

Chapter 1—Introduction to Accounting and Business

TRUE/FALSE

1. The main objective of a not-for-profit business is **not** to make a profit.

ANS: F PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-01-Purpose

2. An example of an external user of accounting information is the federal government.

ANS: T PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-01-Purpose

3. A corporation is a business that is legally separate and distinct from its owners.

ANS: T PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms

4. About 90% of the businesses in the United States are organized as corporations.

ANS: F PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms

5. The role of accounting is to provide many different users with financial information to make economic decisions.

ANS: T PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-01-Purpose

6. Proprietorships are owned by one owner and provide only services to their customers.

ANS: F PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms

7. Only large companies such as Wal-Mart, JCP, General Motors, and the Bank of America can be organized as corporations.

ANS: F PTS: 1 DIF: Moderate OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms

8. Accounting information users need reports about the economic activities and condition of businesses.

ANS: T PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-01-Purpose

9. Senior executives cannot be criminally prosecuted for the wrong doings they commit on behalf of the companies where they work.

ANS: F PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Ethics | AICPA BB-Legal

10. The primary role of accounting is to determine the amount of taxes a business will be required to pay to taxing entities.

ANS: F PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-01-Purpose

11. An account receivable is typically classified as a revenue.

ANS: F PTS: 1 DIF: Easy OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-15-Current Assets Reporting

12. Managerial accounting information is used by external and internal users equally.

ANS: F PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-25-Managerial Characteristics/Terminology

13. Financial accounting provides information to all users, while the main focus for managerial accounting is to provide information to the management.

ANS: T PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-01-Purpose

14. Proper ethical conduct implies that you only consider what's in your best interest.

ANS: F PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Ethics | AICPA BB-Legal

15. Some of the major fraudulent acts by senior executives started as what they considered to be small ethical lapses which grew out of control.

ANS: T PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Ethics | AICPA BB-Legal

16. Two factors that typically lead to ethical violations are relevance and timeliness of accounting information.

ANS: F PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry

17. A business is an organization in where basic resources or inputs, like materials and labor, are assembled and processed to provide outputs in the form of goods or services to customers.

ANS: T PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry

18. The Financial Accounting Standards Board (FASB) is the authoritative body that has primary responsibility for developing accounting principles.

ANS: T PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

19. The cost concept is the basis for entering the exchange price into the accounting records.

ANS: T PTS: 1 DIF: Moderate OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

20. The unit of measurement concept requires that economic data be recorded in a common unit of measurement.

ANS: T PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

21. If a building is appraised for \$85,000, offered for sale at \$90,000, and the buyer pays \$80,000 cash for it, the buyer would record the building at \$85,000.

ANS: F PTS: 1 DIF: Moderate OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

22. Generally accepted accounting principles regulate how and what financial information is reported by businesses.

ANS: T PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

23. The accounting equation can be expressed as $\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$.

ANS: T PTS: 1 DIF: Easy OBJ: 01-03
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

24. The rights or claims to the assets of a business may be subdivided into rights of creditors and rights of owners.

ANS: T PTS: 1 DIF: Difficult OBJ: 01-03
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

25. The owner's rights to the assets rank ahead of the creditors' rights to the assets.

ANS: F PTS: 1 DIF: Easy OBJ: 01-03
NAT: AACSB Analytic | AICPA FN-Measurement

26. If the liabilities owed by a business total \$300,000 and owners equity is equal to \$300,000, then the assets also total \$300,000.

ANS: F PTS: 1 DIF: Moderate OBJ: 01-03
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

27. If total assets decreased by \$30,000 during a specific period and owner's equity decreased by \$35,000 during the same period, the period's change in total liabilities was an \$65,000 increase.

ANS: F PTS: 1 DIF: Moderate OBJ: 01-03
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

28. If total assets increased by \$190,000 during a specific period and liabilities decreased by \$10,000 during the same period, the period's change in total owner's equity was a \$200,000 increase.

ANS: T PTS: 1 DIF: Moderate OBJ: 01-03
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

29. If net income for a proprietorship was \$50,000, the owner withdrew \$20,000 in cash and the owner invested \$10,000 in cash, the capital of the owner increased by \$40,000.

ANS: T PTS: 1 DIF: Difficult OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

30. An account receivable is a claim against a customer arising from a sale on account.

ANS: T PTS: 1 DIF: Easy OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-12-Receivables Reporting

31. Paying an account payable increases liabilities and decreases assets.

ANS: F PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

32. Receiving payments on an account receivable increases both equity and assets.

ANS: F PTS: 1 DIF: Difficult OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

33. Cash withdrawals by owners decrease assets and increase equity.

ANS: F PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

34. Purchasing supplies on account increases liabilities and decreases equity.

ANS: F PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

35. Receiving a bill or otherwise being notified that an amount is owed is **not** recorded until the amount is paid.

ANS: F PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

36. Revenue is earned only when money is received.

ANS: F PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

37. Expenses are assets that are used up during the process of earning revenue.

ANS: T PTS: 1 DIF: Easy OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

38. The excess of revenue over the expenses incurred in earning the revenue is called capital.

ANS: F PTS: 1 DIF: Easy OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

39. The principal financial statements of a proprietorship are the income statement, statement of owner's equity, and the balance sheet.

ANS: F PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

40. An income statement is a summary of the revenues and expenses of a business as of a specific date.

ANS: F PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

41. A statement of owner's equity reports the changes in the owner's equity for a period of time.

ANS: T PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

42. The statement of cash flows consists of three sections: cash flows from operating activities, cash flows from income activities, and cash flows from equity activities.

ANS: F PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

43. The financial statements of a proprietorship should include the owner's personal assets and liabilities.

ANS: F PTS: 1 DIF: Moderate OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

44. The balance sheet represents the accounting equation.

ANS: T PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

45. An example of a general-purpose financial statement would be a report about projected price increases related to transportation costs.

ANS: F PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

46. No significant differences exist between the accounting standards issued by the FASB and the IASB.

ANS: F PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

47. The Sarbanes-Oxley Act prohibits CPAs from providing nonaudit investment banking services.

ANS: T PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry

48. The main objective for all business is to maximize unrealized profits.

ANS: F PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry

49. The basic difference between manufacturing and merchandising companies is the completion level of the products they purchase for resale to customers.

ANS: T PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry

50. Net income and net profit do **not** mean the same thing.

ANS: F PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

MATCHING

Match each transactions with its effect on the accounting equation. Each letter may be used more than once.

- a. Increase assets, increase liabilities
 - b. Increase liabilities, decrease owner's equity
 - c. Increase assets, increase owner's equity
 - d. No effect
 - e. Decrease assets, decrease liabilities
 - f. Decrease assets, decrease owner's equity
1. Received cash for services provided
 2. Received utility bill to be paid next month
 3. Investment of land by owner
 4. Paid part of an amount owed to a creditor
 5. Paid cash for the purchase of a one year insurance policy
 6. Received payment from a customer on account
 7. Cash withdrawal by owner
 8. Provided a service to a customer on account
 9. Purchased supplies on credit

10. Paid wages
11. Cash investment by owner
12. Borrowed money from a bank
13. Purchased equipment for cash
14. Received cash for providing services to customers
15. Used up supplies that were already on hand

1. ANS: C PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
2. ANS: B PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
3. ANS: C PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
4. ANS: E PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
5. ANS: D PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
6. ANS: D PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
7. ANS: F PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
8. ANS: C PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
9. ANS: A PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
10. ANS: F PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
11. ANS: C PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
12. ANS: A PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
13. ANS: D PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
14. ANS: C PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
15. ANS: F PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

Match the following business types with each business listed below. Each may be used more than once.

- a. Service firm
 - b. Manufacturing firm
 - c. Merchandising firm
16. A tax preparation firm
 17. A law firm
 18. A health club and spa
 19. An automobile dealer
 20. A book publisher
 21. A hospital
 22. A supermarket
 23. A modular homebuilder

24. A men's clothing store
 25. A dressmaking company
-
16. ANS: A PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic| AICPA BB-Industry
 17. ANS: A PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic| AICPA BB-Industry
 18. ANS: A PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic| AICPA BB-Industry
 19. ANS: C PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic| AICPA BB-Industry
 20. ANS: B PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic| AICPA BB-Industry
 21. ANS: A PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic| AICPA BB-Industry
 22. ANS: C PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic| AICPA BB-Industry
 23. ANS: B PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic| AICPA BB-Industry
 24. ANS: C PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic| AICPA BB-Industry
 25. ANS: B PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic| AICPA BB-Industry

Match each of the following with the transactions below. Each may be used more than once.

- a. incurred a net loss
 - b. realized net income
 - c. Not enough information to choose (a) or (b).
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26. A business had revenues of \$825,000 and operating expenses of \$708,000.
 27. A business had revenues of \$430,000 and operating expenses of \$615,000.
 28. Land with an assessed value of \$400,000 for property tax purposes is acquired by a business for \$525,000. Ten years later, the land is sold for \$700,000
 29. A company's ratio of liabilities to owner's equity is 1.50.
 30. Stan Clark's Capital account for January 1, 2010 is \$25,000 and his Capital account for December 31, 2010 is \$24,900. Stan withdraws \$800 during the year.
 31. Stan Clark's Capital account at January 1, 2011 was \$25,000 and his Capital account at December 31, 2011 was \$23,500. Stan withdraws \$800 during the year.
 32. Jim Starr began his business on January 1, 2011 with a capital account of \$0. Jim withdrew \$2,000 during the year and had an ending capital balance on December 31, 2011 of \$26,050.
 33. A company's ending owner's equity for the year is \$5,000 more than the beginning owner's equity.
 34. A company's cash account was \$25,000 at the beginning of the year and \$47,000 at the end of the year.
-
26. ANS: B PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

27. ANS: A PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
28. ANS: C PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
29. ANS: C PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
30. ANS: B PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
31. ANS: A PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
32. ANS: B PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
33. ANS: C PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
34. ANS: C PTS: 1 DIF: Moderate OBJ: 01-04
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

Match the following characteristics with the form of business entity that best describes it. Each may be used more than once.

- a. Proprietorship
 - b. Partnership
 - c. Corporation
 - d. Limited liability company (LLC)
35. Comprises 70% of business entities in the United States
36. Generates 90% of business revenues
37. Owned by two or more individuals
38. Organized as a separate legal taxable entity
39. Easy and cheap to organize
40. Often used as an alternative to a partnership
41. Used by large business
42. Has the ability to obtain large amounts of resources
43. Offers tax and legal liability advantages for owners
35. ANS: A PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms
36. ANS: C PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms
37. ANS: B PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms
38. ANS: C PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms
39. ANS: A PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms
40. ANS: D PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms
41. ANS: C PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms

42. ANS: C PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms
43. ANS: D PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms

Match the following characteristics with the financial statement it describes it. Each may be used more than once.

- a. Income Statement
 - b. Balance Sheet
 - c. Statement of Owner's Equity
 - d. Statement of Cash Flows
44. Reports as of a specific date
45. The first statement prepared
46. Has three sections: operating, investing and financing
47. Reports only revenues and expenses
48. The second statement prepared
49. A formal presentation of the accounting equation
50. The connecting link between the income statement and balance sheet

44. ANS: B PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements
45. ANS: A PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements
46. ANS: D PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements
47. ANS: A PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements
48. ANS: C PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements
49. ANS: B PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements
50. ANS: C PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

MULTIPLE CHOICE

1. Profit is the difference between
- a. assets and liabilities
 - b. the incoming cash and outgoing cash
 - c. the assets purchased with cash contributed by the owner and the cash spent to operate the business
 - d. the amounts received from customers for goods or services and the amounts paid for the inputs used to provide the goods or services.

ANS: D PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

2. Most businesses in the United States are

- a. proprietorships
- b. partnerships
- c. corporations
- d. separate entities

ANS: A PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms

3. Which of the items below is **not** a business entity?

- a. entrepreneurship
- b. proprietorship
- c. partnership
- d. corporation

ANS: A PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms

4. An entity that is organized according to state or federal statutes and in which ownership is divided into shares of stock is a

- a. proprietorship
- b. corporation
- c. partnership
- d. governmental unit

ANS: B PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms

5. Financial reports are used by

- a. management
- b. creditors
- c. investors
- d. all are correct

ANS: D PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-01-Purpose

6. Which of the following **best** describes accounting?

- a. records economic data but does not communicate the data to users according to any specific rules.
- b. is an information system that provides reports to users regarding economic activities and condition of a business.
- c. is of no use by individuals outside of the business.
- d. is used only for filling out tax returns and for financial statements for various type of governmental reporting requirements.

