**Chapter 1**

Accounting in Business

***True / False Questions***

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

Answer: True

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry*

*AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C1*

*Topic: Importance of Accounting*

1. Recordkeeping, or bookkeeping, is the recording of transactions and events, either manually or electronically. This is just one part of accounting.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C1*

*Topic: Importance of Accounting*

1. An accounting system captures relevant data about transactions and then classifies, records, and reports data.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C1*

*Topic: Importance of Accounting*

1. Financial accounting is the area of accounting aimed at serving external users by providing them with general-purpose financial statements.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic:*  *Users of Accounting Information*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

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

Answer: True

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C2*

*Topic:*  *Users of Accounting Information*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

1. Internal users include lenders, shareholders, brokers and nonexecutive employees.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

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

Answer: True

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

1. Identifying the proper ethical path is usually easy.

Answer: False

*Blooms: Understand*  
*AACSB: Ethics  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C3*

*Topic: Ethics*

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

Answer: True

*Blooms: Remember*  
*AACSB: Ethics  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C3*

*Topic: Ethics*

1. The fraud triangle asserts that the three factors that must exist for a person to commit fraud are opportunity, pressure, and rationalization.

Answer: True

*Blooms: Understand*  
*AACSB: Ethics*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 2 Medium   
Learning Objective: 01-C3  
Topic: Ethics*

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

Answer: False

*Blooms: Understand*  
*AACSB: Ethics  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: True

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy*

*Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. The Financial Accounting Standards Board is the governmental agency that sets both broad and specific accounting principles.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The business entity principle means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. As a general rule, revenues should not be recognized in the accounting records when earned, but rather when cash is received.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. General accounting principles stem from long-used accounting practices.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. Unlimited liability and separate taxation of the business are advantages of a sole proprietorship.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Global  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. Objectivity means that financial information is supported by independent, unbiased evidence; it demands more than a person’s opinion.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement   
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. According to the measurement (cost) principle, it is necessary for managers to report an approximation of an asset’s market value upon purchase.

Answer: False

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The monetary unit assumption means that all companies doing business in the United States must express transactions and events in US dollars.

Answer: False

*Blooms: Understand*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Global  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: False

*Blooms: Understand*  
*AACSB: Communications  
AICPA BB: Global  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The three common forms of business ownership include sole proprietorship, partnership, and corporation.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities and the Accounting Equation*

1. Planning is a part of each business activity (Operating, investing, and financing), and gives each activity meaning and focus.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Critical Thinking  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities and the Accounting Equation*

1. Financing activities provide the means organizations use to pay for resources such as land, buildings, and equipment.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Critical Thinking  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities and the Accounting Equation*

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

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Critical Thinking  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities and the Accounting Equation*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities and the Accounting Equation*

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

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities and the Accounting Equation*

1. Revenues are increases in equity (via net income) from a company’s sales of products and services to customers.

Answer: True

*Blooms: Remember   
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. A net loss occurs when revenues exceed expenses.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Critical Thinking  
AICPA FN: Measurement*

*AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Net income occurs when revenues exceed expenses.

Answer: True

*Blooms: Understand*   
*AACSB: Analytic  
AICPA BB: Critical Thinking  
AICPA FN: Measurement*

*AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Liabilities are owner claims on assets.

Answer: False

*Blooms: Remember*  
*AACSB: Communications  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Assets are the resources a company owns or controls that are expected to yield future benefits.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Dividends paid to stockholders are subtracted in the calculation of net income, as expenses.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. The accounting equation can be restated as: Assets – Equity = Liabilities.

Answer: True

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

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

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Stockholder investments are increases in equity from a company’s earnings activities.

Answer: False

*Blooms: Remember*  
*AACSB: Analytic  
AICPA BB: Critical Thinking  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-P1*

*Topic:*  *Transaction Analysis*

1. An external transaction is an exchange within an entity that may or may not affect the accounting equation.

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry*

*AICPA FN: Measurement  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-P1*

*Topic: Transaction Analysis*

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

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making*

*AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic: Transaction Analysis*

1. Stockholders’ equity is increased when cash is received from customers in payment of previously recorded accounts receivable.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Critical Thinking  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic:*  *Transaction Analysis*

1. A stockholder’s investment increases equity via net income.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Critical Thinking  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic:*  *Transaction Analysis*

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

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A2*

*Topic: Return on Assets*

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

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Resource Management   
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-A2*

*Topic: Return on Assets*

1. Return on assets is useful in evaluating management, analyzing and forecasting profits, and planning activities.

Answer: True

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Resource Management  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-A2*

*Topic: Return on Assets*

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

Answer: True

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback:* Return on Assets = Net Income/Average Assets

Return on Assets = $117 million/$1,400 million = 8.36% rounded

1. Return on assets reflects a company’s ability to generate profit through productive use of its assets.

Answer: True

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Resource Management   
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A2*

*Topic: Return on Assets*

1. Risk is the uncertainty about the return we will earn.

Answer: True

*Blooms: Remember*  
*AACSB: Reflective Thinking  
AICPA BB: Industry  
AICPA FN: Risk Analysis  
Difficulty: 1 Easy  
Learning Objective: 01-A3*

*Topic: Return and Risk Analysis*

1. Generally, the lower the risk, the higher the return that can be expected.

Answer: False

*Blooms: Understand*  
*AACSB: Reflective Thinking  
AICPA BB: Industry  
AICPA FN: Risk Analysis  
Difficulty: 2 Medium  
Learning Objective: 01-A3*

*Topic: Return and Risk Analysis*

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

Answer: True

*Blooms: Understand*  
*AACSB: Reflective Thinking*

*AICPA BB: Industry  
AICPA BB: Critical Thinking  
AICPA FN: Risk Analysis  
Difficulty: 2 Medium  
Learning Objective: 01-A3*

*Topic: Return and Risk Analysis*

1. The four basic financial statements include the balance sheet, income statement, statement of retained earnings, and statement of cash flows.

Answer: True

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

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

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2  
Topic: Financial Statements*

1. A balance sheet covers activities over a period of time such as a month or year.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. The income statement describes revenues earned and expenses incurred along with the resulting net income or loss over a specified period of time, due to earnings activities.

