- A. Assets.
- B. Revenues.
- C. Liabilities.
- D. Owner's Equity.
- E. Expenses.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

121. The difference between a company's assets and its liabilities, or net assets is:

- A. Net income.
- B. Expense.
- C. Equity.
- D. Revenue.
- E. Net loss.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

122. Creditors' claims on the assets of a company are called:

- A. Net losses.
- B. Expenses.
- C. Revenues.
- D. Equity.
- E. Liabilities.**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

123. Decreases in equity that represent costs of assets or services used to earn revenues are called:

- A. Liabilities.
- B. Equity.
- C. Withdrawals.
- D. Expenses.**
- E. Owner's Investment.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

124. The description of the relation between a company's assets, liabilities, and equity, which is expressed as  $\text{Assets} = \text{Liabilities} + \text{Equity}$ , is known as the:

- A. Income statement equation.
- B. Accounting equation.**
- C. Business equation.
- D. Return on equity ratio.
- E. Net income.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*



125. Revenues are:

- A. The same as net income.
- B. The excess of expenses over assets.
- C. Resources owned or controlled by a company.
- D.** The increase in equity from a company's earning activities.
- E. The costs of assets or services used.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

126. If assets are \$99,000 and liabilities are \$32,000, then equity equals:

- A. \$32,000.
- B.** \$67,000.
- C. \$99,000.
- D. \$131,000.
- E. \$198,000.

$$\text{Equity} = \$99,000 - \$32,000 = \$67,000$$

*AACSB: Analytic*

*AICPA BB: Critical Thinking*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

127. Another name for equity is:

- A. Net income.
- B. Expenses.
- C.** Net assets.
- D. Revenue.
- E. Net loss.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

128. The excess of expenses over revenues for a period is:

- A. Net assets.
- B. Equity.
- C. Net loss.**
- D. Net income.
- E. A liability.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

129. A payment to an owner is called a(n):

- A. Liability.
- B. Withdrawal.**
- C. Expense.
- D. Contribution.
- E. Investment.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

130. Distributions of assets by a business to its owners are called:

- A. Withdrawals.**
- B. Expenses.
- C. Assets.
- D. Retained earnings.
- E. Net Income.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

131. The assets of a company total \$700,000; the liabilities, \$200,000. What are the claims of the owners?

- A. \$900,000.
- B. \$700,000.
- C. \$500,000.**
- D. \$200,000.
- E. It is impossible to determine unless the amount of this owners' investment is known.

$$\$700,000 - \$200,000 = \$500,000$$

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

132. On June 30 of the current year, the assets and liabilities of Phoenix, Inc. are as follows: Cash \$20,500; Accounts Receivable, \$7,250; Supplies, \$650; Equipment, \$12,000; Accounts Payable, \$9,300. What is the amount of owner's equity as of July 1 of the current year?

- A. \$8,300
- B. \$13,050
- C. \$20,500
- D. \$31,100**
- E. \$40,400

$$\$20,500 + \$7,250 + \$650 + \$12,000 - \$9,300 = \$31,100$$

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

133. Assets created by selling goods and services on credit are:

- A. Accounts payable.
- B. Accounts receivable.**
- C. Liabilities.
- D. Expenses.
- E. Equity.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

134. An exchange of value between two entities is called:

- A. The accounting equation.
- B. Recordkeeping or bookkeeping.
- C. An external transaction.**
- D. An asset.
- E. Net Income.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P1 Analyze business transactions using the accounting equation.*

135. Photometer Company paid off \$30,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?

- A. Assets, \$30,000 increase; liabilities, no effect; equity, \$30,000 increase.
- B. Assets, \$30,000 decrease; liabilities, \$30,000 decrease; equity, no effect.**
- C. Assets, \$30,000 decrease; liabilities, \$30,000 increase; equity, no effect.
- D. Assets, no effect; liabilities, \$30,000 decrease; equity, \$30,000 increase.
- E. Assets, \$30,000 decrease; liabilities, no effect; equity \$30,000 decrease.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

136. How would the accounting equation of Boston Company be affected by the billing of a client for \$10,000 of consulting work completed?

- A. +\$10,000 accounts receivable, -\$10,000 accounts payable.
- B. +\$10,000 accounts receivable, +\$10,000 accounts payable.
- C. +\$10,000 accounts receivable, +\$10,000 cash.
- D.** +\$10,000 accounts receivable, +\$10,000 revenue.
- E. +\$10,000 accounts receivable, -\$10,000 revenue.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

137. Zion Company has assets of \$600,000, liabilities of \$250,000, and equity of \$350,000. It buys office equipment on credit for \$75,000. What would be the effects of this transaction on the accounting equation?

- A. Assets increase by \$75,000 and expenses increase by \$75,000.
- B. Assets increase by \$75,000 and expenses decrease by \$75,000.
- C. Liabilities increase by \$75,000 and expenses decrease by \$75,000.
- D. Assets decrease by \$75,000 and expenses decrease by \$75,000.
- E.** Assets increase by \$75,000 and liabilities increase by \$75,000.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

138. Viscount Company collected \$42,000 cash on its accounts receivable. The effects of this transaction as reflected in the accounting equation are:

- A. Total assets decrease and equity increases.
- B. Both total assets and total liabilities decrease.
- C. Total assets, total liabilities, and equity are unchanged.**
- D. Both total assets and equity are unchanged and liabilities increase.
- E. Total assets increase and equity decreases.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

139. If the liabilities of a business increased \$75,000 during a period of time and the owner's equity in the business decreased \$30,000 during the same period, the assets of the business must have:

- A. Decreased \$105,000.
- B. Decreased \$45,000.
- C. Increased \$30,000.
- D. Increased \$45,000.**
- E. Increased \$105,000.

Change in Assets = Change in Liabilities + Change in Owner's Equity

Change in Assets = \$75,000 + (-\$30,000) = +\$45,000

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

140. If the assets of a business increased \$89,000 during a period of time and its liabilities increased \$67,000 during the same period, equity in the business must have:

- A. Increased \$22,000.
- B. Decreased \$22,000.
- C. Increased \$89,000.
- D. Decreased \$156,000.
- E. Increased \$156,000.

Change in Assets = Change in Liabilities + Change in Equity

Change in Owner's equity = + \$89,000 - \$67,000 = +\$22,000

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Bloom's: Apply

Difficulty: Hard

Learning Objective: A1 Define and interpret the accounting equation and each of its components.

141. If the liabilities of a company increased \$74,000 during a period of time and equity in the company decreased \$19,000 during the same period, what was the effect on the assets?

- A. Assets would have increased \$55,000.
- B. Assets would have decreased \$55,000.
- C. Assets would have increased \$19,000.
- D. Assets would have decreased \$19,000.
- E. None of these.

Assets = Liabilities + Equity

Assets = \$74,000 + (-\$19,000) = \$55,000

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Bloom's: Apply

Difficulty: Hard

Learning Objective: A1 Define and interpret the accounting equation and each of its components.

142. If a company paid \$38,000 of its accounts payable in cash, what was the effect on the assets, liabilities, and equity?

A. Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would decrease \$38,000.

B. Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would increase \$38,000.