ANS: B PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-01-Purpose

7. Two common areas of accounting that respectively provide information to internal and external users are:
- forensic accounting and financial accounting
 - managerial accounting and financial accounting
 - managerial accounting and environmental accounting
 - financial accounting and tax accounting systems

ANS: B PTS: 1 DIF: Easy OBJ: 01-01

NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-01-Purpose

8. Which type of accountant typically practices as an individual or as a member of a public accounting firm?
- Certified Public Accountant
 - Certified Payroll Professional
 - Certified Internal Auditor
 - Certified Management Accountant

ANS: A PTS: 1 DIF: Easy OBJ: 01-01

NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-01-Purpose

9. All of the following are general-purpose financial statements **except**:
- balance sheet
 - income statement
 - statement of owner's equity
 - cash budget

ANS: D PTS: 1 DIF: Easy OBJ: 01-01

NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-09-Financial Statements

10. Which of the following is a manufacturing business?
- Amazon.com.
 - Wal-Mart.
 - Ford Motors.
 - Delta Airlines

ANS: C PTS: 1 DIF: Moderate OBJ: 01-01

NAT: AACSB Analytic | AICPA BB-Industry

11. Which of the following group of companies are all examples of a merchandising business?
- Delta Airlines, Marriott, Gap
 - Gap, Amazon, NIKE
 - GameStop, Sony, Dell
 - GameStop, Best Buy, Gap

ANS: D PTS: 1 DIF: Easy OBJ: 01-01

NAT: AACSB Analytic | AICPA BB-Industry

12. Which of the following would **not** normally operate as a service business?
- a. Pet Groomers
 - b. Restaurant
 - c. Lawn Care Company
 - d. Styling Salon

ANS: B PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry

13. Select the type of business that is most likely to obtain large amounts of resources by issuing stock.
- a. Partnership
 - b. Corporation
 - c. Proprietorship
 - d. None are correct.

ANS: B PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms

14. Which of the following is **true** in regards to a Limited Liability Company?
- a. Makes up 10% of business organizations in the United States.
 - b. Combines the attributes of a partnership and a corporation.
 - c. Provides tax and liability advantages to the owners.
 - d. All are correct.

ANS: D PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms

15. On April 25, Gregg Repair Service extended an offer of \$115,000 for land that had been priced for sale at \$140,000. On May 3, Gregg Repair Service accepted the seller's counteroffer of \$127,000. On June 20, the land was assessed at a value of \$88,000 for property tax purposes. On August 4, Gregg Repair Service was offered \$150,000 for the land by a national retail chain. At what value should the land be recorded in Gregg Repair Service's records?
- a. \$115,000
 - b. \$88,000
 - c. \$140,000
 - d. \$127,000

ANS: D PTS: 1 DIF: Moderate OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-02-GAAP

16. Which of the following groups are considered to be **internal users** of accounting information?
- a. Employees and customers
 - b. Customers and vendors
 - c. Employees and managers
 - d. Government and banks

ANS: C PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-01-Purpose

17. The following are examples of external users of accounting information **except**:
- a. government
 - b. customers
 - c. creditors
 - d. all of the above

ANS: D PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-01-Purpose

18. Due to various fraudulent business practices and accounting coverups in the early 2000's, Congress enacted the Sarbanes-Oxley Act of 2002. The Act was responsible for establishing a new oversight board for public accountants called the
- a. Generally Accepted Accounting Practices for Public Accountants Board.
 - b. Public Company Accounting Oversight Board.
 - c. Congressional Accounting Oversight Board.
 - d. None are correct.

ANS: B PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Ethics | AICPA BB-Legal

19. Which of the following is the **best** description of accounting's role in business?
- a. Accounting provides stockholders with information regarding the market value of the company's stocks.
 - b. Accounting provides information to managers to operate the business and to other users to make decisions regarding the economic condition of the company.
 - c. Accounting provides creditors and banks with information regarding the credit risk rating of the company.
 - d. Accounting is not responsible for providing any form of information to users. That is the role of the Information Systems Department.

ANS: B PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-01-Purpose

20. Managerial accountants would be responsible for providing the following information:
- a. Tax reports to government agencies.
 - b. Profit reports to owners and management.
 - c. Expansion of a product line report to management.
 - d. Consumer reports to customers.

ANS: C PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-25-Managerial Characteristics/Terminology

21. Which of the following is **not** a certification for accountants?
- a. CIA
 - b. CMA
 - c. CISA
 - d. All are certifications.

ANS: D PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry

22. Which of the following is **not** a characteristic of a corporation?
- a. Corporations are organized as a separate legal taxable entity

- b. Ownership is divided into shares of stock.
- c. Corporations experience an ease in obtaining large amounts of resources by issuing stock.
- d. A corporation's resources are limited to their individual owners' resources.

ANS: D PTS: 1 DIF: Moderate OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms

23. Which of the following is **not** a role of accounting in business?
- a. To provide reports to users about the economic activities and conditions of a business.
 - b. To personally guarantee loans of the business.
 - c. To provide information to other users to determine the economic performance and condition of the business.
 - d. To assess the various informational needs of users and design its accounting system to meet those needs.

ANS: B PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-01-Purpose

24. Which of the following are guidelines for behaving ethically?
- I. Identify the consequences of a decision and its effect on others.
 - II. Consider your obligations and responsibilities to those affected by the decision.
 - III. Identify your decision based on personal standards of honesty and fairness.
- a. I and II.
 - b. II and III.
 - c. I and III.
 - d. I, II, and III.

ANS: D PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Ethics | AICPA BB-Legal

25. The Sarbanes-Oxley Act of 2002 prohibits employment of auditors by their clients for what period after their last audit of the client?
- a. Indefinitely
 - b. One year
 - c. Two years
 - d. There is no such prohibition.

ANS: B PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry

26. The initials GAAP stand for
- a. General Accounting Procedures
 - b. Generally Accepted Plans
 - c. Generally Accepted Accounting Principles
 - d. Generally Accepted Accounting Practices

ANS: C PTS: 1 DIF: Moderate OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

27. Within the United States, the dominant body in the primary development of accounting principles is the
- a. American Institute of Certified Public Accountants (AICPA)
 - b. American Accounting Association (AAA)
 - c. Financial Accounting Standards Board (FASB)

d. Institute of Management Accountants (IMA)

ANS: C PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

28. The business entity concept means that
- the owner is part of the business entity
 - an entity is organized according to state or federal statutes
 - an entity is organized according to the rules set by the FASB
 - the entity is an individual economic unit for which data are recorded, analyzed, and reported

ANS: D PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

29. For accounting purposes, the business entity should be considered separate from its owners if the entity is
- a corporation
 - a proprietorship
 - a partnership
 - all of the above

ANS: D PTS: 1 DIF: Moderate OBJ: 01-02
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-02-GAAP

30. The objectivity concept requires that
- business transactions must be consistent with the objectives of the entity
 - the Financial Accounting Standards Board must be fair and unbiased in its deliberations over new accounting standards
 - accounting principles must meet the objectives of the Security and Exchange Commission
 - amounts recorded in the financial statements must be based on independently verifiable evidence

ANS: D PTS: 1 DIF: Moderate OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

31. Denzel Jones owns and operates Crystal Cleaning Company. Recently, Denzel withdrew \$18,000 from Crystal Cleaning, and he contributed \$14,000, in his name, to Habitat for Humanity. The contribution of the \$14,000 should be recorded on the accounting records of which of the following entities?
- Crystal Cleaning and Habitat for Humanity
 - Denzel Jones' personal records and Habitat for Humanity
 - Denzel Jones' personal records and Crystal Cleaning
 - Denzel Jones' personal records, Crystal Cleaning, and Habitat for Humanity

ANS: B PTS: 1 DIF: Difficult OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

32. Equipment with an estimated market value of \$55,000 is offered for sale at \$75,000. The equipment is acquired for \$20,000 in cash and a note payable of \$40,000 due in 30 days. The amount used in the buyer's accounting records to record this acquisition is
- \$55,000
 - \$60,000
 - \$20,000
 - \$75,000

ANS: B PTS: 1 DIF: Difficult OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

33. Which one of the following is the authoritative body in the United States having the primary responsibility for developing accounting principles?
- a. FASB
 - b. IRS
 - c. SEC
 - d. AICPA

ANS: A PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

34. Which of the following concepts relates to separating the reporting of business and personal economic transactions?
- a. Cost Concept
 - b. Unit of Measure Concept
 - c. Business Entity Concept
 - d. Objectivity Concept

ANS: C PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

35. Donner Company is selling a piece of land adjacent to their business. An appraisal reported the market value of the land to be \$120,000. The Focus Company initially offered to buy the land for \$107,000. The companies settled on a purchase price of \$115,000. On the same day, another piece of land on the same block sold for \$122,000. Under the cost concept, what is the amount that will be used to record this transaction in the accounting records?
- a. \$107,000
 - b. \$115,000
 - c. \$120,000
 - d. \$122,000

ANS: B PTS: 1 DIF: Moderate OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

36. Which of the following is **not** true of accounting principles?
- a. Financial accountants follow generally accepted accounting principles (GAAP).
 - b. Following GAAP allows accounting information users to compare one company to another.
 - c. A new accounting principle can be adopted with stockholders approval.
 - d. The Financial Accounting Standards Board (FASB) has primary responsibility for developing accounting principles.

ANS: C PTS: 1 DIF: Moderate OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

37. Assets are
- a. always greater than liabilities.
 - b. either cash or accounts receivables
 - c. the same as expenses because they are acquired with cash
 - d. financed by the owner and/or creditors

ANS: D PTS: 1 DIF: Easy OBJ: 01-03
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

38. Debts owed by a business are referred to as
- a. accounts receivables
 - b. equities
 - c. owner's equity
 - d. liabilities

ANS: D PTS: 1 DIF: Easy OBJ: 01-03
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

39. The accounting equation may be expressed as
- a. $\text{Assets} = \text{Equities} - \text{Liabilities}$
 - b. $\text{Assets} + \text{Liabilities} = \text{Owner's Equity}$
 - c. $\text{Assets} = \text{Revenues less Liabilities}$
 - d. $\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$

ANS: D PTS: 1 DIF: Moderate OBJ: 01-03
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

40. Which of the following is **not** an asset?
- a. Investments
 - b. Cash
 - c. Inventory
 - d. Owner's Equity

ANS: D PTS: 1 DIF: Easy OBJ: 01-03
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

41. The assets and liabilities of the company are \$175,000 and \$40,000, respectively. Owner's equity should equal
- a. \$215,000
 - b. \$135,000
 - c. \$175,000
 - d. \$40,000

ANS: B PTS: 1 DIF: Easy OBJ: 01-03

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

42. If total liabilities decreased by \$55,000 during a period of time and owner's equity increased by \$60,000 during the same period, the amount and direction (increase or decrease) of the period's change in total assets is
- a. \$115,000 increase
 - b. \$5,000 increase
 - c. \$5,000 decrease
 - d. \$115,000 decrease

ANS: B PTS: 1 DIF: Moderate OBJ: 01-03

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

43. Which of the following is **not** a business transaction?
- a. make a sales offer
 - b. sell goods for cash
 - c. receive cash for services to be rendered later
 - d. pay for supplies

ANS: A PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

44. A business paid \$7,000 to a creditor in payment of an amount owed. The effect of the transaction on the accounting equation was to
- a. increase one asset, decrease another asset
 - b. decrease an asset, decrease a liability
 - c. increase an asset, increase a liability
 - d. increase an asset, increase owner's equity

ANS: B PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

45. Earning revenue
- a. increases assets, increases owner's equity.
 - b. increases assets, decreases owner's equity
 - c. increases one asset, decreases another asset
 - d. decreases assets, increases liabilities

ANS: A PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

46. The monetary value charged to customers for the performance of services sold is called a(n)
- a. asset
 - b. net income
 - c. capital
 - d. revenue

ANS: D PTS: 1 DIF: Easy OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

47. Revenues are reported when
- a. a contract is signed
 - b. cash is received from the customer
 - c. work is begun on the job
 - d. work is completed on the job

ANS: D PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

48. Expenses are recorded when
- a. cash is paid for services rendered
 - b. a bill is received in advance of services rendered
 - c. assets are used in the process of earning revenue
 - d. none of these

ANS: C PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

49. Goods purchased on account for future use in the business, such as supplies, are called
- a. prepaid liabilities
 - b. revenues
 - c. prepaid expenses
 - d. liabilities

ANS: C PTS: 1 DIF: Easy OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

50. The asset created by a business when it makes a sale on account is termed
- a. accounts payable
 - b. prepaid expense
 - c. unearned revenue
 - d. accounts receivable