Answer: True

*Blooms: Remember*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

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

Answer: False

*Blooms: Remember*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

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

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

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

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

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

Answer: True

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

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

Answer: True

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium   
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Operating activities include long-term borrowing and repaying cash from lenders, and cash investments by or dividends paid to stockholders.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

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

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

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

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

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

Answer: True

*Blooms: Remember*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Ending retained earnings reported on the statement of retained earnings is calculated by adding stockholder investments and net losses and subtracting net income and dividends.

Answer: False

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry*

*AICPA BB: Critical Thinking  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. The materiality constraint looks at both the importance and relative size of an amount.

Answer: True

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The cost-benefit constraint prescribes that only information with benefits of disclosure less than the costs of providing it, need be disclosed.

Answer: False

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The cost-benefit constraint prescribes that only information with benefits of disclosure greater than the costs of providing it need be disclosed.

Answer: True

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. Net income is sometimes called earnings or profit.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

***Multiple Choice Questions***

1. Accounting is an information and measurement system that does all of the following *except*:   
   A. Identifies business activities.  
   B. Records business activities.  
   C. Communicates business activities.  
   D. Eliminates the need for interpreting financial data.  
   E. Helps people make better decisions.

Answer: D

*Blooms: Understand  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C1*

*Topic: Importance of Accounting*

1. Technology:  
   A. Has replaced accounting.  
   B. Has not improved the clerical accuracy of accounting.  
   C. Reduces the time, effort and cost of recordkeeping.  
   D. In accounting has replaced the need for decision makers.  
   E. In accounting is only available to large corporations.

Answer: C

*Blooms: Understand*  
*AACSB: Technology  
AICPA BB: Industry  
AICPA FN: Leveraging Technology  
Difficulty: 2 Medium  
Learning Objective: 01-C1*

*Topic: Importance of Accounting*

1. The primary objective of financial accounting is to:   
   A. Serve the decision-making needs of internal users.  
   B. Provide accounting information that serves external users.  
   C. Monitor and control company activities.  
   D. Provide information on both the costs and benefits of looking after products and services.  
   E. Know what, when, and how much product to produce.

Answer: B

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

1. The area of accounting aimed at serving the decision making needs of internal users is:   
   A. Financial accounting.  
   B. Managerial accounting.  
   C. External auditing.  
   D. SEC reporting.  
   E. Bookkeeping.

Answer: B

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

1. External users of accounting information include all of the following *except*:   
   A. Shareholders.  
   B. Customers.  
   C. Purchasing managers.  
   D. Government regulators.  
   E. Creditors.

Answer: C

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

1. All of the following regarding a Certified Public Accountant are true *except*:   
   A. Must meet education and experience requirements.  
   B. Must pass an examination.  
   C. Must exhibit ethical character.  
   D. May also be a Certified Management Accountant.  
   E. Cannot hold any certificate other than a CPA.

Answer: E

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy*

*Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

1. Ethical behavior requires that:   
   A. Auditors’ pay not depend on the success of the client’s business.  
   B. Auditors invest in businesses they audit.  
   C. Analysts report information favorable to their companies.  
   D. Managers use accounting information to benefit themselves.  
   E. Auditors’ pay depends on the success of the client’s business.

Answer: A

*Blooms: Understand*  
*AACSB: Ethics  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C3*

*Topic: Ethics*

1. The conceptual framework that the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are attempting to converge and enhance includes the following broad areas to guide standard setting *except*:  
   A. Objectives  
   B. Qualitative characteristics  
   C. Uniformity  
   D. Elements  
   E. Recognition and measurement

Answer: C

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 3 Hard  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. All of the following are true regarding ethics *except*:   
   A. Ethics are beliefs that distinguish right from wrong.  
   B. Ethics rules are often set for CPAs.  
   C. Ethics do not affect the operations or outcome of a company.  
   D. Are critical in accounting.  
   E. Ethics can be difficult to apply.

Answer: C

*Blooms: Understand*  
*AACSB: Ethics  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C3*

1. *Topic: Ethics*The accounting concept that requires financial statement information to be supported by independent, unbiased evidence is:   
   A. Business entity assumption.  
   B. Revenue recognition principle.  
   C. Going-concern assumption.  
   D. Time-period assumption.  
   E. Objectivity principle

Answer: E

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. A corporation is:   
   A. A business legally separate from its owners.  
   B. Controlled by the FASB.  
   C. Not responsible for its own acts and own debts.  
   D. The same as a limited liability partnership.  
   E. Not subject to double taxation.

Answer: A

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The independent group that is attempting to harmonize accounting practices of different countries is the:   
   A. AICPA.  
   B. IASB.  
   C. CAP.  
   D. SEC.  
   E. FASB.

Answer: B

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Global  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The private-sector group that currently has the authority to establish generally accepted accounting principles in the United States is the:   
   A. APB.  
   B. FASB.  
   C. AAA.  
   D. AICPA.  
   E. SEC.

Answer: B

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The accounting concept that requires every business to be accounted for separately from other business entities, including its owner or owners is known as the:   
   A. Time-period assumption.  
   B. Business entity assumption.  
   C. Going-concern assumption.  
   D. Revenue recognition principle.  
   E. Measurement (Cost) principle.

Answer: B

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The rule that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue, is the:   
   A. Going-concern assumption.  
   B. Business entity assumption.  
   C. Objectivity principle.  
   D. Measurement (Cost) Principle.  
   E. Monetary unit assumption.

Answer: A

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. If a company is considering the purchase of a parcel of land that was acquired by the seller for $85,000, is offered for sale at $150,000, is assessed for tax purposes at $95,000, is recognized by the purchaser as easily being worth $140,000, and is purchased for $137,000, the land should be recorded in the purchaser’s books at:   
   A. $95,000.  
   B. $137,000.  
   C. $138,500.  
   D. $140,000.  
   E. $150,000.

Answer: B

*Blooms: Apply  
AACSB: Communication*

*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. To include the personal assets and transactions of a business’s stockholders in the records and reports of the business would be in conflict with the:   
   A. Objectivity principle.  
   B. Monetary unit assumption.  
   C. Business entity assumption.  
   D. Going-concern assumption.  
   E. Revenue recognition principle.