**C.** Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would not change.

D. There would be no effect on the accounts because the accounts are affected by the same amount.

E. None of these.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

143. If assets are \$365,000 and equity is \$120,000, then liabilities are:

A. \$120,000.

**B.** \$245,000.

C. \$365,000.

D. \$485,000.

E. \$610,000.

$$\text{Liabilities} = \$365,000 - \$120,000 = \$245,000$$

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*



144. Reston had income of \$150 million and average invested assets of \$1,800 million. Its return on assets is:

- A. 8.3%.
- B. 83.3%.
- C. 12%.
- D. 120%.
- E. 16.7%.

$$\$150 \text{ million} / \$1,800 \text{ million} = 8.3\%$$

*AACSB: Analytic*

*AICPA BB: Resource Management*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A2 Compute and interpret return on assets.*

145. Nick's had income of \$350 million and average invested assets of \$2,000 million. Its ROA is:

- A. 1.8%.
- B. 35%.
- C. 17.5%.
- D. 5.7%.
- E. 3.5%.

$$\$350 \text{ million} / \$2,000 \text{ million} = 17.5\%$$

*AACSB: Analytic*

*AICPA BB: Resource Management*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A2 Compute and interpret return on assets.*

146. FastLane has net income of \$18,955, and assets at the beginning of the year of \$200,000. Assets at the end of the year total \$246,000. Compute its return on assets.

A. 7.7%.

**B.** 8.5%.

C. 9.5%.

D. 11.8%.

E. 13.0%.

$$\$18,955 / [(\$200,000 + \$246,000) / 2] = \$18,955 / \$223,000 = 8.5\%$$

*AACSB: Analytic*

*AICPA BB: Resource Management*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A2 Compute and interpret return on assets.*

147. Harris Co. has a net income of \$43,000, assets at the beginning of the year are \$250,000 and assets at the end of the year are \$300,000. Compute its return on assets.

A. 8.4%

B. 17.2%

C. 14.3%

**D.** 15.6%

E. 1.5%

$$\$43,000 / ((\$250,000 + \$300,000) / 2) = 15.6\%$$

*AACSB: Analytic*

*AICPA BB: Resource Management*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A2 Compute and interpret return on assets.*

148. U. S. government bonds are:

- A. High-risk and high-return investments.
- B. Low-risk and low-return investments.**
- C. High-risk and low-return investments.
- D. Low-risk and high-return investments.
- E. High risk and no-return investments.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Risk Analysis*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: A3 Appendix 1A—Explain the relation between return and risk.*

149. Risk is:

- A. Net income divided by average total assets.
- B. The reward for investment.
- C. The uncertainty about the expected return to be earned.**
- D. Unrelated to expected return.
- E. Derived from the idea of getting something back from an investment.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Risk Analysis*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A3 Appendix 1A—Explain the relation between return and risk.*

150. The statement of cash flows reports all of the following *except*:

- A. Cash flows from operating activities.
- B. Cash flows from investing activities.
- C. Cash flows from financing activities.
- D. The net increase or decrease in assets for the period reported.**
- E. The net increase or decrease in cash for the period reported.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

151. The basic financial statements include all of the following *except*:

- A. Balance Sheet.
- B. Income Statement.
- C. Statement of Owner's Equity.
- D. Statement of Cash Flows.
- E.** Trial Balance.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

152. The statement of owner's equity:

- A. Reports how equity changes at a point in time.
- B.** Reports how equity changes over a period of time.
- C. Reports on cash flows for operating, financing, and investing activities over a period of time.
- D. Reports on cash flows for operating, financing, and investing activities at a point in time.
- E. Reports on amounts for assets, liabilities, and equity at a point in time.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

153. The financial statement that reports whether the business earned a profit and also lists the revenues and expenses is called:

- A. A Balance sheet.
- B. A Statement of owner's equity.
- C. A Statement of cash flows.
- D.** An Income statement.
- E. A Statement of financial position.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

154. A balance sheet lists:

- A. The types and amounts of the revenues and expenses of a business.
- B. Only the information about what happened to equity during a time period.
- C.** The types and amounts of assets, liabilities, and equity of a business as of a specific date.
- D. The inflows and outflows of cash during the period.
- E. The assets and liabilities of a company but not the owner's equity.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

155. A financial statement providing information that helps users understand a company's financial status, and which lists the types and amounts of assets, liabilities, and equity as of a specific date, is called a(n):

- A.** Balance sheet.
- B. Income statement.
- C. Statement of cash flows.
- D. Statement of owner's equity.
- E. Financial Status Statement.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

156. The financial statement that identifies where a company's cash came from and where it went during the period is the:

- A. Statement of financial position.
- B. Statement of cash flows.**
- C. Balance sheet.
- D. Income statement.
- E. Statement of changes in owner's equity.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

157. The financial statement that shows the beginning balance of owner's equity; the changes in equity that resulted from new investments by the owner, net income (or net loss); withdrawals; and the ending balance, is the:

- A. Statement of financial position.
- B. Statement of cash flows.
- C. Balance sheet.
- D. Income statement.
- E. Statement of owner's equity.**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

158. Cash investments by owners are listed on which of the following statements?

- A. Balance sheet.
- B. Income statement.
- C. Statement of owner's equity only.
- D. Statement of cash flows only.
- E. Statement of owner's equity and statement of cash flows.**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

159. Accounts payable appear on which of the following statements?

- A. Balance sheet.**
- B. Income statement.
- C. Statement of owner's equity.
- D. Statement of cash flows.
- E. Transaction statement.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

160. The income statement reports all of the following except:

- A. Revenues earned by a business.
- B. Expenses incurred by a business.
- C. Assets owned by a business.**
- D. Net income or loss earned by a business.
- E. The time period over which the earnings occurred.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

161. Use the following information as of December 31 to determine equity.

Liabilities .....	\$141,000
Cash.....	57,000
Equipment .....	206,000
Buildings .....	175,000

- A. \$57,000.
- B. \$141,000.
- C. \$297,000.**
- D. \$438,000.
- E. \$579,000.

$$\text{Assets} = \$57,000 + \$206,000 + \$175,000 = \$438,000$$

$$\text{Equity} = \$438,000 - \$141,000 = \$297,000$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

162. Determine the net income of a company for which the following information is available for the month of May.

Employee salaries expense....	\$180,000
Interest expense.....	10,000
Rent expense.....	20,000
Consulting revenue.....	400,000

- A. \$190,000.**
- B. \$210,000.
- C. \$230,000.
- D. \$400,000.
- E. \$610,000.

$$\text{Expenses: } \$180,000 + \$10,000 + \$20,000 = \$210,000$$

$$\text{Net income} = \$400,000 - \$210,000 = \$190,000$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.



163. A company acquires equipment for \$75,000 cash. This represents a(n)

- A. Operating activity.
- B.** Investing activity.
- C. Financing activity.
- D. Revenue activity.
- E. Expense activity.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

164. A company borrows \$125,000 from the Eastside Bank and receives the loan proceeds in cash. This represents a(n):

- A. Revenue activity.
- B. Operating activity.
- C. Expense activity.
- D. Investing activity.
- E.** Financing activity.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

165. Flash had cash inflows from operations \$62,500; cash outflows from investing activities of \$47,000; and cash inflows from financing of \$25,000. The net change in cash was:

- A. \$40,500 increase.
- B. \$40,500 decrease.
- C. \$134,500 decrease.
- D. \$134,000 increase.
- E. \$9,500 increase.

$$\$62,500 - \$47,000 + \$25,000 = \$40,500 \text{ increase}$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

166. Flash has beginning equity of \$257,000, net income of \$51,000, withdrawals of \$40,000 and investments by owners of \$6,000. Its ending equity is:

- A. \$223,000.
- B. \$240,000.
- C. \$268,000.
- D. \$274,000.
- E. \$208,000.

$$\$257,000 + \$51,000 - \$40,000 + \$6,000 = \$274,000$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

167. Rent expense that is paid with cash appears on which of the following statements?

- A. Balance sheet.
- B. Income statement.
- C. Statement of owner's equity.
- D.** Income statement and statement of cash flows.
- E. Statement of cash flows only.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

168. A company's balance sheet shows: cash \$22,000, accounts receivable \$16,000, office equipment \$50,000, and accounts payable \$17,000. What is the amount of owner's equity?

- A. \$17,000.
- B. \$29,000.
- C.** \$71,000.
- D. \$88,000.
- E. \$105,000.