ANS: D PTS: 1 DIF: Easy OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

51. The debt created by a business when it makes a purchase on account is referred to as an
- a. account payable
 - b. account receivable
 - c. asset
 - d. expense payable

ANS: A PTS: 1 DIF: Easy OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

52. If total assets decreased by \$88,000 during a period of time and owner's equity increased by \$65,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total liabilities is
- a. \$23,000 increase
 - b. \$88,000 decrease
 - c. \$153,000 increase
 - d. \$153,000 decrease

ANS: D PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

53. Owner's withdrawals
- a. increase expenses
 - b. decrease expenses
 - c. increase cash
 - d. decrease owner's equity

ANS: D PTS: 1 DIF: Easy OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

54. How does paying a liability in cash affect the accounting equation?
- a. assets increase; liabilities decrease
 - b. assets increase; liabilities increase
 - c. assets decrease; liabilities decrease
 - d. liabilities decrease; owner's equity increases

ANS: C PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

55. How does receiving a bill to be paid next month for services rendered affect the accounting equation?
- a. assets decrease; owner's equity decreases
 - b. assets increase; liabilities increase
 - c. liabilities increase; owner's equity increases
 - d. liabilities increase; owner's equity decreases

ANS: D PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

56. How does the purchase of equipment by signing a note affect the accounting equation?
- a. assets increase; assets decrease
 - b. assets increase; liabilities decrease
 - c. assets increase; liabilities increase
 - d. assets increase; owner's equity increases

ANS: C PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

57. Land, originally purchased for \$20,000, is sold for \$75,000 in cash. What is the effect of the sale on the accounting equation?
- a. assets increase \$75,000; owner's equity increases \$75,000
 - b. assets increase \$55,000; owner's equity increases \$55,000
 - c. assets increase \$75,000; liabilities decrease \$20,000; owner's equity increases \$55,000
 - d. assets increase \$20,000; no change for liabilities; owner's equity increases \$75,000

ANS: B PTS: 1 DIF: Difficult OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

58. Allen Marks is the sole owner and operator of Great Marks Company. As of the end of its accounting period, December 31, 2011, Great Marks Company has assets of \$940,000 and liabilities of \$300,000. During 2012, Allen Marks invested an additional \$65,000 and withdrew \$45,000 from the business. What is the amount of net income during 2012, assuming that as of December 31, 2012, assets were \$995,000, and liabilities were \$270,000?
- a. \$ 65,000
 - b. \$ 50,000
 - c. \$105,000
 - d. \$370,000

ANS: A PTS: 1 DIF: Difficult OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

59. Transactions affecting owner's equity include
- a. owner's investments and payment of liabilities
 - b. owner's investments and owner's withdrawals, revenues, and expenses
 - c. owner's investments, revenues, expenses, and collection of accounts receivable
 - d. owner's withdrawals, revenues, expenses, and purchase of supplies on account

ANS: B PTS: 1 DIF: Easy OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

60. Clifford Moore is starting his computer programming business and has deposited in initial investment of \$15,000 into the business cash account. Identify how the accounting equation will be affected.
- a. Increase Assets (Cash) and increase Liabilities (Accounts Payable)
 - b. Increase Assets (Cash) and increase Owner's Equity (Clifford Moore, Capital)
 - c. Increase Assets (Accounts Receivable) and decrease Liabilities (Accounts Payable)
 - d. Increase Assets (Cash) and increase Assets (Accounts Receivable)

ANS: B PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

61. Gomez Service Company paid their first installment on their Notes Payable in the amount of \$2,000. How will this transaction affect the accounting equation?
- a. Increase Liabilities (Notes Payable) and decrease Assets (Cash)
 - b. Decrease Assets (Cash) and decrease Owner's equity (Note Payable Expense)
 - c. Decrease Assets (Cash) and decrease Assets (Notes Receivable)
 - d. Decrease Assets (Cash) and decrease Liabilities (Notes Payable)

ANS: D PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

62. Ramon Ramos has withdrawn \$750 from Ramos Repair Company's cash account to deposit in his personal account. How does this transaction affect Ramos Repair Company's accounting equation?

- a. Increase Assets (Accounts Receivable) and decrease Assets (Cash)
- b. Decrease Assets (Cash) and decrease Owner's Equity (Owner's Withdrawal)
- c. Decrease Assets (Cash) and decrease Liabilities (Accounts Payable)
- d. Increase Assets (Cash) and decrease Owner's Equity (Owner's Withdrawal)

ANS: B PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

63. Which of the following is not a business transaction?
- a. Erin deposits \$15,000 in a bank account in the name of Erin's Lawn Service.
 - b. Erin provided services to customers earning fees of \$600.
 - c. Erin purchased hedge trimmers for her lawn service agreeing to pay the supplier next month.
 - d. Erin pays her monthly personal credit card bill.

ANS: D PTS: 1 DIF: Difficult OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

64. The financial statement that presents a summary of the revenues and expenses of a business for a specific period of time, such as a month or year, is called a(n)
- a. prior period statement
 - b. statement of owner's equity
 - c. income statement
 - d. balance sheet

ANS: C PTS: 1 DIF: Easy OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

65. Which of the following financial statements reports information as of a specific date?
- a. income statement
 - b. statement of owner's equity
 - c. statement of cash flows
 - d. balance sheet

ANS: D PTS: 1 DIF: Easy OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

66. Four financial statements are usually prepared for a business. The statement of cash flows is usually prepared last. The statement of owner's equity (OE), the balance sheet (B), and the income statement (I) are prepared in a certain order to obtain information needed for the next statement. In what order are these three statements prepared?
- a. I,OE, B
 - b. B, I, OE
 - c. OE, I, B
 - d. B,OE, I

ANS: A PTS: 1 DIF: Easy OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

67. Liabilities are reported on the
- income statement
 - statement of owner's equity
 - statement of cash flows
 - balance sheet

ANS: D PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

68. Cash investments made by the owner to the business are reported on the statement of cash flows in the
- financing activities section
 - investing activities section
 - operating activities section
 - supplemental statement

ANS: A PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

69. The year-end balance of the owner's capital account appears in
- both the statement of owner's equity and the income statement
 - only the statement of owner's equity
 - both the statement of owner's equity and the balance sheet
 - both the statement of owner's equity and the statement of cash flows

ANS: C PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

70. A financial statement user would determine if a company was profitable or not during a specific period of time by reviewing
- the Income Statement.
 - the Balance Sheet.
 - the Statement of Cash Flows.
 - cannot be determined.

ANS: A PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

71. If the owner wanted to know how money flowed into and out of the company, what financial statement would she use?
- Income Statement
 - Statement of Cash Flows
 - Balance Sheet
 - None are correct.

ANS: B PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

72. The asset section of the Balance Sheet normally presents assets in
- alphabetical order.
 - order of largest to smallest dollar amounts.
 - in the order what will be converted into cash.
 - any order.

ANS: C PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

73. Countries outside the U.S. use financial accounting standards issued by the:
- LLC
 - SEC
 - IASB
 - GAAP

ANS: C PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement

74. All of the following statements regarding the ratio of liabilities to owner's equity are true **except**:
- A ratio of 1 indicates that liabilities equal owner's equity.
 - Corporations can use this ratio but substitute total stockholders' equity for total owner's equity.
 - The higher this ratio is, the better able a business is to withstand poor business conditions and pay creditors.
 - The lower this ratio is, the better able a business is to withstand poor business conditions and pay creditors.

ANS: C PTS: 1 DIF: Moderate OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-23-Financial Statement Analysis

75. The unit of measure concept:
- is only used in the financial statements of manufacturing companies.
 - is not important when applying the cost concept.
 - requires that different units be used for assets and liabilities.
 - requires that economic data be reported in yen in Japan or dollars in the U.S.

ANS: D PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

EXERCISE/OTHER

1. Discuss internal and external users of accounting information. What areas of accounting provide them with information? Give an example of the type of report each type of user might use.

ANS:

Internal users of accounting information include managers and employees. The area of accounting that provides internal users with information is called managerial accounting or management accounting. An example of a report that might be used internally is a customer profitability report.

External users of accounting information include customers, creditors, banks, and the government. These users are not directly involved in managing or operating the business. Financial reports about the profitability of a company's operations are important to banks and creditors when deciding to lend money to the company or extend credit.

PTS: 1 DIF: Difficult OBJ: 01-01
NAT: AACSB Analytic | AICPA BB-Industry

2. Companies like Enron, WorldCom, and Tyco International, Ltd. have been caught in the midst of ethical lapses that led to fines, firings, and criminal and/or civil prosecution. List and briefly describe three factors that are responsible for what went wrong in these companies.

ANS:

The three factors are: (1) individual character, (2) firm culture, and (3) laws and enforcement. Honesty, integrity, and fairness in the face of pressure to hide the truth are important characteristics of an ethical business person. The behavior and attitude of senior management sets the firm's culture. In firms like Enron, senior managers created a culture of greed and indifference to the truth. That culture flowed down to lower-level managers, who took shortcuts and lied to cover financial frauds. The lack of laws and enforcement has been blamed as a contributing factor to financial reporting abuses. As a result, new laws such as the Sarbanes-Oxley Act of 2002 (SOX) established a new oversight body for the accounting profession, known as the Public Company Accounting Oversight Board (PCAOB), which enhanced corporate accountability, financial disclosures, and independence.

PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Ethics | AICPA BB-Legal

3. List the five steps in the process by which accounting provides information to users.

ANS:

1. Identify users.
2. Assess users' information needs.
3. Design the accounting information system to meet users' needs.
4. Record economic data about business activities and events.
5. Prepare accounting reports for users.

PTS: 1 DIF: Moderate REF: 01-01
NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-01-Purpose

4. What is the major difference between the objective of financial accounting and the objective of managerial accounting?

ANS:

The objective of financial accounting is to provide information for the decision-making needs of external users. The objective of managerial accounting is to provide information for internal users.

PTS: 1 DIF: Easy OBJ: 01-01
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-01-Purpose

5. Give the major disadvantage of disregarding the cost concept and constantly revaluing assets based on appraisals and opinions.

ANS:

Accounting reports would become unstable and unreliable.

PTS: 1

DIF: Easy

OBJ: 01-02

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

6. On May 7, Carpet Barn Company offered to pay \$95,000 for land that had a selling price of \$110,000. On May 15, Carpet Barn accepted a counteroffer of \$103,000. On June 5, the land was assessed at a value of \$120,000 for property tax purposes. On December 10, Carpet Barn Company was offered \$145,000 for the land by another company. At what value should the land be recorded in Carpet Barn Company's records?

ANS:

\$103,000

PTS: 1

DIF: Easy

OBJ: 01-02

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

TOP: Example Exercise 1-1

7. Donner Company is selling a piece of land adjacent to their business. An appraisal reported the market value of the land to be \$120,000. The Focus Company initially offered to buy the land for \$107,000. The companies settled on a purchase price of \$115,000. On the same day, another piece of land on the same block sold for \$122,000. Under the cost concept, what is the amount that will be used to record this transaction in the accounting records?

ANS:

\$115,000

PTS: 1

DIF: Moderate

OBJ: 01-02

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

8. Explain the meaning of the business entity concept.

ANS:

The business entity concept limits the economic data in an accounting system to data related directly to the activities of the business. In other words, the business is viewed as an entity separate from its owners, creditors, or other businesses

PTS: 1

DIF: Moderate

OBJ: 01-02

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

9. Darnell Company purchased \$88,000 of computer equipment from Joseph Company. Darnell Company paid for the equipment using cash that had been obtained from the initial investment by Donnie Darnell.

Which entity or entities (Darnell Company, Joseph Company, Donnie Darnell) should record the transaction involving the computer equipment on their accounting records?

ANS:

Darnell Company and Joseph Company

PTS: 1 DIF: Difficult OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

10. Explain the meaning of:

- (a) the objectivity concept and
- (b) the unit of measure concept

ANS:

(a) The objectivity concept requires that the amounts recorded in the accounting records be based on objective evidence. In exchanges between a buyer and a seller, both try to get the best price. Only the final agreed-upon amount is objective enough to be recorded in the accounting records.

(b) The unit of measure concept requires that economic data be recorded in dollars. Money is a common unit of measurement for reporting financial data and reports.

PTS: 1 DIF: Moderate OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

11. Doug Miller is the owner and operator of Miller's Arcade. At the end of its accounting period, December 31, 2010, Miller's Arcade has assets of \$450,000 and liabilities of \$125,000. Using the accounting equation, determine the following amounts:
- a) Owner's Equity as of December 31, 2010.
 - b) Owner's Equity as of December 31, 2011, assuming that assets increased by \$65,000 and liabilities increased by \$35,000 during 2011.