Answer: C

*Blooms: Understand*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The accounting principle that requires accounting information to be based on actual cost and requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange, is the:   
   A. Accounting equation.  
   B. Measurement (Cost) principle.  
   C. Going-concern assumption.  
   D. Realization principle.  
   E. Business entity assumption.

Answer: B

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement*

*AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The rule that (1) requires revenue to be recognized at the time it is earned, (2) allows the inflow of assets associated with revenue to be in a form other than cash, and (3) measures the amount of revenue as the cash plus the cash equivalent value of any noncash assets received from customers in exchange for goods or services, is called the:   
   A. Going-concern assumption.  
   B. Measurement (Cost) principle.  
   C. Revenue recognition principle.  
   D. Objectivity principle.  
   E. Business entity assumption.

Answer: C

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal*

*AICPA FN: Measurement  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The question of when revenue should be recognized on the income statement according to GAAP is addressed by the:   
   A. Revenue recognition principle.  
   B. Going-concern assumption.  
   C. Objectivity principle.  
   D. Business entity assumption.  
   E. Measurement (Cost) principle.

Answer: A

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal*

*AIPCA FN: Measurement  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The International Accounting Standards Board (IASB):   
   A. Hopes to create harmony among accounting practices of different countries to improve comparability.  
   B. Is the government group that establishes reporting requirements for companies that issue stock to the investing public.  
   C. Has the authority to impose its standards on companies around the world.  
   D. Is the only source of generally accepted accounting principles (GAAP).  
   E. Only applies to companies that are members of the European Union.

Answer: A

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Global  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The Superior Company acquired a building for $500,000. The building was appraised at a value of $575,000. The seller had paid $300,000 for the building 6 years ago. Which accounting principle would require Superior to record the building on its records at $500,000?   
   A. Monetary unit assumption.  
   B. Going-concern assumption.  
   C. Measurement (Cost) principle.  
   D. Business entity assumption.  
   E. Revenue recognition principle.

Answer: C

*Blooms: Apply*  
*AACSB: Communication*

*AACSB: Analytic*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. On December 15 of the current year, Conrad Accounting Services signed a $40,000 contract with a client to provide bookkeeping services to the client in the following year. Which accounting principle would require Conrad Accounting Services to record the bookkeeping revenue in the following year and not the year the cash was received?   
   A. Monetary unit assumption.  
   B. Going-concern assumption.  
   C. Measurement (Cost) principle.  
   D. Business entity assumption.  
   E. Revenue recognition principle.

Answer: E

*Blooms: Apply*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. Marsha Bogswell is the sole stockholder of Bogswell Legal Services. Which accounting principle requires Marsha to keep her personal financial information separate from the financial information of Bogswell Legal Services?   
   A. Monetary unit assumption.  
   B. Going-concern assumption.  
   C. Measurement (Cost) principle.  
   D. Business entity assumption.  
   E. Expense recognition (Matching) principle.

Answer: D

*Blooms: Apply*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: A

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: B

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. Which of the following accounting principles require that all goods and services purchased be recorded at actual cost?   
   A. Going-concern assumption.  
   B. Expense recognition (Matching) principle.  
   C. Measurement (Cost) principle.  
   D. Business entity assumption.  
   E. Consideration assumption.

Answer: C

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. Which of the following accounting principles prescribes that a company record its expenses incurred to generate the revenue reported?   
   A. Going-concern assumption.  
   B. Expense recognition (Matching) principle.  
   C. Measurement (Cost) principle.  
   D. Business entity assumption.  
   E. Consideration assumption.

Answer: B

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: D

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. Which of the following purposes would financial statements serve for external users?  
   A. To find information about projected costs and revenues of proposed products.  
   B. To assess employee performance and compensation.  
   C. To assist in monitoring consumer needs and price concerns.  
   D. To fulfill regulatory requirements for companies whose stock is sold to the public.  
   E. To determine purchasing needs.

Answer: D

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

1. In a business decision where there are ethical concerns, the preferred course of action should be one that:  
   A. Is agreed upon by the most managers.  
   B. Maximizes the company’s profits.  
   C. Results in maintaining operations at the current level.  
   D. Costs the least to implement.  
   E. Avoids casting doubt on the decision maker and upholds trust.

Answer: E

*Blooms: Understand*  
*AACSB: Communication*

*AACSB: Ethics  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C3*

*Topic: Ethics*

1. If a company uses $1,300 of its cash to purchase supplies, the effect on the accounting equation would be:  
   A. Assets increase $1,300 and liabilities decrease $1,300.  
   B. One asset increases $1,300 and another asset decreases $1,300, causing no effect.  
   C. Assets decrease $1,300 and equity decreases $1,300.  
   D. Assets decrease $1,300 and equity increases $1,300.  
   E. Assets increase $1,300 and liabilities increase $1,300.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1  
Topic: Transaction Analysis*

1. If a company receives $12,000 from its sole stockholder to establish a corporation, the effect on the accounting equation would be:  
   A. Assets decrease $12,000 and equity decreases $12,000.  
   B. Assets increase $12,000 and liabilities decrease $12,000.  
   C. Assets increase $12,000 and liabilities increase $12,000.  
   D. Liabilities increase $12,000 and equity decreases $12,000.  
   E. Assets increase $12,000 and equity increases $12,000.

Answer: E

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1  
Topic: Transaction Analysis*

1. If a company purchases equipment costing $4,500 on credit, the effect on the accounting equation would be:  
   A. Assets increase $4,500 and liabilities decrease $4,500.  
   B. Equity decreases $4,500 and liabilities increase $4,500.  
   C. Liabilities decrease $4,500 and assets increase $4,500.  
   D. Assets increase $4,500 and liabilities increase $4,500.  
   E. Equity increases $4,500 and liabilities decrease $4,500.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1  
Topic: Transaction Analysis*

1. An example of a financing activity is:   
   A. Buying office supplies.  
   B. Obtaining a long-term loan.  
   C. Buying office equipment.  
   D. Selling inventory.  
   E. Buying land.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. An example of an operating activity is:   
   A. Paying wages.  
   B. Purchasing office equipment.  
   C. Borrowing money from a bank.  
   D. Selling stock.  
   E. Paying off a loan.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2  
Topic: Financial Statements*

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

Answer: B

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium*

*Learning Objective: 01-C5  
Learning Objective: 01-P2*

*Topic: Financial Statements*

*Topic: Business Activities and the Accounting Equation*

1. An example of an investing activity is:   
   A. Paying wages of employees.  
   B. Dividends paid to stockholders.  
   C. Purchase of land.  
   D. Selling inventory.  
   E. Investments by stockholders in exchange for common stock.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2  
Topic: Financial Statements*

1. Net Income:   
   A. Decreases equity.  
   B. Represents the amount of assets stockholders put into a business.  
   C. Equals assets minus liabilities.  
   D. Is the excess of revenues over expenses.  
   E. Represents stockholders’ claims against assets.