Assets = \$22,000 + \$16,000 + \$50,000 = \$88,000

Liabilities = \$17,000

Owner's Equity = \$88,000 - \$17,000 = \$71,000

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: P1 Analyze business transactions using the accounting equation.*

169. A company reported total equity of \$145,000 at the beginning of the year. The company reported \$210,000 in revenues and \$165,000 in expenses for the year. Liabilities at the end of the year totaled \$92,000. What are the total assets of the company at the end of the year?

- A. \$45,000.
- B. \$92,000.
- C. \$98,000.
- D. \$210,000.
- E.** \$282,000.

Net income = \$210,000 - \$165,000 = \$45,000

Equity at the end of the year = \$145,000 + \$45,000 = \$190,000

Assets at the end of the year = \$190,000 + \$92,000 = \$282,000

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: P1 Analyze business transactions using the accounting equation.*

170. Flash reported net income of \$17,500 for the past year. At the beginning of the year the company had \$200,000 in assets and \$50,000 in liabilities. By the end of the year, assets had increased to \$300,000 and liabilities were \$75,000. Calculate its return on assets:

- A. 8.8%
- B.** 7.0%
- C. 5.8%
- D. 35.0%
- E. 23.3%

$$\$17,500 / [(\$200,000 + \$300,000) / 2] = \$17,500 / \$250,000 = 7\%$$

*AACSB: Analytic*

*AICPA BB: Resource Management*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A2 Compute and interpret return on assets.*

171. Quick Computer Service had revenues of \$80,000 and expenses of \$50,000 for the year. Its assets at the beginning of the year were \$400,000. At the end of the year assets were worth \$450,000. Calculate its return on assets.

- A. 7.1%
- B. 7.5%
- C. 6.7%
- D. 20.0%
- E. 18.8%

$$\$30,000 / [(\$400,000 + \$450,000) / 2] = \$30,000 / \$425,000 = 7.1\%$$

AACSB: Analytic

AICPA BB: Resource Management

AICPA FN: Measurement

Bloom's: Apply

Difficulty: Hard

Learning Objective: A2 Compute and interpret return on assets.

172. Della's Donuts had cash inflows from operating activities of \$27,000; cash outflows from investing activities of \$22,000, and cash outflows from financing activities of \$12,000. Calculate the net increase or decrease in cash.

- A. \$61,000 increase.
- B. \$37,000 increase.
- C. \$7,000 decrease.
- D. \$7,000 increase.
- E. \$34,000 decrease.

$$\$27,000 - \$22,000 - \$12,000 = \$7,000 \text{ decrease.}$$

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P1 Analyze business transactions using the accounting equation.

173. Della's Donuts owner made investments of \$50,000 and withdrawals of \$20,000. The company has revenues of \$83,000 and expenses of \$64,000. Calculate its net income.

- A. \$30,000.
- B. \$83,000.
- C. \$64,000.
- D.** \$19,000.
- E. \$49,000.

$$\$83,000 - \$64,000 = \$19,000.$$

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: P1 Analyze business transactions using the accounting equation.*

174. Cool Tours had beginning equity of \$72,000; revenues of \$90,000, expenses of \$65,000, and withdrawals by owners of \$9,000. Calculate the ending equity.

- A.** \$88,000.
- B. \$25,000.
- C. \$97,000.
- D. \$38,000.
- E. \$47,000.

$$\$72,000 + \$25,000 - \$9,000 = \$88,000.$$

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: P1 Analyze business transactions using the accounting equation.*

175. A company's balance sheet shows: cash \$24,000, accounts receivable \$30,000, equipment \$50,000, and equity \$72,000. What is the amount of liabilities?

- A. \$104,000.
- B. \$76,000.
- C.** \$32,000.
- D. \$68,000.
- E. \$176,000.

Assets = \$24,000 + \$30,000 + \$50,000 = \$104,000

Owner's Equity = \$72,000

Liabilities = \$104,000 - \$72,000 = \$32,000

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: P1 Analyze business transactions using the accounting equation.*

**Matching Questions**

176. Match the following terms with the appropriate definition.

	An information and measurement system that identifies, records and communicates relevant reliable and comparable information about an organization's business activities.	<u>4</u>
1. Recordkeeping	The part of accounting that involves recording transactions and events, either electronically or manually.	<u>1</u>
2. Internal users	Persons using accounting information who are not directly involved in the running of the organization.	<u>6</u>
3. Ethics	Persons using accounting information who are directly involved in managing the organization.	<u>2</u>
4. Accounting	The use of resources to research, develop, purchase, produce, distribute, and market products and services.	<u>5</u>
5. Operating activities	The acquisition and disposing of resources that an organization uses to acquire and sell products and services.	<u>9</u>
6. External users	Provide the means organizations use to pay for resources such as land, buildings, and equipment to carry out plans.	<u>7</u>
7. Financing activities		
8. Social responsibility	Beliefs that distinguish right from wrong.	<u>3</u>
9. Investing activities	Concern for the impact of actions on society.	<u>8</u>

*AACSB: Communications and Ethics*

*AICPA BB: Industry and Legal*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C1 Explain the purpose and importance of accounting.*

*Learning Objective: C5 Appendix 1B—Identify and describe the three major activities of organizations.*



177. Match each of the following terms with the most appropriate definition.

1. Expenses	The uncertainty about the expected return to be earned.	<u>4</u>
2. Financial accounting	Area of accounting aimed at serving the decision making needs of internal users.	<u>5</u>
3. Planning	A financial ratio useful in evaluating management, analyzing and forecasting profits, and planning activities.	<u>7</u>
4. Risk	Creditor's claims on a company's assets.	<u>8</u>
5. Managerial accounting	Costs of assets or services used to earn revenues.	<u>1</u>
6. Net income	Defining the idea, goals, and actions of an organization.	<u>3</u>
7. Return on assets	Area of accounting aimed at serving external users.	<u>2</u>
8. Liabilities	The excess of revenue over expenses.	<u>6</u>

AACSB: Communications

AICPA BB: Industry and Legal

AICPA FN: Reporting and Risk Analysis

Bloom's: Remember

Difficulty: Easy

Learning Objective: A2 Compute and interpret return on assets.

Learning Objective: C1 Explain the purpose and importance of accounting.

Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.

178. The following is a list of selected users of accounting information. Match the appropriate user to the following information needs.

1. Production Managers	Monitor costs and ensure quality.	<u>1</u>
	Judge the soundness of a customer before making sales on credit.	<u>5</u>
2. Lenders	Assessing employment opportunities.	<u>4</u>
3. Shareholders	Measuring risk and return of loans.	<u>2</u>
4. Employees	Assessing the risk and return of acquiring shares.	<u>3</u>
5. Suppliers		

AACSB: Communications

AICPA BB: Industry and Legal

AICPA FN: Reporting and Risk Analysis

Bloom's: Remember

Difficulty: Easy

Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.

179. Match the following definitions with terms 1 through 8. Place the letter that identifies the best definition in the blank space next to the term.

- |  |                                       |
|--|---------------------------------------|
| 1. Assets an owner takes from the company for personal use   | Assets <u>6</u>                       |
| 2. A principle that requires the information in financial statements to be supported by independent unbiased evidence  | Going-concern principle <u>3</u>      |
| 3. A principle that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold.   | Statement of owner's equity. <u>5</u> |
| 4. The accounting principle that requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange   | Net assets <u>7</u>                   |
| 5. A financial statement that reports the changes in equity over the reporting period; including increases such as owner investment and net income and for decreases such as owner withdrawals or net loss | Objectivity principle <u>2</u>        |
| 6. Resources owned or controlled by a company that are expected to yield future benefits   | Cost principle <u>4</u>               |
| 7. Another term for equity   | Owner withdrawal <u>1</u>             |
| 8. Gross increase in equity from a company's earnings activities   | Revenues <u>8</u>                     |

AACSB: Communications

AICPA BB: Industry and Legal

AICPA FN: Reporting and Measurement

Bloom's: Remember

Difficulty: Easy

Learning Objective: A1 Define and interpret the accounting equation and each of its components.

Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

180. Match the following definitions with the terms 1 through 9. Place the letter that identifies the best definition in the blank space next to the term.

1. The cost of assets or services used to earn revenue	Statement of cash flows <u>3</u>
2. An exchange of value between two parties	Business transaction <u>2</u>
3. A financial statement that lists cash inflows (receipts) and cash outflows (payments); the cash flows are arranged by operating, investing, and financing activities	Monetary unit principle <u>8</u>
4. Creditor's claims on assets	Business entity principle <u>6</u>
5. A financial statement that reports the changes in equity over the reporting period; adjusted for increases such as owner investment and net income and for decreases such as owner withdrawals or net loss	Revenue recognition principle <u>9</u>
6. The principle that requires a business to be accounted for separately from its owners	Accounting equation <u>7</u>
7. The relation between a company's assets, liabilities, and equity	Statement of owner's equity <u>5</u>
8. The principle that assumes transactions and events can be expressed in money units	Expenses <u>1</u>
9. The principle that revenue is recognized when earned	Liabilities <u>4</u>

AACSB: Communications

AICPA BB: Industry and Legal

AICPA FN: Reporting and Measurement

Bloom's: Remember

Difficulty: Medium

Learning Objective: A1 Define and interpret the accounting equation and each of its components.

Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

181. Identify each of the following business activities 1 through 6 into the appropriate category a, b, and c.

1. Operating	Paid utilities expenses.	<u>1</u>
2. Financing	Withdrawal of funds by owners.	<u>2</u>
3. Investing	Purchase of land.	<u>3</u>
4. Investing	Sale of used equipment.	<u>3</u>
5. Operating	Borrowed money from a bank on a long-term note.	<u>2</u>
6. Financing	Paid employee wages.	<u>1</u>

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

182. Match each of the following items 1 through 8 with the financial statement a through d in which each item would most likely appear. An item may appear on more than one statement.

1. Statement of owner's equity	Assets.	<u>4</u>
2. Income statement	Withdrawals.	<u>1</u>
3. Statement of cash flows	Revenues.	<u>2</u>
	Cash from investing	
4. Balance sheet	activities.	<u>3</u>
5. Income statement	Expenses.	<u>2</u>
6. Balance sheet	Liabilities.	<u>4</u>
	Cash from operating	
7. Statement of cash flows	activities.	<u>3</u>
8. Statement of owner's equity and Balance sheet	Equity.	<u>8</u>

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

183. Select the appropriate financial statement for each of the following accounts.  
(Note: Some items may appear on more than one financial statement.)

1. Income statement	Cash	<u>8</u>
2. Income statement	Cash Withdrawals	<u>7</u>
3. Balance sheet	Notes payable	<u>3</u>
4. Balance sheet	Fees earned	<u>1</u>
5. Income statement	Jay Miller, Capital	<u>6</u>
6. Statement of owner's equity, Balance sheet	Accounts receivable	<u>3</u>
7. Statement of owner's equity, Statement of cash flows	Rent Expense	<u>1</u>
8. Balance sheet, Statement of cash flows	Supplies Expense	<u>1</u>

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

184. Select the appropriate financial statement for each of the following items.  
(Note: some items may appear on more than one financial statement.)

1. Balance sheet	Supplies	<u>1</u>
2. Statement of cash flows	Cash withdrawals by owner.	<u>4</u>
3. Statement of owner's equity, Balance sheet	Ahmad Khan, Capital	<u>3</u>
4. Statement of owner's equity, Statement of cash flows	Advertising Expense	<u>7</u>
5. Statement of owner's equity, Statement of cash flows	Cash payments to purchase equipment	<u>2</u>
6. Statement of cash flows	Cash investments by owner	<u>4</u>
7. Income statement	Consulting Revenue	<u>7</u>
8. Income statement	Cash proceeds from a long-term loan	<u>2</u>

AACSB: Communications

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

185. Classify the following activities according to the appropriate section of the statement of cash flows.

	Cash received from a one-time sale of used office equipment.	<u>1</u>
1. Investing activity		
2. Financing activity	Cash paid for withdrawals by owners.	<u>2</u>
3. Financing activity	Cash received from customers.	<u>5</u>
4. Investing activity	Cash received from owner contributions.	<u>2</u>
5. Operating activity	Cash paid for utilities.	<u>5</u>
6. Operating activity	Cash paid for a delivery van to be used in the business.	<u>1</u>

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

### Short Answer Questions

186. Explain the role of accounting in the information age.

Accounting is an information and measurement system. It identifies, records, and communicates relevant, reliable and comparable information about business activities. Accounting also includes the crucial process of analysis and interpretation.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C1 Explain the purpose and importance of accounting.*

187. What is the balance sheet? What is its purpose?

The balance sheet is a listing of the types and amounts of assets, liabilities, and equity of a business at a specified point in time. The statement's purpose is to provide information that helps users assess the financial condition of the business.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

188. Identify the users and uses of accounting information.

There are two general types of users of accounting information. (1) Internal users are managers and officers of businesses. They require information about business activities in order to make decisions about planning, monitoring, and control. (2) External users rely on financial statements to make business decisions. These users include lenders, and shareholders. Lenders need information for measuring the risk and return of loans. Shareholders need information for assessing the risk and return in owning shares.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

189. Identify several opportunities in accounting and its related fields.

The traditional areas of accounting include financial accounting, managerial accounting, and tax accounting. Work in related fields includes lending, underwriting, market research, and business valuation.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

190. Explain why ethics are an integral part of accounting.

The purpose of accounting is to provide useful information for decision makers. For information to be useful, it must be trusted. This requires ethical behavior by accountants and managers in all phases of gathering, analyzing and reporting financial information so that good decisions are made.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C3 Explain why ethics are crucial to accounting.*

191. Describe the three important guidelines for revenue recognition.

The three important guidelines for revenue recognition include: (1) Revenue is recognized when earned. (2) Assets received from selling products and services do not need to be in cash. (3) Revenue recognized is measured by cash received plus the cash equivalent of other assets received.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

192. Identify the three basic forms of business organizations.

The three basic forms of business organizations are sole proprietorships, partnerships, and corporations.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*



193. How does the objectivity principle support ethical behavior?

The objectivity principle supports ethical behavior since it requires that financial information be documented by independent, unbiased evidence. Consequently, the impact of belief and opinions on the recording and reporting of business transactions and events is lessened.

*AACSB: Ethics*  
*AICPA BB: Industry*  
*AICPA FN: Decision Making*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: C3 Explain why ethics are crucial to accounting.*

194. Identify the two main groups involved in establishing generally accepted accounting principles.

The FASB is the private group that establishes GAAP. The SEC establishes reporting requirements for companies that issue stock to the public.

*AACSB: Communications*  
*AICPA BB: Legal*  
*AICPA FN: Reporting*  
*Bloom's: Remember*  
*Difficulty: Easy*  
*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

195. How does the going-concern principle affect reporting asset values of a business?

The going-concern principle means that financial statements reflect an assumption that the business continues in operation instead of being closed or sold. Assets are therefore reported at cost rather than at liquidation value.