ANS:

- a) $\$450,000 = \$125,000 + \mathbf{\$325,000}$
- b) $(\$450,000 + \$65,000) = (\$125,000 + \$35,000) + \mathbf{\$355,000}$

PTS: 1 DIF: Moderate OBJ: 01-03
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
TOP: Example Exercise 1-2

12. Determine the missing amount "X" for each of the following:

| Assets | Liabilities | Owner's Equity |
|-------------|-------------|----------------|
| a. \$85,700 | \$40,000 | X |
| b. X | \$66,570 | \$145,000 |
| c. \$57,900 | X | \$34,000 |

ANS:

- a. $\$85,700 - 40,000 = \$45,700$
- b. $\$66,570 + 145,000 = \$211,570$
- c. $\$57,900 - 34,000 = \$23,900$

PTS: 1

DIF: Easy

OBJ: 01-03

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

TOP: Example Exercise 1-2

13. Krammer Company has liabilities equal to one fourth of the total assets. Krammer's owner's equity is \$30,000. Using the accounting equation, what is the amount of liabilities for Krammer?

ANS:

Assets = Liabilities + Owner's Equity

$4x = x + \$30,000$

$3x = \$30,000$

$x = \$10,000$ in liabilities

PTS: 1

DIF: Difficult

OBJ: 01-03

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

TOP: Example Exercise 1-2

14. Daniels Company is owned and operated by Thomas Daniels. The following selected transactions were completed by Daniels Company during May:

- 1. Received cash from owner as additional investment \$55,000.
- 2. Paid creditors on account \$7,000.
- 3. Billed customers for services on account, \$2,565.
- 4. Received cash from customers on accounts \$8,450.
- 5. Paid cash to owner for personal use, \$2,500.
- 6. Received the utility bill \$160, to be paid next month.

Indicate the effect of each transaction on the accounting equation:

- 1) By Account type - (A)assets, (L)liabilities, (O)owner's (E)equity, (R)revenue, and (E)expense
- 2) Name of Account for the entry
- 3) The amount by of the transaction.
- 4) Indicate the specific item within the account equation element that is affected.

Note: Each transaction has two entries.

| Entry | | | | | Entry | | | |
|-------|-----------|--------------|--------|----------------------|-----------|--------------|--------|----------------------|
| | Acct Type | Name of Acct | Amount | Increase or Decrease | Acct Type | Name of Acct | Amount | Increase or Decrease |
| | (1) | (2) | (3) | (4) | (1) | (2) | (3) | (4) |
| 1 | | | | | | | | |
| 2 | | | | | | | | |
| 3 | | | | | | | | |
| 4 | | | | | | | | |
| 5 | | | | | | | | |
| 6 | | | | | | | | |

ANS:

| Entry | | | | | Entry | | | |
|-------|-----------|--------------|--------|----------------------|-----------|--------------|--------|----------------------|
| | Acct Type | Name of Acct | Amount | Increase or Decrease | Acct Type | Name of Acct | Amount | Increase or Decrease |
| | (1) | (2) | (3) | (4) | (1) | (2) | (3) | (4) |
| 1 | A | Cash | 55,000 | Incr | OE | Capital | 55,000 | Incr |
| 2 | A | Cash | 7,000 | Decr | L | Acct Pay | 7,000 | Decr |
| 3 | A | Acct Rec | 2,565 | Incr | R | Fees Earned | 2,565 | Incr |
| 4 | A | Cash | 8,450 | Incr | A | Acct Rec | 8,450 | Decr |
| 5 | A | Cash | 2,500 | Decr | OE | Drawing | 2,500 | Incr |
| 6 | L | Acct Pay | 160 | Incr | E | Util Exp | 160 | Incr |

PTS: 1 DIF: Difficult OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

TOP: Example Exercise 1-3

15. Use the accounting equation to answer each of the independent questions below:

a. At the beginning of the year Norton Company assets were \$75,000 and its owner's equity was \$38,000. During the year, assets increased by \$18,000 and liabilities increased by \$4,000. What was the owner's equity at the end of the year?

b. At the beginning of the year Turpin Industries had liabilities of \$44,000 and owner's equity of \$66,000. If assets increased by \$10,000 and liabilities decreased by \$5,000, what was the owner's equity at the end of the year?

ANS:

a. $\$75,000 - \$38,000 = \$37,000$ beginning of year liabilities

$(\$75,000 + 18,000) - (\$37,000 + 4,000) = \$52,000$ end of year owner's equity

b. $\$44,000 + \$66,000 = \$110,000$ beginning of year assets
 $(\$110,000 + 10,000) - (\$44,000 - 5,000) = \$81,000$ end of year owner's equity

PTS: 1 DIF: Moderate OBJ: 01-03 | 01-04
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
 TOP: Example Exercise 1-2

16. Collins Landscape Company purchased various landscaping supplies on account to be used for landscape designs for their customers. How will this business transaction affect the accounting equation?

ANS:
 Increase Assets (Supplies) and increase Liabilities (Accounts Payable)

PTS: 1 DIF: Moderate OBJ: 01-04
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions
 TOP: Example Exercise 1-3

17. Bob Johnson is the sole owner of Johnson's Carpet Cleaning Service. Bob purchased a personal automobile for \$10,000 cash plus he took out a loan for \$20,000 in his name. Describe how this transaction is related to the business entity concept.

ANS:
 Under the business entity concept, economic data is limited to the direct activities of the business. The business is viewed as separate from its owner. Therefore, when Bob buys a personal automobile, it is not listed on the books of Johnson's Carpet Cleaning, unless Bob invests it in the business. In this case, the loan is a personal debt and not a liability of the company and the cash is from Bob's personal account and not the company's account.

PTS: 1 DIF: Moderate OBJ: 01-02
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-02-GAAP

18. Shiny Kar Company had the following transactions. For each transaction, show the effect on the accounting equation by putting the amount and direction (plus, minus, or NC for no change) in each box of the table below.

| | Assets | Liabilities | Owner's Equity |
|------------------------------------------------------------------------------|--------|-------------|----------------|
| a. Don Kar withdrew \$500 cash for food. | | | |
| b. Shiny Kar Company sold 2 cars for a total of \$55,000 on account. | | | |
| c. The cost of the cars sold in (b) above was \$40,000. | | | |
| d. Shiny Kar received \$35,000 payment for a car previously sold on account. | | | |
| e. Shiny Kar paid \$450 for advertising. | | | |
| f. Shiny Kar purchased \$150 of cleaning supplies on account. | | | |

ANS:

| | Assets | Liabilities | Owner's Equity |
|----|-----------|-------------|----------------|
| a. | -\$500 | NC | -\$500 |
| b. | +\$55,000 | NC | +\$55,000 |
| c. | -\$40,000 | NC | -\$40,000 |
| d. | NC | NC | NC |
| e. | -\$450 | NC | -\$450 |
| f. | \$150 | \$150 | NC |

PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

TOP: Example Exercise 1-3

19. Ramirez Company received their first electric bill in the amount of \$60 which will be paid next month. How will this transaction affect the accounting equation?

ANS:

Increase Liabilities (Accounts Payable) and decrease Owner's Equity (Utilities Expense)

PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

TOP: Example Exercise 1-3

20. Jonathan Martin is the owner and operator of Martin Consultants. At December 31, 2011, Martin Consultants has assets of \$430,000 and liabilities of \$205,000. Using the accounting equation and considering each case independently, determine the following:

a. Jonathan Martin, capital, as of December 31, 2011.

b. Jonathan Martin, capital, as of December 31, 2012, assuming that assets increased by \$12,000 and liabilities increased by \$15,000 in 2012.

c. Jonathan Martin, capital, as of December 31, 2012, assuming that assets decreased by \$8,000 and liabilities increased by \$14,000 during 2012.

ANS:

a. $\$430,000 - \$205,000 = \$225,000$

b. $(\$430,000 + \$12,000) - (\$205,000 + \$15,000) = \$222,000$

c. $(\$430,000 - \$8,000) - (\$205,000 + \$14,000) = \$203,000$

PTS: 1 DIF: Moderate OBJ: 01-03 | 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

TOP: Example Exercise 1-2

21. Simpson Auto Body Repair purchased \$20,000 of Machinery. The company paid \$8,000 in cash at the time of the purchase and signed a promissory note for the remainder to be paid in four monthly installments.

(a) How will the purchase affect the accounting equation?

(b) How will the payment of the first monthly installment affect the accounting equation?

ANS:

- (a) Increase Total Assets by a net amount of \$12,000 (increase Machinery \$20,000 and decrease Cash \$8,000) and increase Liabilities by \$12,000 (Notes Payable \$12,000)
- (b) Decrease Assets by \$3,000 (decrease Cash) and decrease Liabilities by \$3,000 (decrease Notes Payable)

PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

TOP: Example Exercise 1-3

22. On July 1 of the current year, the assets and liabilities of John Wong, DVM, are as follows: Cash, \$15,000; Accounts Receivable, \$12,300; Supplies, \$3,100; Land, \$35,000; Accounts Payable, \$8,700. What is the amount of owner's equity (John Wong's capital) as of July 1 of the current year?

ANS:

\$56,700

$(\$15,000 \text{ Cash} + \$12,300 \text{ Accounts Receivable} + \$3,100 \text{ Supplies} + \$35,000 \text{ Land}) - \$8,700 \text{ Accounts Payable} = \$56,700$

PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

23. Indicate how the following transactions affect the accounting equation:

- (a) The purchase of supplies on account.
- (b) The purchase of supplies for cash.
- (c) A withdraw by the owner to pay personal expenses.
- (d) Revenues received in cash.
- (e) Revenues received on account.

ANS:

- (a) Assets increase; liabilities increase
- (b) No effect
- (c) Assets decrease; owner's equity decreases
- (d) Assets increase; owner's equity increases
- (e) Assets increase; owner's equity increases

PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

24. Discuss the characteristics of a LLC (Limited liability company).

ANS:

A Limited liability company (LLC) combines the attributes of a partnership and a corporation. It is often used as an alternative to a partnership because it has tax and legal liability advantages for owners.

PTS: 1

DIF: Easy

OBJ: 01-02

NAT: AACSB Analytic | AICPA BB-Industry | ACBSP-APC-03-Business Forms

25. Kim Hsu is the owner of Hsu's Financial Services. At the end of its accounting period, December 31, 2011, Hsu's has assets of \$575,000 and owner's equity of \$335,000. Using the accounting equation and considering each case independently, determine the following amounts.

- Hsu's liabilities as of December 31, 2011.
- Hsu's liabilities as of December 31, 2012, assuming that assets increased by \$56,000 and owner's equity decreased by \$32,000.
- Net income or net loss during 2012, assuming that as of December 31, 2012, assets were \$592,000, liabilities were \$450,000, and there were no additional investments or withdrawals.

ANS:

- $\$575,000 - \$335,000 = \$240,000$
- $(\$575,000 + \$56,000) - (\$335,000 - \$32,000) = \$328,000$
- $\$592,000 - \$450,000 = \$142,000$
 $\$335,000 - \$142,000 = \$193,000$ net loss

PTS: 1

DIF: Difficult

OBJ: 01-03 | 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

26. a. A vacant lot acquired for \$83,000 cash is sold for \$127,000 in cash. What is the effect of the sale on the total amount of the seller's (1) assets, (2) liabilities, and (3) owner's equity?
- b. Assume that the seller owes \$52,000 on a loan for the land. After receiving the \$127,000 cash in (a), the seller pays the \$52,000 owed. What is the effect of the payment on the total amount of the seller's (1) assets, (2) liabilities, and (3) owner's equity?

ANS:

- Total assets increased \$44,000.
 - No change in liabilities.
 - Owner's equity increased \$44,000.
- Total assets decreased \$52,000.
 - Total liabilities decreased \$52,000.
 - No change in owner's equity.

PTS: 1

DIF: Easy

OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

27. Indicate whether each of the following represents an asset, liability, or owner's equity:

- (a) accounts payable
- (b) wages expense
- (c) capital
- (d) accounts receivable
- (e) withdrawal
- (f) land

ANS:

- (a) liability
- (b) owner's equity
- (c) owner's equity
- (d) asset
- (e) owner's equity
- (f) asset

PTS: 1 DIF: Easy OBJ: 01-02

NAT: AACSB Analytic | AICPA FN-Measurement

28. The Austin Land Company sold land for \$85,000 in cash. The land was originally purchased for \$65,000. At the time of the sale, \$40,000 was still owed to Regions Bank. After the sale, The Austin Land Company paid off the loan. Explain the effect of the sale and the payoff of the loan on the accounting equation.