Answer: D

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy*

*Learning Objective: 01-A1  
Topic: The Accounting Equation*

1. If equity is $300,000 and liabilities are $192,000, then assets equal:   
   A. $108,000.  
   B. $192,000.  
   C. $300,000.  
   D. $492,000.  
   E. $792,000.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

*Feedback: Assets = Liabilities + Equity*

*Assets = $192,000 + $300,000= $492,000*

1. If assets are $300,000 and liabilities are $192,000, then equity equals:   
   A. $108,000.  
   B. $192,000.  
   C. $300,000.  
   D. $492,000.  
   E. $792,000.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

*Feedback: Assets = Liabilities + Equity*

*Equity = $300,000 – $192,000= $108,000*

1. Resources a company owns or controls that are expected to yield future benefits are:   
   A. Assets.  
   B. Revenues.  
   C. Liabilities.  
   D. Stockholders’ Equity.  
   E. Expenses.

Answer: A

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Increases in equity from a company’s sales of products or services are:   
   A. Assets.  
   B. Revenues.  
   C. Liabilities.  
   D. Stockholders’ Equity.  
   E. Expenses.

Answer: B

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. The difference between a company’s assets and its liabilities, or net assets is:   
   A. Net income.  
   B. Expense.  
   C. Equity.  
   D. Revenue.  
   E. Net loss.

Answer: C

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Creditors’ claims on the assets of a company are called:   
   A. Net losses.  
   B. Expenses.  
   C. Revenues.  
   D. Equity.  
   E. Liabilities.

Answer: E

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Decreases in equity that represent costs of providing products or services to customers, used to earn revenues are called:   
   A. Liabilities.  
   B. Equity.  
   C. Dividends.  
   D. Expenses.  
   E. Common Stock.

Answer: D

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. The description of the relation between a company’s assets, liabilities, and equity, which is expressed as Assets = Liabilities + Equity, is known as the:   
   A. Income statement equation.  
   B. Accounting equation.  
   C. Business equation.  
   D. Return on equity ratio.  
   E. Net income.

Answer: B

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Revenues are:   
   A. The same as net income.  
   B. The excess of expenses over assets.  
   C. Resources owned or controlled by a company  
   D. The increase in equity from a company’s sales of products and services.  
   E. The costs of assets or services used.

Answer: D

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. If assets are $99,000 and liabilities are $32,000, then equity equals:   
   A. $32,000.  
   B. $67,000.  
   C. $99,000.  
   D. $131,000.  
   E. $198,000.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Critical Thinking  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

*Feedback: Assets = Liabilities + Equity*

*$99,000 = $32,000 + Equity; Equity = $67,000*

1. Another name for equity is:   
   A. Net income.  
   B. Expenses.  
   C. Net assets.  
   D. Revenue.  
   E. Net loss.

Answer: C

*Blooms: Understand*

*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement   
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. When expenses exceed revenues, the resulting change in equity is called:   
   A. Net assets.  
   B. Negative equity.  
   C. Net loss.  
   D. Net income.  
   E. A liability.

Answer: C

*Blooms: Remember*

*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Resources that stockholders receive from the company is called a(n):   
   A. Liability.  
   B. Dividend.  
   C. Expense.  
   D. Common Stock.  
   E. Investment.

Answer: B

*Blooms: Remember*

*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Distributions of cash or other resources by a business to its stockholders are called:   
   A. Dividends.  
   B. Expenses.  
   C. Assets.  
   D. Retained earnings.  
   E. Net Income.

Answer: A

*Blooms: Remember*

*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. The assets of a company total $700,000; the liabilities, $200,000. What are the net assets?   
   A. $900,000.  
   B. $700,000.  
   C. $500,000.  
   D. $200,000.  
   E. It is impossible to determine unless the amount of stockholder investments is known.

Answer: C

*Blooms: Apply*

*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

*Feedback: Assets = Liabilities + Equity*

*$700,000 = $200,000 + Equity ; Equity = $500,000*

1. On May 31 of the current year, the assets and liabilities of Riser, Inc. are as follows: Cash $20,500; Accounts Receivable, $7,250; Supplies, $650; Equipment, $12,000; Accounts Payable, $9,300. What is the amount of equity as of May 31 of the current year?   
   A. $49,700.  
   B. $13,050.  
   C. $20,500.  
   D. $31,100.  
   E. $40,400.

Answer: D

*Blooms: Apply*

*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

*Feedback: Assets = Liabilities + Equity*

*Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + Equity*

*$20,500 + $7,250 + $650 + $12,000 = $9,300 + Equity*

*$40,400= $9,300 + Equity; Equity = $31,100*

1. On August 31 of the current year, the assets and liabilities of Gladstone, Inc. are as follows: Cash $30,000; Supplies, $600; Equipment, $10,000; Accounts Payable, $8,500. What is the amount of equity as of August 31 of the current year?   
   A. $49,100.  
   B. $32,100.  
   C. $12,100.  
   D. $10,900.  
   E. $30,900.

Answer: B

*Blooms: Apply*

*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

*Feedback: Assets – Liabilities = Equity*

*Cash + Supplies + Equipment – Accounts Payable = Equity*

*$30,000 + $600 + $10,000 – $8,500 =$32,100*

1. Assets created by selling goods and services on credit are:   
   A. Accounts payable.  
   B. Accounts receivable.  
   C. Liabilities.  
   D. Expenses.  
   E. Equity.