*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Measurement*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

196. Describe the relation between revenues, expenses, and net income.

Revenues are the increases in equity from a company's earnings activities. Expenses are the costs of assets or services used to earn revenues. Net income is the excess of revenues over expenses.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

197. Explain the accounting equation, and define its terms.

The accounting equation is stated as:  $\text{Assets} = \text{Liabilities} + \text{Equity}$ . Assets are resources owned or controlled by a business. Creditors' claims on assets are called liabilities. The owner's claim on assets is called equity. The accounting equation shows that the ownership of business assets can be shared between creditors and owners.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

198. What distinguishes liabilities from equity?

Liabilities are creditors' claims on assets. They reflect obligations to transfer assets or provide products or services to others. Equity is owner's claim to assets. Equity is also called net assets or residual interest.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

199. What is the purpose of return on assets as an analytical tool?

Return on assets is useful in evaluating management, analyzing and forecasting profits, and planning activities.

*AACSB: Communications*  
*AICPA BB: Resource Management*  
*AICPA FN: Measurement*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: A2 Compute and interpret return on assets.*

200. Discuss the relation between risk and return.

Net income is related to return. Risk is the uncertainty about the amount of the expected return. In general; the lower the risk of an investment; the lower the expected return is. Higher return is expected in exchange for accepting higher risk.

*AACSB: Reflective Thinking*  
*AICPA BB: Critical Thinking*  
*AICPA FN: Risk Analysis*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: A3 Appendix 1A—Explain the relation between return and risk.*

201. Describe the three types of activities reported on the statement of cash flows.

The three types of activities reported in the statement of cash flows are (1) operating, which are the cash inflows and outflows from operations; (2) financing, which are the cash inflows and cash outflows related to owner investments and withdrawal and long-term borrowing and repaying cash from lending and (3) investing, which represent the cash inflows and outflows from the purchase and sale of long-term assets.

*AACSB: Communications*  
*AICPA BB: Industry*  
*AICPA FN: Reporting*  
*Bloom's: Understand*  
*Difficulty: Medium*  
*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

202. Identify and describe the four basic financial statements:

The four basic financial statements are the balance sheet, income statement, statement of owner's equity, and statement of cash flows. The balance sheet describes the company's financial position and lists the types and amounts of assets, liabilities, and equity at a point in time. The income statement describes the company's revenues, expenses, and net income over a period of time. The statement of owner's equity explains changes in equity from net income or loss, and from owner investments and withdrawals over a period of time. The statement of cash flows reports on cash flows for operating, investing, and financing activities over a period of time.

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

**Essay Questions**

203. The characteristics below apply to at least one of the forms of business organization.

- a. Is a separate legal entity.
- b. Is allowed to be owned by one person only.
- c. Owner or owners are personally liable for debts of the business.
- d. Is a taxable entity.
- e. Is a business entity.
- f. May have a contract specifying the division of profits among the owners.
- g. Has an unlimited life

Use the following format to indicate (with a "yes" or "no") whether or not a characteristic applies to each type of business organization.

	<u>Proprietorship</u>	<u>Partnership</u>	<u>Corporation</u>
a.			
b.			
c.			
d.			
e.			
f.			
g.			

Answers will vary

	<u>Proprietorship</u>	<u>Partnership</u>	<u>Corporation</u>
a.	no	no	yes
b.	yes	no	yes
c.	yes	yes	no
d.	no	no	yes
e.	yes	yes	yes
f.	no	yes	no
g.	no	no	yes

Feedback:

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Decision Making*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

204. A parcel of land is offered for sale at \$600,000, is assessed for tax purposes at \$500,000, is recognized by its purchasers as easily being worth \$575,000, and is sold for \$570,000. At what amount should the land be recorded in the purchaser's books? What accounting principle supports your answer?

Answers will vary

Feedback: \$570,000. The cost principle requires the acquisition of an asset to be recorded in the accounting records at cost.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

205. You are reviewing the accounting records of Cathy's Antiques, owned by Cathy Miller. You have uncovered the following situations. Compose a memo to Ms. Miller. Cite the appropriate accounting principle and suggest an action for each separate item.

1. In August, a check for \$500 was written to Wee Day Care Center. This amount represents child care for her son Brandon.
2. Cathy plans a Going Out of Business Sale for May, since she will be closing her business for a month-long vacation in June. She plans to reopen July 1 and will continue operating Cathy's Antiques indefinitely.
3. Cathy received a shipment of pine furniture from Quebec, Canada. The invoice was stated in Canadian dollars.
4. Joseph Clark paid \$1,500 for a dining table. The amount was recorded as revenue. The table will be delivered to Mr. Clark in six weeks.

Answers will vary

Feedback: 1. Business entity assumption. Cathy Miller should refund the \$500 to the business or record it as a withdrawal. In the future, she should use a personal check to pay for day care. 2. Going-concern Assumption. Cathy's Antiques is not going out of business. The business is just closing for vacation. She should hold an inventory reduction sale or other appropriate sale. 3. Monetary unit assumption. The invoice should be restated in U.S. dollars for accounting purposes. 4. Revenue recognition principle. Since the table has not been delivered, revenue should not be recognized. The \$1,500 should be placed in an account such as Deposits Received from Customers (a type of unearned revenue) until the table is delivered.

*AACSB: Analytic*

*AICPA BB: Industry and Legal*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

206. At the beginning of the year, a company had \$120,000 worth of liabilities. During the year, assets increased by \$160,000 and at year-end they equaled \$360,000. Liabilities decreased \$20,000 during the year. Calculate the beginning and ending values of equity.

Answers will vary

Feedback: Beginning equity = \$80,000

Ending equity = \$260,000

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

*Learning Objective: P1 Analyze business transactions using the accounting equation.*

207. The accounts of Garfield Company with the increases or decreases that occurred during the past year are as follows:

<u>Account</u>	<u>Increase</u>	<u>Decrease</u>
Cash.....	\$25,000	
Accounts receivable .....		\$(5,000)
Accounts payable .....		(11,000)
Notes payable.....	16,000	

Except for net income, an investment of \$3,000 by the owner, and a withdrawal of \$11,000 by the owner, no other items affected the owner's capital account. Using the balance sheet equation, compute net income for the past year.

Answers will vary

Feedback: To maintain the balance sheet equation, Assets = Liabilities + Equity, net income must be \$23,000.

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

*Learning Objective: P1 Analyze business transactions using the accounting equation.*



208. Annie's Attic has the following account balances for the dates given:

	<u>September 1</u>	<u>September 30</u>
Cash.....	\$40,000	60,000
Accounts Receivable .....	40,000	38,000
Accounts payable .....	6,000	?

Also, its net income, for September 1 through September 30 was \$20,000 and there were no investments or withdrawals by the owner. Determine the equity at both September 1 and September 30.

Answers will vary

Total assets:

	<u>September 1</u>	<u>September 30</u>
Cash.....	\$40,000	60,000
Accounts Receivable.....	<u>40,000</u>	<u>38,000</u>
Total assets.....	<u>\$80,000</u>	<u>\$98,000</u>

Feedback:

At September 1:

Assets = Liabilities + Equity

80,000 = 6,000 + Equity

Equity = \$74,000

At September 30:

Equity, September 1                      \$74,000

Plus September net income              20,000

Equity, September 30                      \$94,000

or:

September 1 Equity + NI + September 30 equity

\$74,000 + \$20,000 = \$94,000

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Bloom's: Apply

Difficulty: Hard

Learning Objective: A1 Define and interpret the accounting equation and each of its components.

209. If the liabilities of a company increased \$92,000 during a period of time and equity in the business decreased \$30,000 during the same period, did the assets of the company increase or decrease? By what amount?

Answers will vary

Feedback: Assets increased \$62,000.