ANS:

Total assets decrease \$20,000 (Cash increases by \$45,000; Land decreases by \$65,000)

Total liabilities decrease \$40,000 (Note payoff to Regions)

Owner's equity increases \$20,000 (Sales price - cost of the land)

PTS: 1 DIF: Difficult OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

29. Given the following:

| | |
|---------------------|-----------|
| Beginning capital | \$ 70,000 |
| Ending capital | \$ 48,000 |
| Owner's withdrawals | \$ 21,000 |

Calculate net income or net loss.

ANS:

| | |
|---------------------------|---------------|
| Ending capital | \$48,000 |
| Beginning capital | <u>70,000</u> |
| Decrease in capital | \$22,000 |
| Less: Owner's withdrawals | <u>21,000</u> |
| Net loss | \$ 1,000 |

PTS: 1 DIF: Difficult OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

30. The accountant for Franklin Corporation prepared the following list of account balances from the company's records for the year ended December 31, 2011:

| | | | |
|--------------------------|-----------|----------------------|-----------|
| Sales Revenue | \$165,000 | Cash | \$ 30,000 |
| Accounts Receivable | 14,000 | Selling Expenses | 44,000 |
| Equipment | 42,000 | Common Stock | 17,000 |
| Accounts Payable | 12,000 | Interest Income | 3,000 |
| Salaries & Wages Expense | 40,000 | Cost of Sales | 51,000 |
| Inventories | 22,000 | Prepaid Expenses | 2,000 |
| Income Taxes Payable | 5,000 | Income Taxes Expense | 18,000 |
| Notes Payable | 20,000 | | |

Determine the Total Assets at the end of 2011 for Franklin Corp.

ANS:

\$110,000
 (\$30,000 Cash + \$14,000 Accounts Receivable + \$42,000 Equipment + \$22,000 Inventories + 2,000 Prepaid Expenses = \$110,000)

PTS: 1 DIF: Moderate OBJ: 01-03

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

31. The accountant for Franklin Corporation prepared the following list of account balances from the company's records for the year ended December 31, 2011:

| | | | |
|--------------------------|-----------|----------------------|-----------|
| Sales Revenue | \$165,000 | Cash | \$ 30,000 |
| Accounts Receivable | 14,000 | Selling Expenses | 44,000 |
| Equipment | 42,000 | Common Stock | 17,000 |
| Accounts Payable | 12,000 | Interest Income | 3,000 |
| Salaries & Wages Expense | 40,000 | Cost of Sales | 51,000 |
| Inventories | 22,000 | Prepaid Expenses | 2,000 |
| Income Taxes Payable | 5,000 | Income Taxes Expense | 18,000 |
| Notes Payable | 20,000 | | |

Determine the Total Liabilities at the end of 2011 for Franklin Corp.

ANS:

\$37,000
 (\$12,000 Accounts Payable + \$5,000 Income Taxes Payable + \$20,000 Notes Payable = \$37,000)

PTS: 1 DIF: Moderate OBJ: 01-03

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

32. The accountant for Franklin Corporation prepared the following list of account balances from the company's records for the year ended December 31, 2011:

| | | | |
|--------------------------|-----------|----------------------|-----------|
| Sales Revenue | \$165,000 | Cash | \$ 30,000 |
| Accounts Receivable | 14,000 | Selling Expenses | 44,000 |
| Equipment | 42,000 | Common Stock | 17,000 |
| Accounts Payable | 12,000 | Interest Income | 3,000 |
| Salaries & Wages Expense | 91,000 | Prepaid Expenses | 2,000 |
| Inventories | 22,000 | Income Taxes Expense | 18,000 |
| Income Taxes Payable | 5,000 | | |
| Notes Payable | 20,000 | | |

Based on this information, is Franklin Corporation profitable? Explain your answer.

ANS:

$(\$165,000 \text{ Sales Revenue} + \$3,000 \text{ Interest Income}) - (\$91,000 \text{ Salaries \& Wages Expense} + \$44,000 \text{ Selling Expenses} + \$18,000 \text{ Income Taxes Expense}) = \$15,000 \text{ Net Income}$

Franklin Corporation had net income for the period of \$15,000. Since revenues exceeded expenses for the period, the company would be considered profitable.

PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

33. The assets and liabilities of Amos Moving Services at March 31, 2011, the end of the current year, and its revenue and expenses for the year are listed below. The capital of the owner was \$180,000 at April 1, 2010, the beginning of the current year. Mr. Amos invested an additional \$25,000 in the business during the year.

| | | | |
|---------------------|-----------|-----------------------|----------|
| Accounts Payable | \$1,200 | Miscellaneous Expense | \$230 |
| Accounts Receivable | \$10,340 | Office Expense | \$1,240 |
| Cash | \$33,990 | Supplies | \$1,670 |
| Fees Earned | \$84,350 | Wages Expense | \$23,550 |
| Land | \$47,000 | Drawing | \$16,570 |
| Building | \$157,630 | | |

Prepare an income statement for the current year ended May 31, 2011.

ANS:

Amos Moving Services
Income Statement
For the Year Ended March 31, 2011

| | | | |
|-------------|-----------------------|------------|-----------------|
| Fees Earned | | | \$84,350 |
| Expenses: | | | |
| | Wages Expense | \$23,550 | |
| | Office Expense | 1,240 | |
| | Miscellaneous Expense | <u>230</u> | |
| | Total Expenses | | <u>25,020</u> |
| Net Income | | | <u>\$59,330</u> |

PTS: 1 DIF: Moderate OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements
TOP: Example Exercise 1-4

34. The assets and liabilities of Amos Moving Services at March 31, 2011, the end of the current year, and its revenue and expenses for the year are listed below. The capital of the owner was \$180,000 at April 1, 2010, the beginning of the current year. Mr. Amos invested an additional \$25,000 in the business during the year.

| | | | |
|---------------------|-----------|-----------------------|----------|
| Accounts Payable | \$1,200 | Miscellaneous Expense | \$230 |
| Accounts Receivable | \$10,340 | Office Expense | \$1,240 |
| Cash | \$33,990 | Supplies | \$1,670 |
| Fees Earned | \$84,350 | Wages Expense | \$23,550 |
| Land | \$47,000 | Drawing | \$16,570 |
| Building | \$157,630 | | |

Prepare a statement of owner's equity for the current year ended March 31, 2011.

ANS:

Amos Moving Services
Statement of Owner's Equity
For the Year Ended March 31, 2011

| | | |
|--------------------------------------------|---------------|------------------|
| Amos, capital, April 1, 2010 | | \$180,000 |
| Additional investment by owner during year | \$25,000 | |
| Net Income for the year | <u>59,330</u> | |
| Subtotal | \$84,330 | |
| Less withdrawals | <u>16,570</u> | |
| Increase in owner's equity | | <u>67,760</u> |
| Amos, capital March 31, 2011 | | <u>\$247,760</u> |

PTS: 1 DIF: Moderate OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements
TOP: Example Exercise 1-5

35. The assets and liabilities of Amos Moving Services at March 31, 2011, the end of the current year, and its revenue and expenses for the year are listed below. The capital of the owner was \$180,000 at April 1, 2010, the beginning of the current year. Mr. Amos invested an additional \$25,000 in the business during the year.

| | | | |
|---------------------|-----------|-----------------------|----------|
| Accounts Payable | \$1,200 | Miscellaneous Expense | \$230 |
| Accounts Receivable | \$10,340 | Office Expense | \$1,240 |
| Cash | \$33,990 | Supplies | \$1,670 |
| Fees Earned | \$84,350 | Wages Expense | \$23,550 |
| Land | \$47,000 | Drawing | \$16,570 |
| Building | \$157,630 | | |

Prepare a balance sheet for the current year ended March 31, 2011.

ANS:

Amos Moving Services
Balance Sheet
March 31, 2011

| Assets | | Liabilities | |
|---------------------|------------------|--------------------------------------|------------------|
| Cash | \$33,990 | Accounts Payable | \$ 1,200 |
| Accounts Receivable | 10,340 | | |
| Land | 47,000 | | |
| Building | <u>157,630</u> | Owner's Equity | |
| Total Assets | <u>\$248,960</u> | Amos, Capital | <u>247,760</u> |
| | | Total Liabilities and Owner's Equity | <u>\$248,960</u> |

PTS: 1 DIF: Moderate OBJ: 01-05
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements
 TOP: Example Exercise 1-6

36. A summary of cash flows for Alex Design Services for the year ended December 31, 2012, is shown below.

| | |
|---------------------------------------------------|----------|
| Cash receipts: | |
| Cash received from customers | \$83,990 |
| Cash received from additional investment by owner | 25,000 |

| | |
|------------------------|----------|
| Cash payments: | |
| Cash paid for expenses | \$27,000 |
| Cash paid for land | 47,000 |
| Cash paid for supplies | 410 |
| Drawing | 5,000 |

| | |
|----------------------------------------|----------|
| The cash balance as of January 1, 2012 | \$40,600 |
|----------------------------------------|----------|

Prepare a statement of cash flows for Alex Design Services for the year ended December 31, 2012.

ANS:

Alex Design Services
Statement of Cash Flows
For the Year Ended December 31, 2012

| | |
|------------------------------------------------|-----------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$83,990 |
| Deduct cash payments for expenses and supplies | <u>(27,410)</u> |
| Net cash flows from operating expenses | \$56,580 |
| Cash flows from investing activities: | |
| Cash paid for land | (47,000) |
| Cash from financing activities: | |
| Cash investment received from owner | 25,000 |
| Deduct cash withdrawals from owner | <u>(5,000)</u> |
| Net cash flows from financing activities | <u>20,000</u> |
| Net increase in cash during year | \$ 29,580 |
| Cash as of January 1, 2012 | <u>40,600</u> |
| Cash as of December 31, 2012 | <u>\$70,180</u> |

PTS: 1 DIF: Difficult OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements
TOP: Example Exercise 1-7

37. The total assets and the total liabilities of a business at the beginning and at the end of the year appear below. During the year, the owner had withdrawn \$60,000 for personal use and had made an additional investment of \$45,000 in the business.

| | <u>Assets</u> | <u>Liabilities</u> |
|-------------------|---------------|--------------------|
| Beginning of year | \$305,000 | \$200,000 |
| End of year | 365,000 | 230,000 |

Calculate the net income for the year.

ANS:
\$45,000

| | <u>Assets</u> | <u>Liabilities</u> |
|-------------------|-------------------|--------------------|
| Beginning of year | \$ 305,000 | \$ 200,000 |
| End of year | <u>\$ 365,000</u> | <u>\$ 230,000</u> |
| Change | \$ 60,000 | \$ 30,000 |

Based on the change in asset and liabilities, owner's equity increased by \$30,000 for the year. Owner investment - owner withdrawal = \$15,000 decrease in equity, making the net income \$45,000 (\$15,000 + \$30,000).

PTS: 1 DIF: Difficult OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

38. What information does the Income Statement give to business users?

ANS:

The Income Statement reports the revenues and expenses for a period of time. The result is either a Net Income or a Net Loss.

PTS: 1 DIF: Easy OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

39. What are the three sections of the Statement of Cash Flows?

ANS:

Operating Activities, Investing Activities, and the Financing Activities

PTS: 1 DIF: Easy OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

40. Match the following accounts to the financial statement where they can be found. (Hint: Some of the accounts can be found in more than one financial statement.)

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

| # | Account |
|-----|----------------------|
| 1. | Withdrawals |
| 2. | Revenues |
| 3. | Supplies |
| 4. | Land |
| 5. | Accounts Payable |
| 6. | Accounts Receivable |
| 7. | Operating Activities |
| 8. | Wages Expense |
| 9. | Net Income |
| 10. | Cash |

ANS:

| # | Answer | Account |
|-----|--------------------------|----------------------|
| 1. | D (If Cash, also C.) | Withdrawals |
| 2. | B | Revenues |
| 3. | A | Supplies |
| 4. | A | Land |
| 5. | A | Accounts Payable |
| 6. | A | Accounts Receivable |
| 7. | C | Operating Activities |
| 8. | B | Wages Expense |
| 9. | D (If Indirect, also C.) | Net Income |
| 10. | A & C | Cash |

PTS: 1

DIF: Easy

OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

41. Name and describe the four primary financial statements for a proprietorship.

ANS:

1. Income Statement: A summary of the revenue and expenses *for a specific period of time*, such as a month or a year.
2. Statement of Owner's Equity: A summary of the changes in the owner's equity that have occurred *during a specific period of time*, such as a month or a year.
3. Balance Sheet: A list of the assets, liabilities, and owner's equity *as of a specific date*, usually at the close of the last day of a month or a year.
4. Statement of Cash Flows: A summary of the cash receipts and cash payments for a *specific period of time*, such as a month or a year.

PTS: 1

DIF: Moderate

OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

42. There are four transactions that affect Owner's equity.

- (a) What are the two types of transactions that increase Owner's equity?
- (b) What are the two types of transactions that decrease Owner's equity?