Answer: B

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1  
Topic: The Accounting Equation*

1. An exchange of value between two entities that yields a change in the accounting equation is called:   
   A. The accounting equation.  
   B. Recordkeeping or bookkeeping.  
   C. An external transaction.  
   D. An asset.  
   E. Net Income.

Answer: C

*Blooms: Remember*

*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-P1*

*Topic: Transaction Analysis*

1. Saddleback Company paid off $30,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?   
   A. Assets, $30,000 increase; equity, $30,000 increase.  
   B. Assets, $30,000 decrease; liabilities, $30,000 decrease.  
   C. Assets, $30,000 decrease; liabilities, $30,000 increase.  
   D. Liabilities, $30,000 decrease; equity, $30,000 increase.  
   E. Assets, $30,000 decrease; equity $30,000 decrease.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1  
Topic: Transaction Analysis*

*Feedback: Assets = Liabilities + Equity*

*Assets would decrease by $30,000 in Cash due to the payment of the accounts payable.*

*Liabilities would also decrease by $30,000 in Accounts Payable due to the payment of an obligation. There is no effect on Equity.*

1. If Houston Company billed a client for $10,000 of consulting work completed, the accounts receivable asset increases by $10,000 and:   
   A. Accounts payable decreases $10,000.  
   B. Accounts payable increases $10,000.  
   C. Cash increases $10,000.  
   D. Revenue increases $10,000.  
   E. Revenue decreases $10,000

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic:*  *Transaction Analysis*

1. Alpha Company has assets of $600,000, liabilities of $250,000, and equity of $350,000. It buys office equipment on credit for $75,000. What would be the effects of this transaction on the accounting equation?   
   A. Assets increase by $75,000 and expenses increase by $75,000.  
   B. Assets increase by $75,000 and expenses decrease by $75,000.  
   C. Liabilities increase by $75,000 and expenses decrease by $75,000.  
   D. Assets decrease by $75,000 and expenses decrease by $75,000.  
   E. Assets increase by $75,000 and liabilities increase by $75,000.

Answer: E

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic:*  *Transaction Analysis*

*Feedback: Assets = Liabilities + Equity*

*$600,000 = $250,000 + $350,000*

*Assets increase by $75,000 (Equipment) due to the purchase.*

*Liabilities also increase by $75,000 (Accounts Payable) due to the purchase on credit.*

1. Contessa Company collected $42,000 cash on its accounts receivable. The effects of this transaction as reflected in the accounting equation are:   
   A. Total assets decrease and equity increases.  
   B. Both total assets and total liabilities decrease.  
   C. Total assets, total liabilities, and total equity are unchanged.   
   D. Both total assets and equity are unchanged and liabilities increase.  
   E. Total assets increase and equity decreases.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic:*  *Transaction Analysis*

1. If the liabilities of a business increased $75,000 during a period of time and the equity in the business decreased $30,000 during the same period, the assets of the business must have:   
   A. Decreased $105,000.  
   B. Decreased $45,000.  
   C. Increased $30,000.  
   D. Increased $45,000.  
   E. Increased $105,000.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

*Feedback: Assets = Liabilities + Equity*

*Change in Assets = Change in Liabilities + Change in Equity*

*Change in Assets = + $75,000 - $30,000*

*Change in Assets = Increase of $45,000*

1. If the assets of a business increased $89,000 during a period of time and its liabilities increased $67,000 during the same period, equity in the business must have:   
   A. Increased $22,000.  
   B. Decreased $22,000.  
   C. Increased $89,000.  
   D. Decreased $156,000.  
   E. Increased $156,000.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

*Feedback: Assets = Liabilities + Equity*

*Change in Assets = Change in Liabilities + Change in Equity*

*Increase of $89,000 = Increase of $67,000 + Change in Equity*

*Change in Equity = Increase of $22,000*

1. If the liabilities of a company increased $74,000 during a period of time and equity in the company decreased $19,000 during the same period, what was the effect on the assets?   
   A. Assets would have increased $55,000.  
   B. Assets would have decreased $55,000.  
   C. Assets would have increased $19,000.  
   D. Assets would have decreased $19,000.  
   E. None of the choices are correct.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

*Feedback: Assets = Liabilities + Equity*

*Change in Assets = Change in Liabilities + Change in Equity*

*Change in Assets = + $74,000 - $19,000*

*Change in Assets = + $55,000*

1. If a company paid $38,000 of its accounts payable in cash, what was the effect on the accounting equation?   
   A. Assets would decrease $38,000, liabilities would decrease $38,000, and equity would decrease $38,000.  
   B. Assets would decrease $38,000, liabilities would decrease $38,000, and equity would increase $38,000.  
   C. Assets would decrease $38,000, liabilities would decrease $38,000, and equity remains unchanged.  
   D. There would be no effect on the accounts because the accounts are affected by the same amount.  
   E. Assets would increase $38,000 and liabilities would decrease $38,000.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic:*  *Transaction Analysis*

*Feedback: Assets = Liabilities + Equity*

*Assets will decrease by $38,000 in Cash due to the payment of the debt.*

*Liabilities will decrease by $38,000 in Accounts payable due to the payment of the debt.*

*Equity would not be affected by this transaction.*

1. If assets are $365,000 and equity is $120,000, then liabilities are:   
   A. $120,000.  
   B. $245,000.  
   C. $365,000.  
   D. $485,000.  
   E. $610,000.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

*Feedback: Assets = Liabilities + Equity*

*$365,000 = Liabilities + $120,000*

*Liabilities = $245,000*

1. Rushing had income of $150 million and average invested assets of $1,800 million. Its return on assets is:   
   A. 8.3%.  
   B. 83.3%.  
   C. 12%.  
   D. 120%.  
   E. 16.7%.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback: Return on Assets = Net Income/Average Assets*

*Return on Assets = $150 million/$1,800 million = 0.0833 = 8.3%*

1. Cage Company had income of $350 million and average invested assets of $2,000 million. Its return on assets (ROA) is:   
   A. 1.8%.  
   B. 35%.  
   C. 17.5%.  
   D. 5.7%.  
   E. 3.5%.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback: Return on Assets = Net Income/Average Assets*