Assets = Liabilities + Equity

\$62,000 = \$92,000 - \$30,000

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

210. Hal Burton began a Web Consulting practice and completed these transactions during September of the current year:

- Sept.      1    Invested \$100,000 of his personal savings into a checking account opened in the name of the business.
- 2    Rented office space and paid \$1,200 cash for the month of September.
- 3    Purchased office equipment for \$30,000, paying \$8,000 cash and agreeing to pay the balance in one year.
- 4    Purchased office supplies for \$750 cash.
- 8    Completed work for a client and immediately collected \$2,700 cash for the services.
- 15    Completed \$3,600 services for a client on credit.
- 20    Received \$3,600 from a client for the work completed on September 15.
- 30    Paid the office secretary's monthly salary, \$3,000 cash.
- 30    Burton withdrew \$2,000 for personal use.

Show the effects of the above transactions on the accounting equation of Halley Burton, Consultant. Use the following format for your answers. The first item is shown as an example. Increase = I Decrease = D No effect = N

Date	Assets	Liabilities	Equity
<b>Example:</b>			
September 1	I	N	I

Chapter 01 - Accounting in Business

Answers will vary

Date	Assets	Liabilities	Equity
September 1	I	N	I
September 2	D	N	D
September 3	I,D	I	N
September 4	I,D	N	N
September 8	I	N	I
September 15	I	N	I
September 20	I,D	N	N
September 30	D	N	D
September 30	D	N	D

Feedback:

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

211. For each of the following transactions, identify the effects as reflected in the accounting equation. Use "+" to indicate an increase and "-" to indicate a decrease. Use "A", "L", and "E" to indicate assets, liabilities, and equity, respectively. Part A has been completed as an example.

a.	L. Berryman invested \$100,000 in a sole proprietorship	<u>+A</u>	<u>+E</u>
b.	Land was purchased for \$50,000. A down payment of \$15,000 cash was made and a note was signed for the balance.	<u>          </u>	<u>          </u>
c.	Services were rendered to customers for cash.	<u>          </u>	<u>          </u>
d.	A building was purchased for cash.	<u>          </u>	<u>          </u>
e.	Supplies were purchased for cash.	<u>          </u>	<u>          </u>
f.	Paid the office secretary's salary.	<u>          </u>	<u>          </u>
g.	The amount owed on the land from Part (b) was paid.	<u>          </u>	<u>          </u>

Answers will vary

Feedback: a. +A +E

b. +A +L

c. +A +E

d. +A - A

e. +A - A

f. -A - E

g. -A - L

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Measurement

Bloom's: Apply

Difficulty: Hard

Learning Objective: A1 Define and interpret the accounting equation and each of its components.

212. The following schedule reflects shows the first month's transactions of the Bill Blue Real Estate Company:

	<b>Cash</b>	+	<b>Accounts Receivable</b>	+	<b>Supplies</b>	+	<b>Equipment</b>	=	<b>Accounts Payable</b>	+	<b><u>B. Blue Capital</u></b>
1.	+20,000										+20,000
2.	-5,000						+5,000				
3.					+\$1,500				+1,500		
4.	+3,000										+3,000
5.	+1,000		+1,500								+2,500
6.	-750								-750		
7.	+500		-500								
8.					-400						-400
9.	-2,000										-2,000

Provide descriptions for each transaction.

Answers will vary

- Feedback: 1. Investment of cash in business by owner or performed services for cash.  
 2. Purchased equipment for cash.  
 3. Purchased supplies on credit.  
 4. Performed services for cash or investment of cash in business by owner.  
 5. Performed services for both cash and on credit.  
 6. Paid accounts payable.  
 7. Received cash for an account receivable.  
 8. Used supplies in business.  
 9. Withdrawal of cash from business by owner for personal use or paid expense of business.

AACSB: Analytic  
 AICPA BB: Industry  
 AICPA FN: Measurement  
 Bloom's: Apply  
 Difficulty: Hard  
 Learning Objective: P1 Analyze business transactions using the accounting equation.

213. The accountant of Magic Video Games prepared a balance sheet immediately after each transaction was recorded. During September, the first month of operation, the following balance sheets were prepared:

MAGIC VIDEO GAMES			
Balance Sheet			
September 1			
Assets		Equity	
Cash.....	<u>\$60,000</u>	I. Magic, Capital .....	<u>\$60,000</u>
Total assets.....	<u>\$60,000</u>	Total liabilities	
		and equity .....	<u>\$60,000</u>

MAGIC VIDEO GAMES			
Balance Sheet			
September 5			
Assets		Liabilities	
Cash.....	\$48,000	Notes payable .....	\$18,000
Land .....	10,000	Equity	
Building.....	<u>20,000</u>	I. Magic, Capital .....	<u>60,000</u>
Total assets.....	<u>\$78,000</u>	Total liabilities and	
		equity .....	<u>\$78,000</u>

MAGIC VIDEO GAMES			
Balance Sheet			
September 9			
Assets		Liabilities	
Cash.....	\$48,000	Accounts payable.....	\$ 2,000
Office supplies .....	2,000	Notes payable .....	18,000
Land .....	10,000	Equity	
Building.....	<u>20,000</u>	I. Magic, Capital .....	<u>60,000</u>
Total assets.....	<u>\$80,000</u>	Total liabilities and	
		equity .....	<u>\$80,000</u>

MAGIC VIDEO GAMES			
Balance Sheet			
September 11			
Assets		Liabilities	
Cash.....	\$42,000	Accounts payable.....	\$ 2,000
Office supplies .....	2,000	Notes payable .....	18,000
Land .....	10,000	Equity	
Building.....	20,000	I. Magic, Capital .....	<u>60,000</u>
Office furniture .....	<u>6,000</u>		
Total assets.....	<u>\$80,000</u>	Total liabilities and	
		equity .....	<u>\$80,000</u>

MAGIC VIDEO GAMES			
Balance Sheet			
September 15			
Assets		Liabilities	
Cash.....	\$32,000	Accounts payable.....	\$ 2,000
Office supplies .....	2,000	Notes Payable .....	8,000
Land .....	10,000	Equity	
Building.....	20,000	I. Magic, Capital .....	<u>60,000</u>
Office furniture .....	<u>6,000</u>	Total liabilities and	
Total assets.....	<u>\$70,000</u>	equity .....	<u>\$70,000</u>

Required: Describe the nature of each of these five transactions for the month of September.

Sept		
1		
5		
9		
11		
15		

Answers will vary

Sept	1	I. Magic invested \$60,000 cash in the company.
	5	Land and building were purchased for \$12,000 cash and an \$18,000 note payable.
	9	Office supplies were purchased for \$2,000 on account.
	11	Office furniture was purchased for \$6,000 cash.
	15	\$10,000 of the note payable was paid in cash.

Feedback:



## Chapter 01 - Accounting in Business

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: P1 Analyze business transactions using the accounting equation.*

214. Identify the risk and the return in each of the following examples.

- a. Investing \$500 in a CD at 4.5% interest.
- b. Placing a \$100 bet on an NBA game.
- c. Investing \$10,000 in Microsoft stock.
- d. Borrowing \$20,000 in student loans.

Answers will vary

Feedback: a. The risk involved is that the investor may need the money in the CD before the CD matures and would have to give up the interest. The return is the 4.5% interest on the \$500 invested in the CD.

b. The risk is that the team bet on may not beat the point spread and the bet would be lost. The return would be any winnings based on the odds.

c. The risk is that the value of Microsoft stock could go down. The return would come from increase in the value of the stock.

d. The risk is that the student might not be able to find a job that pays enough to live on and allow for loan payments with interest. The return is that the student would be able to finance an education and earn higher wages.