ANS:

- (a) Owner investment and revenues
- (b) Owner withdrawals and expenses

PTS: 1

DIF: Easy

OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

43. The assets and liabilities of S&P Day Spa at December 31, 2011 and its revenue and expenses for the year are listed below. The capital of the owner was \$68,000 at January 1, 2011. The owner invested an additional \$10,000 during the year.

| | | | |
|---------------------------|----------|-----------------------|----------|
| Accounts Payable | \$4,375 | Spa Operating Expense | \$23,760 |
| Accounts Receivable | \$8,490 | Office Expense | \$2,470 |
| Cash | \$13,980 | Spa Supplies | \$9,230 |
| Fees Earned | \$98,435 | Wages Expense | \$26,580 |
| Spa Furniture & Equipment | \$56,000 | Drawing | \$38,170 |
| Computers | \$2,130 | | |

Prepare an income statement for the current year ended December 31, 2011.

ANS:

| S&P Day Spa Income Statement For the Year Ended December 31, 2011 | | | |
|-------------------------------------------------------------------------|--------------|--|-----------------|
| Fees Earned | | | \$98,435 |
| Expenses: | | | |
| Wages Expense | \$26,580 | | |
| Spa Operating Expense | 23,760 | | |
| Office Expense | <u>2,470</u> | | |
| Total Expenses | | | <u>52,810</u> |
| Net Income | | | <u>\$45,625</u> |

PTS: 1 DIF: Moderate OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement

TOP: Example Exercise 1-4

44. The assets and liabilities of S&P Day Spa at December 31, 2011 and its revenue and expenses for the year are listed below. The capital of the owner was \$68,000 at January 1, 2011. The owner invested an additional \$10,000 during the year.

| | | | |
|---------------------------|----------|-----------------------|----------|
| Accounts Payable | \$4,375 | Spa Operating Expense | \$23,760 |
| Accounts Receivable | \$8,490 | Office Expense | \$2,470 |
| Cash | \$13,980 | Spa Supplies | \$9,230 |
| Fees Earned | \$98,435 | Wages Expense | \$26,580 |
| Spa Furniture & Equipment | \$56,000 | Drawing | \$38,170 |
| Computers | \$2,130 | | |

Prepare a statement of owner's equity for the current year ended December 31, 2011.

ANS:

S&P Day Spa
Statement of Owner's Equity
For the Year Ended December 31, 2011

| | | |
|--------------------------------------------|---------------|-----------------|
| Owner capital, January 1, 2011 | | \$68,000 |
| Additional investment by owner during year | \$10,000 | |
| Net Income for the year | <u>45,625</u> | |
| Subtotal | \$55,625 | |
| Less withdrawals | <u>38,170</u> | |
| Increase in owner's equity | | <u>17,455</u> |
| Owner capital December 31, 2011 | | <u>\$85,455</u> |

PTS: 1 DIF: Moderate OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement

TOP: Example Exercise 1-5

45. The assets and liabilities of S&P Day Spa at December 31, 2011 and its revenue and expenses for the year are listed below. The capital of the owner was \$68,000 at January 1, 2011. The owner invested an additional \$10,000 during the year.

| | | | |
|---------------------------|----------|-----------------------|----------|
| Accounts Payable | \$4,375 | Spa Operating Expense | \$23,760 |
| Accounts Receivable | \$8,490 | Office Expense | \$2,470 |
| Cash | \$13,980 | Spa Supplies | \$9,230 |
| Fees Earned | \$98,435 | Wages Expense | \$26,580 |
| Spa Furniture & Equipment | \$56,000 | Drawing | \$38,170 |
| Computers | \$2,130 | | |

Prepare a balance sheet for the year ended December 31, 2011.

ANS:

S&P Day Spa
Balance Sheet
December 31, 2011

| Assets | | Liabilities | |
|---------------------------|-----------------|--------------------------------------|-----------------|
| Cash | \$13,980 | Accounts Payable | \$ 4,375 |
| Accounts Receivable | 8,490 | | |
| Spa Supplies | 9,230 | | |
| Computers | 2,130 | | |
| Spa Furniture & Equipment | <u>56,000</u> | Owner's Equity | |
| Total Assets | <u>\$89,830</u> | Owner Capital | <u>85,455</u> |
| | | Total Liabilities and Owner's Equity | <u>\$89,830</u> |

PTS: 1 DIF: Moderate OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement

TOP: Example Exercise 1-6

46. A summary of cash flows for Lopez Wedding Planning for the year ended December 31, 2011 is shown below.

| | |
|----------------------------------------|----------|
| Cash receipts: | |
| Cash received from customers | \$57,360 |
| Cash received from bank loan | 15,000 |
| Cash payments: | |
| Cash paid for operating expenses | \$12,120 |
| Cash paid for equipment | 18,070 |
| Cash paid for party supplies | 9,480 |
| Drawing | 12,000 |
| The cash balance as of January 1, 2011 | \$15,580 |

Prepare a statement of cash flows for Lopez Wedding Planning for the year ended December 31, 2011.

ANS:

Lopez Wedding Planning
Statement of Cash Flows
For the Year Ended December 31, 2011

| | |
|------------------------------------------------|------------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$57,360 |
| Deduct cash payments for expenses and supplies | |
| | <u>(21,600)</u> |
| Net cash flows from operating expenses | \$35,760 |
| Cash flows from investing activities: | |
| Cash paid for equipment | (18,070) |
| Cash from financing activities: | |
| Cash received from bank loan | 15,000 |
| Deduct cash withdrawals from owner | <u>(12,000)</u> |
| Net cash flows from financing activities | <u>3,000</u> |
| Net increase in cash during year | \$ 20,690 |
| Cash as of January 1, 2011 | <u>15,580</u> |
| Cash as of December 31, 2011 | <u><u>\$36,270</u></u> |

PTS: 1 DIF: Difficult OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement

TOP: Example Exercise 1-7

47. Explain the interrelationship between the Balance Sheet and the Statement of Cash Flows.

ANS:

The cash reported on the balance sheet is also reported as the end-of-period cash on the statement of cash flows.

PTS: 1 DIF: Easy OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

48. The following data were taken from Harrison Company's balance sheet:

| | | |
|-------------------|----------------------|----------------------|
| | <u>Dec. 31, 2012</u> | <u>Dec. 31, 2011</u> |
| Total liabilities | \$150,000 | \$105,000 |

Total owner's equity 75,000 60,000

a. Compute the ratio of liabilities to owner's equity.

b. Has the creditors' risk increased or decreased from December 31, 2011, to December 31, 2012?

ANS:

a. 12/31/2012: $\$150,000 / 75,000 = 2.0$
 12/31/2011: $\$105,000 / 60,000 = 1.75$

b. Decreased

PTS: 1 DIF: Moderate OBJ: 01-06

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-23-Financial Statement Analysis

TOP: Example Exercise 1-8

49. Company G has a ratio of liabilities to stockholders' equity of 0.12 and 0.28 for 2010 and 2011, respectively. In contrast, Company M has a ratio of liabilities to stockholders' equity of 1.13 and 1.29 for the same period.

REQUIRED:

Based on this information, which company's creditors are more at risk and why? Should the creditors of either company fear the risk of nonpayment?

ANS:

Company M's creditors are more at risk than are Company G's creditors. The lower the ratio of liabilities to owner's equity, the better able the company is to withstand poor business conditions and pay its obligations to creditors. Without additional information, it appears that the creditors of either company are well protected against the risk of nonpayment, because the ratios are relatively low for both. However, the fact that both ratios are increasing over the period should be monitored for downturns in business conditions.

PTS: 1 DIF: Moderate OBJ: 01-06

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-23-Financial Statement Analysis

50. Given the following data:

| | <u>Dec. 31, 2012</u> | <u>Dec. 31, 2011</u> |
|----------------------|----------------------|----------------------|
| Total liabilities | \$118,750 | \$104,000 |
| Total owner's equity | 95,000 | 80,000 |

a. Compute the ratio of liabilities to owner's equity for each year.

b. Has the creditors' risk increased or decreased from December 31, 2011, to December 31, 2012?

ANS:

a.

| | <u>Dec. 31, 2012</u> | <u>Dec. 31, 2011</u> |
|----------------------------------------|----------------------|----------------------|
| Total liabilities | \$118,750 | \$104,000 |
| Total owner's equity | 95,000 | 80,000 |
| Ratio of liabilities to owner's equity | 1.250 | 1.30 |
| | (\$118,750/\$95,000) | (\$104,000/\$80,000) |

b. Decreased

PTS: 1 DIF: Moderate OBJ: 01-06

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-23-Financial Statement Analysis

TOP: Example Exercise 1-8

PROBLEM

- For each of the following companies, identify whether they are a service, merchandising, or manufacturing business.

| | |
|----|-------------------|
| A. | Dillards |
| B. | Time Warner Cable |
| C. | General Motors |
| D. | Blockbuster |
| E. | Applebee's |
| F. | Sony |
| G. | Best Buy |
| H. | Banana Republic |
| I. | H & R Block |

ANS:

| | |
|----|-------------------------|
| A. | Merchandising |
| B. | Service |
| C. | Manufacturing |
| D. | Service |
| E. | Service / Manufacturing |
| F. | Manufacturing |
| G. | Merchandising |
| H. | Merchandising |
| I. | Service |

PTS: 1 DIF: Moderate OBJ: 01-01

NAT: AACSB Analytic | AICPA FN-Measurement

2. Identify each of the following as either internal or external users of accounting information.

| | |
|----|--------------------------------|
| A. | Payroll Manager |
| B. | Bank |
| C. | President's Secretary |
| D. | Internal Revenue Service |
| E. | Raw Material Vendors |
| F. | Social Security Administration |
| G. | Health Insurance Provider |
| H. | Managerial Accountant |

ANS:

| | |
|----|----------|
| A. | Internal |
| B. | External |
| C. | Internal |
| D. | External |
| E. | External |
| F. | External |
| G. | External |
| H. | Internal |

PTS: 1 DIF: Moderate OBJ: 01-01
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-01-Purpose

3. Determine the missing amount for each of the following:

| <u>Assets</u> | <u>Liabilities</u> | <u>Owner's Equity</u> |
|---------------|--------------------|-----------------------|
| (a) | \$13,000 | \$16,000 |
| \$55,000 | (b) | \$34,000 |
| \$39,000 | \$ 17,000 | (c) |

ANS:

- (a) \$29,000
(b) \$21,000
(c) \$22,000

PTS: 1 DIF: Easy OBJ: 01-02
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

4. Identify each of the following as an (1) increase in owner's equity, or a (2) decrease in owner's equity.

- (a) Fees Earned
(b) Wages Expense
(c) Withdrawal
(d) Lawn Care Revenue
(e) Investment
(f) Supplies Expense

ANS:

- (a) 1

- (b) 2
- (c) 2
- (d) 1
- (e) 1
- (f) 2

PTS: 1 DIF: Easy OBJ: 01-03

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

5. Selected transactions completed by a proprietorship are described below. Indicate the effects of each transaction on assets, liabilities, and owner's equity by inserting "+" for increase and "-" for decrease in the appropriate columns at the right. If appropriate, you may insert more than one symbol in a column.

| | <u>A</u> | <u>L</u> | <u>OE</u> |
|-----------------------------------------------------------|----------|----------|-----------|
| (a) Received cash from owner as an additional investment | _____ | _____ | _____ |
| (b) Purchased supplies on account | _____ | _____ | _____ |
| (c) Paid rent for the current month | _____ | _____ | _____ |
| (d) Received cash for services sold to customers | _____ | _____ | _____ |
| (e) Returned some defective supplies purchased in (b) | _____ | _____ | _____ |
| (f) Paid insurance premiums in advance | _____ | _____ | _____ |
| (g) Paid cash to creditor for purchases in (b) | _____ | _____ | _____ |
| (h) Charged customers for services sold on account | _____ | _____ | _____ |
| (i) Paid cash to a customer as a refund for an overcharge | _____ | _____ | _____ |
| (j) Received cash on account from customers | _____ | _____ | _____ |
| (k) Owner withdrew cash for personal use | _____ | _____ | _____ |
| (l) Recorded the cost of supplies used during the year | _____ | _____ | _____ |
| (m) Received invoice for electricity used | _____ | _____ | _____ |
| (n) Paid wages | _____ | _____ | _____ |
| (o) Purchased a truck for cash | _____ | _____ | _____ |

ANS:

| | <u>A</u> | <u>L</u> | <u>OE</u> |
|-----|----------|----------|-----------|
| (a) | + | | + |
| (b) | + | + | |
| (c) | - | | - |
| (d) | + | | + |
| (e) | - | - | |
| (f) | +,- | | |
| (g) | - | - | |
| (h) | + | | + |
| (i) | - | | - |
| (j) | +,- | | |
| (k) | - | | - |
| (l) | - | | - |
| (m) | | + | - |
| (n) | - | | - |
| (o) | +,- | | |

PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

6. Schultz Tax Services, a tax preparation business had the following transactions during the month of June:

Example: Received cash the owner Schultz, \$25,000.