*Return on Assets = $350 million/$2,000 million = 0.175 = 17.5%*

1. Speedy has net income of $18,955, and assets at the beginning of the year of $200,000. Assets at the end of the year total $246,000. Compute its return on assets.   
   A. 7.7%.  
   B. 8.5%.  
   C. 9.5%.  
   D. 11.8%.  
   E. 13.0%.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback: Return on Assets = Net Income/Average Assets*

*Return on Assets =$18,955/[($200,000 + $246,000)/2]*

*Return on Assets = $18,955/$223,000 = 0.085 = 8.5%*

1. Chou Co. has a net income of $43,000, assets at the beginning of the year are $250,000 and assets at the end of the year are $300,000. Compute its return on assets.   
   A. 8.4%.  
   B. 17.2%.  
   C. 14.3%.  
   D. 15.6%.  
   E. 1.5%.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback: Return on Assets = Net Income/Average Assets*

*Return on Assets =$43,000/[($250,000 + $300,000)/2]*

*Return on Assets = $43,000/$275,000 = 0.156 = 15.6%*

1. U. S. government bonds are:   
   A. High-risk and high-return investments.  
   B. Low-risk and low-return investments.  
   C. High-risk and low-return investments.  
   D. Low-risk and high-return investments.  
   E. High risk and no-return investments.

Answer: B

*Blooms: Understand  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Risk Analysis  
Difficulty: 2 Medium  
Learning Objective: 01-A3*

*Topic: Return and Risk Analysis*

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

Answer: C

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Risk Analysis  
Difficulty: 1 Easy  
Learning Objective: 01-A3*

*Topic: Return and Risk Analysis*

1. The statement of cash flows reports all of the following *except*:   
   A. Cash flows from operating activities.  
   B. Cash flows from investing activities.  
   C. Cash flows from financing activities.  
   D. The net increase or decrease in assets for the period reported.  
   E. The net increase or decrease in cash for the period reported.

Answer: D

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. The basic financial statements include all of the following *except*:   
   A. Balance Sheet.  
   B. Income Statement.  
   C. Statement of Retained Earnings.  
   D. Statement of Cash Flows.  
   E. Statement of Changes in Assets.

Answer: E

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

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

Answer: C

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy*

*Learning Objective: 01-P2*

*Topic: Financial Statements*

1. The financial statement that reports whether the business earned a profit and also lists the revenues and expenses is called the:   
   A. Balance sheet.  
   B. Statement of retained earnings.  
   C. Statement of cash flows.  
   D. Income statement.  
   E. Statement of financial position.

Answer: D

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2  
Topic: Financial Statements*

1. A balance sheet lists:   
   A. The types and amounts of the revenues and expenses of a business.  
   B. Only the information about what happened to equity during a time period.  
   C. The types and amounts of assets, liabilities, and equity of a business as of a specific date.  
   D. The inflows and outflows of cash during the period.  
   E. The assets and liabilities of a company but not the stockholders’ equity.

Answer: C

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. A financial statement providing information that helps users understand a company’s financial status, and which lists the types and amounts of assets, liabilities, and equity as of a specific date, is called a(n):   
   A. Balance sheet.  
   B. Income statement.  
   C. Statement of cash flows.  
   D. Statement of retained earnings.  
   E. Financial Status Statement.

Answer: A

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. The financial statement that identifies a company’s cash receipts and cash payments over a period of time is the:   
   A. Statement of financial position.  
   B. Statement of cash flows.  
   C. Balance sheet.  
   D. Income statement.  
   E. Statement of retained earnings.

Answer: B

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2  
Topic: Financial Statements*

1. The financial statement that shows the beginning balance of retained earnings; the changes in equity that resulted from net income (or net loss); dividends; and the ending retained earnings balance, is the:   
   A. Statement of financial position.  
   B. Statement of cash flows.  
   C. Balance sheet.  
   D. Income statement.  
   E. Statement of retained earnings.

Answer: E

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Cash investments by stockholders are listed on which of the following statement(s)?   
   A. Balance sheet.  
   B. Income statement.  
   C. Statement of retained earnings only.  
   D. Statement of cash flows only.  
   E. Statement of retained earnings and statement of cash flows.

Answer: D

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Accounts payable appear on which of the following statements?   
   A. Balance sheet.  
   B. Income statement.  
   C. Statement of retained earnings.  
   D. Statement of cash flows.  
   E. Transaction statement.

Answer: A

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. The income statement reports all of the following *except*:   
   A. Revenues earned by a business.  
   B. Expenses incurred by a business.  
   C. Assets owned by a business.  
   D. Net income or loss earned by a business.  
   E. The time period over which the earnings occurred.

Answer: C

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Use the following information as of December 31 to determine equity.   
     
     
   Cash…………………… $57,000  
   Buildings........................ 175,000  
   Equipment…………….. 206,000  
   Liabilities……………… 141,000  
       
   A. $57,000.  
   B. $141,000.  
   C. $297,000.  
   D. $438,000.  
   E. $579,000.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium*

*Learning Objective: 01-A1  
Topic: The Accounting Equation*

*Feedback: Assets = Liabilities + Equity*

*Cash + Equipment + Buildings = Liabilities + Equity*

*$57,000 + $206,000 + $175,000 = $141,000 + Equity*

*$438,000 = $141,000 + Equity; Equity = $297,000*

1. Use the following information for Meeker Corp to determine the amount of equity to report.   
     
     
   Cash…………………… $70,000  
   Buildings........................ 125,000  
   Land………………….. 205,000  
   Liabilities……………… 130,000  
       
   A. $390,000.  
   B. $140,000.  
   C. $20,000.  
   D. $530,000.  
   E. $270,000.

Answer: E

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium*

*Learning Objective: 01-A1*

*Topic: The Accounting Equation*

*Feedback: Assets – Liabilities = Equity*

*Cash + Buildings + Land – Liabilities = Equity*

*$70,000 + $125,000 + $205,000 – $130,000 = $270,000*

1. Determine the net income of a company for which the following information is available for the month of July.

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

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

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

*Feedback: Net Income = Revenues – Expenses*

*Net Income = Consulting Revenue – Employee Salaries Expense – Interest Expense – Rent Expense*