*AACSB: Reflective Thinking*

*AICPA BB: Critical Thinking*

*AICPA FN: Risk Analysis*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: A3 Appendix 1A—Explain the relation between return and risk.*

215. Prepare a November 30 balance sheet in proper form for Green Bay Delivery Service from the following alphabetical list of the accounts at November 30:

Accounts receivable .....	\$10,000
Accounts payable .....	18,000
Building.....	28,000
Cash.....	8,000
Notes payable.....	45,000
Office equipment .....	12,000
R. Perkins, Capital .....	?
Trucks .....	55,000

Answers will vary

Feedback:

GREEN BAY DELIVERY SERVICE			
Balance Sheet			
November 30			
Assets		Liabilities	
Cash .....	\$ 8,000	Accounts payable .....	\$ 18,000
Accounts receivable.....	10,000	Notes payable .....	<u>45,000</u>
Office equipment .....	12,000	Total liabilities.....	\$ 63,000
Building .....	28,000		
Trucks .....	<u>55,000</u>		
		Equity	
		R. Perkins, Capital.....	<u>50,000</u>
		Total liabilities and	
Total assets.....	<u>\$113,000</u>	equity .....	<u>\$113,000</u>

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

216. Prepare a December 31 balance sheet in proper form for Surety Insurance using the following accounts and amounts:

Commissions earned .....	\$40,000
Accounts payable .....	3,500
Accounts receivable .....	5,000
M. Bruno, Capital .....	103,500
Office equipment .....	10,000
Advertising expense .....	3,200
Cash .....	7,500
Land .....	35,000
Note payable .....	50,000
Office supplies .....	500
Salaries expense .....	12,000
Salaries payable .....	1,000
Building .....	100,000

Answers will vary

Feedback:

SURETY INSURANCE			
Balance Sheet			
December 31			
Assets		Liabilities	
Cash .....	\$ 7,500	Accounts payable	\$ 3,500
Accounts receivable .....	5,000	Salaries payable .....	1,000
Office supplies .....	500	Note payable .....	<u>50,000</u>
Land .....	35,000	Total liabilities .....	\$ 54,500
Building .....	100,000	Equity	
Office equipment .....	10,000	M. Bruno, Capital .....	<u>103,500</u>
		Total liabilities and	
Total assets .....	<u>\$158,000</u>	Equity .....	<u>\$158,000</u>

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

217. From the information given below, prepare a November income statement, a November statement of owner's equity, and a November 30 balance sheet. On November 1 of the current year, Lois Bell began Lois Bell, Interior Design with an initial investment of \$50,000 cash. On November 30 her records showed the following (alphabetically arranged) items and amounts.

Accounts payable .....	\$12,000	Office furnishings.....	\$40,000
Accounts receivable .....	23,000	Owner's withdrawals .....	6,000
Cash.....	17,200	Rent expense .....	3,600
Fees earned.....	30,000	Salaries expense .....	6,200
Notes payable.....	4,250	Telephone expense .....	250

Answers will vary

Feedback:

LOIS BELL, INTERIOR DESIGN		
Income Statement		
For Month Ended November 30		
Revenue:		
Fees earned.....		\$30,000
Operating expenses:		
Rent expense .....	\$3,600	
Salaries expense .....	6,200	
Telephone expense .....	<u>250</u>	<u>10,050</u>
Net income .....		<u>\$19,950</u>

LOIS BELL, INTERIOR DESIGN		
Statement of Owner's Equity		
For Month Ended November 30		
Lois Bell, Capital, November 1 .....		\$ 0
Plus: Investments by owner .....	\$50,000	
Net income .....	<u>19,950</u>	<u>69,950</u>
		69,950
Less withdrawals by owner.....		<u>(6,000)</u>
Lois Bell, Capital, November 30 .....		<u>\$63,950</u>

LOIS BELL, INTERIOR DESIGN			
Balance Sheet			
November 30			
Assets		Liabilities	
Cash.....	\$17,200	Accounts payable .....	\$12,000
Accounts receivable. ....	23,000	Notes payable .....	<u>4,250</u>
Office furnishings .....	<u>40,000</u>	Total liabilities .....	\$16,250
		Equity	
		Lois Bell, capital .....	<u>63,950</u>
		Total liabilities and	
Total assets.....	<u>\$80,200</u>	equity.....	<u>\$80,200</u>

## Chapter 01 - Accounting in Business

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

218. Data for Madison Realty are as follows:

	Total assets at January 1 .....	\$100,000
	Total liabilities at January 1 .....	35,000
	Total revenues for the year .....	79,000
	Total expenses for the year .....	47,000

The owner, Mary Madison, withdrew a total of \$30,000 for personal use during the year. Using the above data, prepare Madison Realty's Statement of Owner's Equity for the year ended December 31.

Answers will vary

MADISON REALTY	
Statement of Owner's Equity	
For year Ended December 31	
Mary Madison, Capital, January 1*	\$ 65,000*
Plus Net income .....	<u>32,000</u>
	\$ 97,000
Less Withdrawals by owner .....	<u>(30,000)</u>
Mary Madison, Capital, December 31 .....	<u>\$ 67,000</u>
*Total assets at January 1 .....	\$100,000
Less total liabilities at January 1 .....	<u>35,000</u>
Total owner's equity at January 1 .....	<u>\$ 65,000</u>

Feedback:

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

219. FastForward has the following beginning cash balance and cash transactions for the month of January. Using this information prepare a statement of cash flows.

a.	Beginning cash balance .....	\$ 3,200
b.	Cash investment by owner.....	15,000
c.	Cash payment toward long-term loan .....	1,000
d.	Cash payment of rent.....	1,800
e.	Purchased equipment for cash .....	7,500
f.	Purchased store supplies for cash ....	1,500
g.	Cash collected from customers.....	7,750
h.	Cash withdrawal by owner .....	2,000
i.	Cash payment of wages .....	4,000

Answers will vary

Feedback:

FastForward Statement of Cash Flows For Month Ended January 31		
Cash flows from operating activities:		
Cash collected from customers .....	\$ 7,750	
Cash paid for supplies .....	(1,500)	
Cash paid for rent .....	(1,800)	
Cash paid for wages .....	<u>(4,000)</u>	
Cash flows from operating activities .....		\$ 450
Cash flows from investing activities:		
Purchase of equipment .....		(7,500)
Cash flows from financing activities:		
Investment by owner .....	15,000	
Withdrawal by owner .....	(2,000)	
Payment of loan .....	<u>(1,000)</u>	
Cash flows from financing activities .....		<u>12,000</u>
Net increase in cash .....		<u>\$ 4,950</u>
Beginning cash balance .....		<u>3,200</u>
Ending cash balance.....		<u>\$ 8,150</u>

## Chapter 01 - Accounting in Business

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*



220. The records of Skymaster Airplane Rentals show the following information as of December 31. Skymaster withdrew \$52,000 during the year for personal expenses. Prepare a December income statement, a December statement of owner's equity, and a December 30 balance sheet.

Accounts payable .....	\$36,000	Wages expense .....	\$75,000
Insurance expense .....	2,000	Advertising expense.....	22,000
Accounts receivable .....	24,000	Cash .....	11,000
H. Skymaster, capital,			
January 1 .....	150,000	Office Furniture.....	15,000
Airplanes .....	150,000	Maintenance expense.....	39,000
Notes payable .....	47,000	Revenues .....	217,000
Hangar .....	60,000		

Answers will vary

Feedback:

SKYMASTER AIRPLANE RENTALS Income Statement For Year Ended December 31			
	Revenues		\$ 217,000
	Expenses:		
	Insurance expense	\$ 2,000	
	Wages expense	75,000	
	Advertising expense	22,000	
	Maintenance expense	<u>39,000</u>	
	Total expenses		<u>\$ 138,000</u>
	Net income		<u>\$ 79,000</u>

SKYMASTER AIRPLANE RENTALS Statement of Owner's Equity For Year Ended December 31		
H. Skymaster, Capital, January 1 .....		\$150,000
Add: Net income .....		79,000
Less: Withdrawals .....		<u>(52,000)</u>
H. Skymaster, Capital, December 31 .....		<u>\$177,000</u>

SKYMASTER AIRPLANE RENTALS Balance Sheet December 31					
	Assets			Liabilities	
	Cash .....	\$ 11,000		Accounts payable.....	\$ 36,000
	Accounts receivable .....	24,000		Notes payable.....	<u>47,000</u>
	Airplanes .....	150,000		Total liabilities	\$ 83,000
	Hangar .....	60,000		Equity	
	Office furniture .....	15,000		H. Skymaster, Capital .....	<u>177,000</u>
				Total liabilities and	
	Total assets .....	<u>\$260,000</u>		equity .....	<u>\$260,000</u>

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.