1. Received cash for providing accounting services, \$3,000.
2. Billed customers on account for providing services, \$7,000.
3. Paid advertising expense, \$800.
4. Received cash from customers on account, \$3,800.
5. Owner made a withdrawal, \$1,500.
6. Received telephone bill, \$220.
7. Paid telephone bill, \$220.

Required:

- 1) In the table below, state the accounts affected by each transaction.
- 2) Indicate the effect on the accounting equation of each transaction.

| Assets | = Liabilities | + Owner's Equity |
|-----------------|----------------------|-------------------------|
| 1. Cash +25,000 | | +25,000 |
| 2. | | |
| 3. | | |
| 4. | | |
| 5. | | |
| 6. | | |
| 7. | | |
| 8. | | |

ANS:

| Assets | = Liabilities | + Owner's Equity |
|-------------------------------|----------------------|-------------------------|
| Ex Cash +25,000 | | +25,000 |
| 1. Cash + 3,000 | | Revenues + 3,000 |
| 2. A/R + 7,000 | | Revenues + 7,000 |
| 3. Cash -800 | | Expenses - 800 |
| 4. Cash + 3,800 A/R -3,800 | | |
| 5. Cash -1,500 | | Drawing -1,500 |
| 6. | A/P + 220 | Expenses -220 |
| 7. Cash -220 | A/P -220 | |

PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

7. From the following list of accounts taken from Lamar's accounting records, identify those that would appear on the Income Statement.
 - (a) Rent Expense
 - (b) Land
 - (c) Capital
 - (d) Fees Earned
 - (e) Withdrawal
 - (f) Wages Expense
 - (g) Investment

ANS:

(a), (d), (f)

PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

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

- (a) Cash
- (b) Fees Earned
- (c) Joe Brown, Capital
- (d) Wages Payable
- (e) Rent Expense
- (f) Prepaid Advertising
- (g) Land

ANS:

(a), (c), (d), (f), (g)

PTS: 1 DIF: Easy OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

9. Indicate whether each of the following activities would be reported on the Statement of Cash Flows as an Operating Activity, an Investing Activity, a Financing Activity, or does not appear on the Cash Flow Statement.

- (a) Cash paid for building
- (b) Cash paid to suppliers
- (c) Cash paid for owner's withdrawal
- (d) Cash received from customers
- (e) Cash received from the owner's investment
- (f) Cash received from the sale of a building
- (g) Borrowed cash from a bank

ANS:

- (a) Investing
- (b) Operating
- (c) Financing
- (d) Operating
- (e) Financing
- (f) Investing
- (g) Financing

PTS: 1 DIF: Moderate OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

10. For each of the following, determine the amount of net income or net loss for the year.

- (a) Revenues for the year totaled \$88,500 and expenses totaled \$40,500. The owner made an additional investment of \$15,000 during the year.
- (b) Revenues for the year totaled \$175,000 and expenses totaled \$220,500. The owner withdrew \$40,000 during the year.
- (c) Revenues for the year totaled \$109,000 and expenses totaled \$46,000. The owner invested an additional \$12,000 and withdrew \$16,000 during the year.
- (d) Revenues for Konner Co. totaled \$223,800 and expenses totaled \$221,300. Cash withdrawals of \$35,000 were paid during the year.

ANS:

- (a) \$48,000 net income (\$88,500 - \$40,500)
- (b) \$45,500 net loss (\$175,000 - \$220,500)
- (c) \$63,000 net income (\$109,000 - \$46,000)
- (d) \$2,500 net income (\$223,800 - \$221,300)

PTS: 1 DIF: Moderate OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

11. The total assets and total liabilities of Paul's Pools, a proprietorship, at the beginning and at the end of the current fiscal year are as follows:

| | <u>Jan. 1</u> | <u>Dec. 31</u> |
|-------------------|---------------|----------------|
| Total assets | \$280,000 | \$475,000 |
| Total liabilities | 205,000 | 130,000 |

- (a) Determine the amount of net income earned during the year. The owner did not invest any additional assets in the business during the year and made no withdrawals.
- (b) Determine the amount of net income during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. However, the owner withdrew \$53,000 in cash during the year (no additional investments).
- (c) Determine the amount of net income earned during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. However, the owner invested an additional \$35,000 in cash in the business in June of the current fiscal year (no withdrawals).
- (d) Determine the amount of net income earned during the year. The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above. However, the owner invested an additional \$12,000 in cash in August of the current fiscal year and made twelve monthly cash withdrawals of \$1,500 each during the year.

ANS:

| | | |
|-----|-------------------------------------------------------------|------------------|
| (a) | Owner's equity at end of year (\$475,000 - \$130,000) | \$345,000 |
| | Owner's equity at beginning of year (\$280,000 - \$205,000) | <u>75,000</u> |
| | Net income | <u>\$270,000</u> |
| (b) | Increase in owner's equity as in (a) | \$270,000 |
| | Add withdrawals | <u>53,000</u> |
| | Net income | <u>\$323,000</u> |
| (c) | Increase in owner's equity as in (a) | \$270,000 |
| | Deduct additional investment | <u>35,000</u> |
| | Net income | <u>\$235,000</u> |
| (d) | Increase in owner's equity as in (a) | \$270,000 |
| | Add withdrawals (\$1,500 x 12) | <u>18,000</u> |
| | | \$288,000 |
| | Deduct additional investment | <u>12,000</u> |
| | Net income | <u>\$276,000</u> |

PTS: 1 DIF: Difficult OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-06-Recording Transactions

12. Selected transaction data of a business for September are summarized below. Determine the following amounts for September: (a) total revenue, (b) total expenses, (c) net income.

| | |
|---------------------------------------------------------------------------------------|----------|
| Service sales charged to customers on account during September | \$33,000 |
| Cash received from cash customers for services performed in September | 28,000 |
| Cash received from customers on account during September: | |
| Services performed and charged to customers prior to September | 13,000 |
| Services performed and charged to customers during September | 18,000 |
| Expenses incurred prior to September and paid during September | 6,500 |
| Expenses incurred and paid in September | 36,250 |
| Expenses incurred in September but not paid in September | 5,000 |
| Expenses for supplies used and insurance (not included above) applicable to September | 2,000 |

ANS:

- (a) \$61,000 (\$33,000 + \$28,000)
(b) \$43,250 (\$36,250 + \$5,000 + \$2,000)
(c) \$17,750 (\$61,000 - \$43,250)

PTS: 1 DIF: Difficult OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

13. On March 1, 2011, the amount of Norton Cook's capital in Cook's Catering Company was \$150,000. During March, he withdrew \$31,000 from the business. The amounts of the various assets, liabilities, revenues, and expenses are as follows:

| | |
|-----------------------|-----------|
| Accounts payable | \$ 10,250 |
| Accounts receivable | 45,950 |
| Cash | 19,390 |
| Fees earned | 60,500 |
| Insurance expense | 1,275 |
| Land | 85,400 |
| Miscellaneous expense | 1,210 |
| Prepaid insurance | 3,000 |
| Rent expense | 9,000 |
| Salary expense | 20,300 |
| Supplies | 900 |
| Supplies expense | 525 |
| Utilities expense | 2,800 |

Present, in good form, (a) an income statement for March, (b) a statement of owner's equity for March, and (c) a balance sheet as of March 31.

ANS:

(a)

Cook's Catering Company
Income Statement
For the Month Ended March 31, 2011

| | |
|--------------------------|-----------------|
| Fees earned | \$60,500 |
| Operating expenses: | |
| Salary expense | \$20,300 |
| Rent expense | 9,000 |
| Utilities expense | 2,800 |
| Supplies expense | 525 |
| Insurance expense | 1,275 |
| Miscellaneous expense | <u>1,210</u> |
| Total operating expenses | <u>35,110</u> |
| Net income | <u>\$25,390</u> |

(b)

Cook's Catering Company
Statement of Owner's Equity
For the Month Ended March 31, 2011

| | |
|--------------------------------------|------------------|
| Norton Cook, capital, March 1, 2011 | \$150,000 |
| Net income for the month | \$ 25,390 |
| Less withdrawals | <u>31,000</u> |
| Decrease in owner's equity | <u>5,610</u> |
| Norton Cook, capital, March 31, 2011 | <u>\$144,390</u> |

(c)

Cook's Catering Company

Balance Sheet
March 31, 2011

| <u>Assets</u> | | <u>Liabilities</u> | |
|---------------------|------------------|--------------------------------------|------------------|
| Cash | \$ 19,390 | Accounts payable | \$ 10,250 |
| Accounts receivable | 45,950 | | |
| Prepaid insurance | 3,000 | | |
| Supplies | 900 | <u>Owner's Equity</u> | |
| Land | <u>85,400</u> | Norton Cook, capital | <u>144,390</u> |
| Total assets | <u>\$154,640</u> | Total liabilities and owner's equity | <u>\$154,640</u> |

PTS: 1 DIF: Difficult OBJ: 01-05
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

14. Simpson Designers began operations on April 1, 2011. The financial statements for Simpson Designers are shown below for the month ended April 30, 2011 (the first month of operations). Determine the missing amounts for letters (a) through (o).

Simpson Designers
Income Statement
For the Month Ended April 30, 2011

| | | |
|--------------------------|--------------|---------------|
| Fees earned | | \$27,000 |
| Operating expenses: | | |
| Wages expense | \$5,250 | |
| Rent expense | (a) | |
| Supplies expense | 4,600 | |
| Utilities expense | 400 | |
| Miscellaneous expense | <u>1,250</u> | |
| Total operating expenses | | <u>(b)</u> |
| Net income | | <u>\$ (c)</u> |

Simpson Designers
Statement of Owner's Equity
For the Month Ended April 30, 2011

| | | |
|---------------------------------------|--------------|-----------------|
| Lori Simpson, capital, April 1, 2011 | | 0 |
| Investment on April 1, 2011 | \$35,000 | |
| Net income for April | <u>(d)</u> | |
| | \$ (e) | |
| Less withdrawals | <u>6,000</u> | |
| Increase in owner's equity | | <u>(f)</u> |
| Lori Simpson, capital, April 30, 2011 | | <u>\$38,100</u> |

Simpson Designers
Balance Sheet
April 30, 2011

| <u>Assets</u> | | <u>Liabilities</u> | |
|---------------|-----------------|--------------------------------------|--------------|
| Cash | \$ (g) | Accounts payable | \$ (i) |
| Supplies | 8,100 | <u>Owner's Equity</u> | |
| Land | <u>(h)</u> | Lori Simpson, capital | <u>(j)</u> |
| Total assets | <u>\$55,900</u> | Total liabilities and owner's equity | <u>\$(k)</u> |

Simpson Designers
Statement of Cash Flows
For the Month Ended April 30, 2011

| | | |
|-------------------------------------------------------------|--------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$23,000 | |
| Deduct cash payments for expenses and payments to creditors | <u>4,200</u> | |
| Net cash flow from operating activities | | \$ 18,800 |
| Cash flows from investing activities: | | |
| Cash payments for acquisition of land | | (17,000) |
| Cash flows from financing activities: | | |
| Cash received as owner's investment | \$ (l) | |
| Deduct cash withdrawal by owner | <u>(m)</u> | |
| Net cash flow from financing activities | | <u>(n)</u> |
| Net cash flow and April 30, 2011 cash balance | | <u><u>\$(o)</u></u> |

Place your answers in the space provided below. Hint: Use the interrelationships among the financial statements to solve this problem.