*Net Income = $400,000 – $180,000 – $10,000 – $20,000; Net Income = $190,000*

1. Determine the net income of a company for which the following information is available for the month of September.

|  |  |
| --- | --- |
| Service revenue......................... | $300,000 |
| Rent expense............................. | 48,000 |
| Utilities expense........................ | 3,200 |
| Salaries expense........................ | 81,000 |

A. $263,800.  
B. $432,200.  
C. $171,000.  
D. $167,800.  
E. $252,000.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

*Feedback: Revenues – Expenses = Net Income*

*Service Revenue – Rent Expense – Utilities Expense – Salaries Expense*

*$300,000 – $48,000 – $3,200 – $81,000 = $167,800*

1. A company acquires equipment for $75,000 cash. This represents a(n):  
   A. Operating activity.  
   B. Investing activity.  
   C. Financing activity.  
   D. Revenue activity.  
   E. Expense activity.

Answer: B

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2  
Topic: Financial Statements*

1. A company borrows $125,000 from the Northern Bank and receives the loan proceeds in cash. This represents a(n):   
   A. Revenue activity.  
   B. Operating activity.  
   C. Expense activity.  
   D. Investing activity.  
   E. Financing activity.

Answer: E

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Zippy had cash inflows from operations $60,500; cash outflows from investing activities of $47,000; and cash inflows from financing of $25,000. The net change in cash was:   
   A. $38,500 increase.  
   B. $38,500 decrease.  
   C. $132,500 decrease.  
   D. $132,000 increase.  
   E. $11,500 decrease.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

*Feedback: Net Change in Cash = Cash Flows from Operating Activities + Cash Flows from Investing*

*Activities + Cash Flows from Financing Activities*

*Net Change in Cash = $60,500 + ($47,000) + $25,000; Net Change in Cash = $38,500*

1. Zapper has beginning equity of $257,000, net income of $51,000, dividends of $40,000 and stockholder investments of $6,000. Its ending equity is:   
   A. $223,000.  
   B. $240,000.  
   C. $268,000.  
   D. $274,000.  
   E. $208,000.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

*Feedback: Ending Equity = Beginning Equity + Investments by Stockholders + Net Income – Dividends*

*Ending Equity = $257,000 +$6,000 + $51,000 – $40,000; Ending Equity = $274,000*

1. Cragmont has beginning equity of $277,000, net income of $63,000, dividends of $25,000 and no additional investments by stockholders during the period. Its ending equity is:   
   A. $365,000.  
   B. $239,000.  
   C. $189,000.  
   D. $315,000.  
   E. $277,000.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

*Feedback: Beginning Equity + Investments by Stockholders + Net Income – Dividends = Ending Equity*

*$277,000 + $0 + $63,000 – $25,000 = $315,000*

1. Rent expense appears on which of the following statements?   
   A. Balance sheet.  
   B. Income statement.  
   C. Statement of retained earnings.  
   D. Statement of periodic expenses.  
   E. Statement of cash flows only.

Answer: B

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. A company’s balance sheet shows: cash $22,000, accounts receivable $16,000, office equipment $50,000, and accounts payable $17,000. What is the amount of stockholders’ equity?   
   A. $17,000.  
   B. $29,000.  
   C. $71,000.  
   D. $88,000.  
   E. $105,000.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic:*  *Transaction Analysis*

*Feedback: Assets = Liabilities + Equity*

*Cash + Accounts Receivable + Office Equipment = Accounts Payable + Equity*

*$22,000 + $16,000 + $50,000 = $17,000 + Equity*

*$88,000 = $17,000 + Equity; Equity = $71,000*

1. A company reported total equity of $145,000 at the beginning of the year. The company reported $210,000 in revenues and $165,000 in expenses for the year. There were no stockholder investments or dividends during the year. Liabilities at the end of the year totaled $92,000. What are the total assets of the company at the end of the year?  
   A. $45,000.  
   B. $92,000.  
   C. $98,000.  
   D. $210,000.  
   E. $282,000.

Answer: E

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P1*

*Learning Objective: 01-P2*

*Topic:*  *Transaction Analysis*

*Topic: Financial Statements*

*Feedback: Assets = Liabilities + Equity*

*Assets = $92,000 + (Beginning Equity + Revenues – Expenses)*

*Assets = $92,000 + ($145,000 + $210,000 – $165,000)*

*Assets = $92,000 + $190,000; Assets = $282,000*

1. Flitter reported net income of $17,500 for the past year. At the beginning of the year the company had $200,000 in assets and $50,000 in liabilities. By the end of the year, assets had increased to $300,000 and liabilities were $75,000. Calculate its return on assets:   
   A. 8.8%.  
   B. 7.0%.  
   C. 5.8%.  
   D. 35.0%.  
   E. 23.3%.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback: Return on Assets = Net Income/Average Assets*

*Return on Assets =$17,500/[($200,000 + $300,000)/2]*

*Return on Assets = $17,500/$250,000 = 0.07 = 7.0%*

1. Dawson Electronic Services had revenues of $80,000 and expenses of $50,000 for the year. Its assets at the beginning of the year were $400,000. At the end of the year assets were worth $450,000. Calculate its return on assets.  
   A. 7.1%.  
   B. 7.5%.  
   C. 6.7%.  
   D. 20.0%.  
   E. 18.8%

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback: Return on Assets = Net Income/Average Assets*

*Return on Assets = Revenues – Expenses/Average Assets*

*Return on Assets = ($80,000 – $50,000)/[($400,000 + $450,000)/2]*

*Return on Assets = $30,000/$425,000 = 0.0705 =7.1%*

1. Rico’s Taqueria had cash inflows from operating activities of $27,000; cash outflows from investing activities of $22,000, and cash outflows from financing activities of $12,000. Calculate the net increase or decrease in cash.  
   A. $61,000 increase.  
   B. $37,000 increase.  
   C. $7,000 decrease.  
   D. $7,000 increase.  
   E. $34,000 decrease.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

*Feedback: Net Increase/(Decrease) in Cash = Cash Flows from Operating Activities + Cash Flows*