221. Graham Roofing Company, owned by R. Graham, began operations in May and completed the following transactions during that first month of operations. Show the effects of the transactions on the accounts of the accounting equation by recording increases and decreases in the appropriate columns in the table below. Do not determine new account balances after each transaction. Determine the final total for each account and verify that the equation is in balance.

May	1	R. Graham invested \$90,000 cash in the company.
	2	The company purchased \$25,000 in office equipment. It paid \$10,000 in cash and signed a note payable promising to pay the \$15,000 over the next three years.
	2	The company rented office space and paid \$3,000 for the May rent.
	6	The company installed a new roof for a customer and immediately collected \$5,000.
	7	The company paid a supplier \$2,000 for roofing materials used on the May 6 job.
	8	The company purchased a \$2,500 copy machine for office use on credit.
	9	The company completed work for additional customers on credit in the amount of \$16,000.
	15	The company paid its employees salaries \$2,300 for the first half of the month.
	17	The company installed a new roof for a customer and immediately collected \$2,400.
	20	The company received \$10,000 in payments from the customers billed on May 9.
	28	The company paid \$1,500 on the copy machine purchased on May 8. It will pay the remaining balance in June.
	31	The company paid its employees salaries \$2,400 for the second half of the month.
	31	The company paid a supplier \$5,300 for roofing materials used on the remaining jobs completed during May.
	31	The company paid \$450 for this month's utility bill.

GRAHAM ROOFING CO.

Assets = Liabilities + Equity									
Date	Cash	Accounts Receivable	Equipment	Accounts Payable	Notes Payable	R. Graham Capital	R. Graham Withdrawals	Revenues	Expenses
May 1									
2									
2									
6									
7									
8									
9									
15									
17									
20									
28									
31									
31									
31									
	\$				\$				
	-	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ -

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Answers will vary

Feedback:

		Assets =				Liabilities +		Equity	
Date	Accounts	Accounts	Notes	R. Graham	R. Graham			Revenues	Expenses
May	Cash	Receivable	Equipment	Payable	Payable	Capital	Withdrawals		
1	90,000					90,000			
2	(10,000)		25,000		15,000				
2	(3,000)								(3,000)
6	5,000							5,000	
7	(2,000)								(2,000)
8			2,500	2,500					
9		16,000						16,000	
15	(2,300)								(2,300)
17	2,400							2,400	
20	10,000	(10,000)							
28	(1,500)			(1,500)					
31	(2,400)								(2,400)
31	(5,300)								(5,300)
31	(450)								(450)
	80,450	6,000	27,500	1,000	15,000	90,000	-	23,400	(15,450)

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Hard

Learning Objective: P1 Analyze business transactions using the accounting equation.

**Fill in the Blank Questions**

222. Accounting is an \_\_\_\_\_ that identifies, records and communicates relevant, reliable and comparable information about an organization's economic activities.

**Information and measurement system (or information system)**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C1 Explain the purpose and importance of accounting.*

223. A \_\_\_\_\_ is a business that is owned by only one person.

**Sole proprietorship**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

224. \_\_\_\_\_ users of accounting information are not directly involved in running the organization.

**External**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

225. \_\_\_\_\_ is the area of accounting aimed at serving external users.

**Financial accounting**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C2 Identify users and uses of; and opportunities in; accounting.*

226. Congress passed the \_\_\_\_\_ to help curb financial abuses at companies that issue their stock to the public.

**Sarbanes-Oxley Act**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

227. \_\_\_\_\_ are beliefs that separate right from wrong.

**Ethics**

*AACSB: Ethics*

*AICPA BB: Industry*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C3 Explain why ethics are crucial to accounting.*

228. The assumption that requires that a business be accounted for separately from its owners is the \_\_\_\_\_ assumption.

**Business entity**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

229. The \_\_\_\_\_ assumption requires that financial information is supported by independent, unbiased evidence.

**Objectivity**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

230. The \_\_\_\_\_ assumption assumes business will continue operating indefinitely instead of being closed or sold.

**Going-concern**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

231. The \_\_\_\_\_ assumption states that transactions and events are expressed in money units.

**Monetary unit**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*



232. In accounting, the rule that requires that assets, services, and liabilities be recorded initially at the cash or cash-equivalent value of what was given up or of the item received is called \_\_\_\_\_.

**The cost principle**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

233. A disadvantage of a sole proprietorship is the fact that the owner has \_\_\_\_\_.

**Unlimited liability**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

234. There are at least three types of partnerships that limit the partners' liability. They are 1) \_\_\_\_\_, 2) \_\_\_\_\_, and 3) \_\_\_\_\_.

**Limited partnership, limited liability partnership, and limited liability company**

*AACSB: Communications*

*AICPA BB: Legal*

*AICPA FN: Decision Making*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C4 Explain generally accepted accounting principles and define and apply several accounting principles.*

235. \_\_\_\_\_ activities are the means organizations use to pay for resources such as land, building, and equipment.

**Financing**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C5 Appendix 1B—Identify and describe the three major activities of organizations.*

236. \_\_\_\_\_ activities involve the acquisition and disposal of resources that an organization uses to acquire and sell its products or services.

**Investing**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C5 Appendix 1B—Identify and describe the three major activities of organizations.*

237. \_\_\_\_\_ activities involve using resources to research, develop, purchase, produce, distribute, and market products and services.

**Operating**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C5 Appendix 1B—Identify and describe the three major activities of organizations.*

238. Assets removed from the business by the business owner for personal use are called \_\_\_\_\_.

**Withdrawals**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

239. \_\_\_\_\_ are the increases in equity from a company's earnings activities

**Revenues**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

240. A common characteristic of \_\_\_\_\_ is their ability to provide expected future benefits to a business.

**Assets**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

241. Creditors claims on assets that reflect obligations to transfer assets are called \_\_\_\_\_.

**Liabilities**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

242. The owner's claim on assets is called \_\_\_\_\_.

**Equity**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

243. The accounting equation is \_\_\_\_\_.

**Assets = Liabilities + Owner's Equity**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

244. The term \_\_\_\_\_ refers to a liability that promises a future outflow of resources.

**Payable**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

245. Using the accounting equation, equity is equal to \_\_\_\_\_.

**Assets minus liabilities**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: A1 Define and interpret the accounting equation and each of its components.*

246. \_\_\_\_\_ is the recording of financial transactions and events, either manually or electronically.

**Recordkeeping or bookkeeping**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: C1 Explain the purpose and importance of accounting.*

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247. \_\_\_\_\_ is net income divided by average total assets.

**Return on assets**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A2 Compute and interpret return on assets.*

248. Risk is the \_\_\_\_\_ about the return an investor expects to earn.

**Uncertainty**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Risk Analysis*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: A3 Appendix 1A—Explain the relation between return and risk.*

249. \_\_\_\_\_ reports changes in the owner's claim on the business's assets over a period of time.

**The statement of owner's equity**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*

250. The \_\_\_\_\_ describes a company's revenues and expenses over a period of time due to earnings activities.

**Income Statement**

*AACSB: Communications*

*AICPA BB: Industry*

*AICPA FN: Reporting*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: P2 Identify and prepare basic financial statements and explain how they interrelate.*