- (a) _____
- (b) _____
- (c) _____
- (d) _____
- (e) _____
- (f) _____
- (g) _____
- (h) _____
- (i) _____
- (j) _____
- (k) _____
- (l) _____
- (m) _____
- (n) _____
- (o) _____

ANS:

- (a) \$ 6,400
- (b) \$17,900
- (c) \$ 9,100
- (d) \$ 9,100
- (e) \$44,100
- (f) \$38,100
- (g) \$30,800
- (h) \$17,000
- (i) \$17,800
- (j) \$38,100
- (k) \$55,900
- (l) \$35,000 given
- (m) \$ 6,000
- (n) \$29,000
- (o) \$30,800

PTS: 1 DIF: Difficult OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

15. Eric Wood, CPA, was organized on January 1, 2011, as a proprietorship. List the errors that you find in the following financial statements and prepare the corrected statements for the three months ended March 31, 2011.

| Eric Wood, CPA | | |
|-------------------------------------------|--------------|-----------------|
| Income Statement | | |
| For the Three Months Ended March 31, 2011 | | |
| Fees earned | | \$42,000 |
| Operating expenses: | | |
| Salary expense | \$9,735 | |
| Rent expense | 5,200 | |
| Wages expense | 3,950 | |
| Utilities expense | 3,225 | |
| Miscellaneous expense | 4,000 | |
| Answering service expense | 2,550 | |
| Supplies expense | <u>4,000</u> | |
| Total operating expenses | | <u>28,000</u> |
| Net income | | <u>\$14,000</u> |

Eric Wood, CPA
Statement of Owner's Equity
March 31, 2011

| | | |
|-------------------------------------|---------------|-----------------|
| Eric Wood, capital, January 1, 2011 | | \$ 0 |
| Investment on January 1, 2011 | \$20,000 | |
| Net income for the 3 months | <u>14,000</u> | |
| | 36,000 | |
| Less withdrawals | <u>5,000</u> | |
| Increase in owner's equity | | <u>31,000</u> |
| Eric Wood, capital, March 31, 2011 | | <u>\$31,000</u> |

Balance Sheet
For the Three Months Ended March 31, 2011

| <u>Assets</u> | | <u>Owner's Equity</u> | |
|------------------|-----------------|-----------------------|-----------------|
| Land | \$13,000 | Eric Wood, Capital | \$31,000 |
| Cash | 10,860 | <u>Liabilities</u> | |
| Accounts payable | 2,670 | Accounts receivable | <u>2,225</u> |
| Supplies | <u>925</u> | Total liabilities and | |
| Total assets | <u>\$33,225</u> | owner's equity | <u>\$33,225</u> |

ANS:

Errors in the Eric Wood, CPA, financial statements include the following:

- (1) Miscellaneous expense is incorrectly listed after utilities expense in the income statement. Miscellaneous expense should be listed as the last expense, regardless of the amount.
- (2) The operating expenses are incorrectly added. Instead of \$28,000, the total should be \$32,660.
- (3) Because operating expenses are incorrectly added, the net income is incorrect. It should be listed as \$9,340.
- (4) The statement of owner's equity should be for a period of time instead of a specific date. That is, the statement of owner's equity should be reported "For the Three Months Ended March 31, 2011."
- (5) The amount of the owners' equity is incorrect. It should be \$24,340.
- (6) The name of the company is missing from the balance sheet heading.
- (7) The balance sheet should be as of "March 31, 2011," not "For the Three Months Ended March 31, 2011."
- (8) Cash, not Land, should be the first asset listed in the balance sheet.
- (9) Accounts Payable is incorrectly listed as an asset in the balance sheet. Accounts Payable should be listed as a liability.
- (10) Liabilities should be listed in the balance sheet ahead of owner's equity.
- (11) Accounts Receivable is incorrectly listed as a liability in the balance sheet. Accounts Receivable should be listed as an asset.
- (12) The total assets and the total liabilities and owner's equity do not foot.

Correctly prepared financial statements for Eric Wood, CPA, are shown below.

Eric Wood, CPA
Income Statement
For the Three Months Ended March 31, 2011

| | | |
|---------------------------|--------------|----------------|
| Fees earned | | \$42,000 |
| Operating expenses: | | |
| Salary expense | \$9,735 | |
| Rent expense | 5,200 | |
| Wages expense | 3,950 | |
| Utilities expense | 3,225 | |
| Answering service expense | 2,550 | |
| Supplies expense | 4,000 | |
| Miscellaneous expense | <u>4,000</u> | |
| Total operating expenses | | <u>32,660</u> |
| Net income | | <u>\$9,340</u> |

Eric Wood, CPA
Statement of Owner's Equity
For the Three Months Ended March 31, 2011

| | | |
|-------------------------------------|--------------|-----------------|
| Eric Wood, capital, January 1, 2011 | | \$ 0 |
| Investment on January 1, 2011 | \$20,000 | |
| Net income for three months | <u>9,340</u> | |
| | \$29,340 | |
| Less withdrawals | <u>5,000</u> | |
| Increase in owner's equity | | <u>24,340</u> |
| Eric Wood, capital, March 31, 2011 | | <u>\$24,340</u> |

Eric Wood, CPA
Balance Sheet
March 31, 2011

| <u>Assets</u> | | <u>Liabilities</u> | |
|---------------------|-----------------|-----------------------|-----------------|
| Cash | \$10,860 | Accounts payable | \$ 2,670 |
| Accounts receivable | 2,225 | <u>Owner's Equity</u> | |
| Supplies | 925 | Eric Wood, Capital | <u>24,340</u> |
| Land | <u>13,000</u> | Total liabilities and | |
| Total assets | <u>\$27,010</u> | owner's equity | <u>\$27,010</u> |

PTS: 1 DIF: Difficult OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

16. Using the following accounts and their amounts, prepare in good format an Income Statement for Bright Futures Company, month ended August 31, 2011:

| | |
|--------------------------|----------|
| Telephone Expense | \$1,150 |
| Cash | \$3,000 |
| Accounts Payable | \$1,540 |
| Jason Bright, Withdrawal | \$800 |
| Fees Earned | \$15,700 |
| Rent Expense | \$1,400 |
| Supplies | \$140 |
| Accounts Receivable | \$1,500 |
| Computer Equipment | \$20,000 |
| Jason Bright, Capital | \$14,320 |
| Wages Expense | \$4,800 |
| Utilities Expense | \$750 |
| Notes Payable | \$2,400 |
| Office Expense | \$420 |

ANS:

Bright Futures Company
Income Statement
For Month Ended August 31, 2011

| | | |
|-------------------|------------|-----------------|
| Fees Earned | | \$15,700 |
| Expenses: | | |
| Wages Expense | \$4,800 | |
| Rent Expense | 1,400 | |
| Telephone Expense | 1,150 | |
| Utilities Expense | 750 | |
| Office Expense | <u>420</u> | |
| Total Expenses | | <u>8,520</u> |
| Net Income | | <u>\$ 7,180</u> |

PTS: 1 DIF: Moderate OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

17. Using the following accounts and their amounts, prepare in good format a Statement of Owner's Equity for Bright Futures Company, month ended August 31, 2011:

| | |
|--------------------------|----------|
| Telephone Expense | \$1,150 |
| Cash | \$3,000 |
| Accounts Payable | \$1,540 |
| Jason Bright, Withdrawal | \$800 |
| Fees Earned | \$15,700 |
| Rent Expense | \$1,400 |
| Supplies | \$140 |
| Accounts Receivable | \$1,500 |
| Computer Equipment | \$20,000 |
| Jason Bright, Capital | \$14,320 |
| Wages Expense | \$4,800 |
| Utilities Expense | \$750 |
| Notes Payable | \$2,400 |
| Office Expense | \$420 |

ANS:

Bright Futures Company
Statement of Owner's Equity
For Month Ended August 31, 2011

| | |
|---------------------------------------|------------------|
| Jason Bright, Capital, August 1, 2011 | \$ 14,320 |
| Net Income | <u>7,180</u> |
| Subtotal | \$ 21,500 |
| Less: Withdrawals | <u>800</u> |
| Jason Bright, Capital August 31, 2011 | <u>\$ 20,700</u> |

PTS: 1 DIF: Moderate OBJ: 01-05

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

18. Using the following accounts and their amounts, prepare in good format a Balance Sheet for Bright Futures Company, month ended August 31, 2011:

| | |
|--------------------------|----------|
| Telephone Expense | \$1,150 |
| Cash | \$3,000 |
| Accounts Payable | \$1,540 |
| Jason Bright, Withdrawal | \$800 |
| Fees Earned | \$15,700 |
| Rent Expense | \$1,400 |
| Supplies | \$140 |
| Accounts Receivable | \$1,500 |
| Computer Equipment | \$20,000 |
| Jason Bright, Capital | \$14,320 |
| Wages Expense | \$4,800 |
| Utilities Expense | \$750 |
| Notes Payable | \$2,400 |
| Office Expense | \$420 |

ANS:

Bright Futures Company
Balance Sheet
August 31, 2011

| Assets | |
|---------------------|------------------|
| Cash | \$ 3,000 |
| Accounts Receivable | 1,500 |
| Supplies | 140 |
| Computer Equipment | <u>20,000</u> |
| Total Assets | <u>\$ 24,640</u> |

| | |
|--------------------------------------|------------------|
| Total Liabilities and Owner's Equity | |
| Liabilities: | |
| Accounts Payable | \$ 1,540 |
| Notes Payable | <u>2,400</u> |
| Total Liabilities | \$ 3,940 |
| Jason Bright, Capital | <u>20,700</u> |
| Total Liabilities and Owner's Equity | <u>\$ 24,640</u> |

PTS: 1 DIF: Moderate OBJ: 01-05
 NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

19. The account balances of Trendsetter Travel Services at December 31, 2011 are listed below:

| | | | |
|---------------------|----------|--------------------------------|----------|
| Accounts Payable | \$12,000 | J. Trendsetter, Capital 1/1/11 | \$10,000 |
| Accounts Receivable | 6,000 | Supplies | 1,000 |
| Cash | 18,000 | Taxes Expense | 1,300 |
| Computer Equip | 21,000 | Utilities Expense | 8,000 |
| Fees Earned | 70,000 | Wages Expense | 25,000 |
| Rent Expense | 10,000 | Supplies Expense | 1,700 |

Prepare an income statement, statement of owner's equity, and a balance sheet as of December 31, 2011.

ANS:

Trendsetter Travel Services
Income Statement
For the Year Ended December 31, 2011

| | | | |
|--------------------------|--------------|--|-----------------|
| Fees Earned | | | \$ 70,000 |
| Operating Expenses: | | | |
| Wages Expense | \$ 25,000 | | |
| Rent Expense | 10,000 | | |
| Utilities Expense | 8,000 | | |
| Supplies Expense | 1,700 | | |
| Taxes Expense | <u>1,300</u> | | |
| Total Operating Expenses | | | <u>\$46,000</u> |
| Net Income | | | <u>\$24,000</u> |

Trendsetter Travel Services
Statement of Owner's Equity
For the Year Ended December 31, 2011

| | |
|-----------------------------------|-----------------|
| J. Trendsetter, Capital 1/1/11 | \$10,000 |
| Net Income for the year | <u>24,000</u> |
| J. Trendsetter, Capital, 12/31/11 | <u>\$34,000</u> |

Trendsetter Travel Services
Balance Sheet
December 31, 2011

| Assets | | Liabilities | |
|---------------------|------------------|--------------------------------------|-----------------|
| Cash | \$18,000 | Accounts Payable | \$12,000 |
| Accounts Receivable | 6,000 | | |
| Computer Equipment | 21,000 | Owner's Equity | |
| Supplies | <u>1,000</u> | J. Trendsetter, Capital | <u>34,000</u> |
| Total Assets | <u>\$ 46,000</u> | Total Liabilities and Owner's Equity | <u>\$46,000</u> |

PTS: 1 DIF: Moderate OBJ: 01-05
NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements

20. The accountant for Flagger Corporation prepared the following list of account balances from the company's records for the year ended December 31, 2011:

| | | | |
|--------------------------|-----------|----------------------|-----------|
| Sales Revenue | \$165,000 | Cash | \$ 30,000 |
| Accounts Receivable | 14,000 | Selling Expenses | 44,000 |
| Equipment | 42,000 | Common Stock | 17,000 |
| Accounts Payable | 12,000 | Interest Income | 3,000 |
| Salaries & Wages Expense | 40,000 | Cost of Sales | 51,000 |
| Inventories | 22,000 | Prepaid Expenses | 2,000 |
| Income Taxes Payable | 5,000 | Income Taxes Expense | 18,000 |
| Notes Payable | 20,000 | Retained Earnings | ? |

Prepare an Income Statement for Flagger Corporation in good form.

ANS:

| Flagger Corporation | | | |
|--------------------------------------|---------------|----------------|--|
| Income Statement | | | |
| For the Year Ended December 31, 2011 | | | |
| Revenues: | | | |
| Sales revenue | \$ 165,000 | | |
| Interest income | <u>3,000</u> | \$ 168,000 | |
| Expenses: | | | |
| Cost of sales | \$ 51,000 | | |
| Salaries & wages expense | 40,000 | | |
| Selling expenses | 44,000 | | |
| Income taxes expense | <u>18,000</u> | <u>153,000</u> | |
| Net income | | \$ 15,000 | |
| | | ===== | |

PTS: 1 DIF: Moderate OBJ: 01-04

NAT: AACSB Analytic | AICPA FN-Measurement | ACBSP-APC-09-Financial Statements