*from Investing Activities + Cash Flows from Financing Activities*

*Net Increase/(Decrease) in Cash = $27,000 + ($22,000) +($12,000)*

*Net Increase/(Decrease) in Cash = ($7,000)*

1. Charlie’s Chocolates’ stockholders made investments of $50,000 and received dividends of $20,000. The company has revenues of $83,000 and expenses of $64,000. Calculate its net income.   
   A. $30,000.  
   B. $83,000.  
   C. $64,000.  
   D. $19,000.  
   E. $49,000.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P1  
Learning Objective: 01-P2*

*Topic:*  *Transaction Analysis*

*Topic: Financial Statements*

*Feedback: Net Income = Revenues – Expenses*

*Net Income = $83,000 – $64,000; Net Income = $19,000*

1. Savvy Sightseeing had beginning equity of $72,000; revenues of $90,000, expenses of $65,000, and dividends to stockholders of $9,000. There were no stockholder investments during the year. Calculate ending equity.  
   A. $88,000.  
   B. $25,000.  
   C. $97,000.  
   D. $38,000.  
   E. $47,000.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

*Feedback: Ending Equity = Beginning Equity + Revenues – Expenses + Stock Issuances – Dividends*

*Ending Equity = $72,000 + $90,000 – $65,000 + $0 – $9,000*

*Ending Equity = $88,000*

1. Doc’s Ribhouse had beginning equity of $52,000; net income of $35,000, and dividends of $12,000. There were no stockholder investments during the year. Calculate the ending equity.  
   A. $(5,000).  
   B. $29,000.  
   C. $5,000.  
   D. $99,000.  
   E. $75,000.

Answer: E

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

*Feedback: Ending Equity = Beginning Equity + Net Income + Stock Issuances – Dividends*

*Ending Equity = $52,000 + $35,000 + $0 – $12,000 = $75,000*

1. A company’s balance sheet shows: cash $24,000, accounts receivable $30,000, equipment $50,000, and equity $72,000. What is the amount of liabilities?   
   A. $104,000.  
   B. $76,000.  
   C. $32,000.  
   D. $68,000.  
   E. $176,000.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic:*  *Transaction Analysis*

*Feedback: Assets – Equity = Liabilities*

*Cash + Accounts Receivable + Equipment – Equity = Liabilities*

*$24,000 + $30,000 + $50,000 – $72,000 = $32,000*

1. If a company has excess space in its building that it rents to another company for $700, what is the effect on the accounting equation during the first month?   
   A. Assets would decrease $700 and liabilities would decrease $700.  
   B. Assets would decrease $700 and equity would increase $700.  
   C. Assets would increase $700 and equity would decrease $700.  
   D. Assets would increase $700 and equity would increase $700.  
   E. Liabilities would decrease $700 and equity would increase $700.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic: Transaction Analysis*

*Feedback: Assets and equity both increase at the time the rent is earned.*

1. All of the following are classified as assets *except*:   
   A. Accounts Receivable.  
   B. Supplies.  
   C. Equipment.  
   D. Accounts Payable.  
   E. Land.

Answer: D

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Which of the following accounts is not included in the calculation of a company’s ending equity?   
   A. Revenues.  
   B. Expenses.  
   C. Dividends.  
   D. Stockholder investments.  
   E. Cash.

Answer: E

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. All of the following are classified as liabilities *except*:   
   A. Accounts Receivable.  
   B. Notes Payable.  
   C. Wages Payable.  
   D. Accounts Payable.  
   E. Taxes Payable.

Answer: A

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Billington Corp borrows $80,000 cash from Second National Bank. How does this transaction affect the accounting equation for Billington?   
   A. Assets would decrease $80,000 and liabilities would decrease $80,000.  
   B. Assets would decrease $80,000 and equity would increase $80,000.  
   C. Assets would increase $80,000 and equity would decrease $80,000.  
   D. Assets would increase $80,000 and liabilities would increase $80,000.  
   E. Liabilities would decrease $80,000 and equity would increase $80,000.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic: Transaction Analysis*

1. If the assets of a company increase by $55,000 during the year and its liabilities increase by $25,000 during the same year, then the change in equity of the company during the year must have been:   
   A. An increase of $80,000.  
   B. A decrease of $80,000.  
   C. An increase of $30,000.  
   D. A decrease of $30,000.  
   E. An increase of $25,000.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. All of the following are classified as assets *except*:   
   A. Accounts Payable.  
   B. Accounts Receivable.  
   C. Cash.  
   D. Supplies.  
   E. Prepaid Insurance.

Answer: A

. *Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Grandmark Printing pays $2,000 rent to the landlord of the building where its facilities are located. How does this transaction affect the accounting equation for Grandmark?   
   A. Assets would decrease $2,000 and liabilities would decrease $2,000.  
   B. Assets would decrease $2,000 and equity would decrease $2,000.  
   C. Assets would increase $2,000 and equity would increase $2,000.  
   D. Assets would increase $2,000 and liabilities would increase $2,000.  
   E. Liabilities would decrease $2,000 and equity would increase $2,000.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic: Transaction Analysis*

1. Atkins Company collected $1,750 as payment for the amount owed by a customer from services provided the prior month on credit. How does this transaction affect the accounting equation for Atkins?   
   A. Assets would decrease $1,750 and liabilities would decrease $1,750.  
   B. One asset would increase $1,750 and a different asset would decrease $1,750, causing no net change in the accounting equation.  
   C. Assets would increase $1,750 and equity would increase $1,750.  
   D. Assets would increase $1,750 and liabilities would increase $1,750.  
   E. Liabilities would decrease $1,750 and equity would increase $1,750.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic: Transaction Analysis*

1. The accounting equation for Ying Company shows a decrease in its assets and a decrease in its equity. Which of the following transactions could have caused that effect?   
   A. Cash was received from providing services to a customer.  
   B. The company paid an amount due on credit.  
   C. Equipment was purchased for cash.  
   D. A utility bill was received for the current month, to be paid in the following month.  
   E. Advertising expense for the month was paid in cash.

Answer: E

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic: Transaction Analysis*

1. The accounting equation for Long Company shows an increase in its assets and an increase in its liabilities. Which of the following transactions could have caused that effect?   
   A. Cash was received from providing services to a customer.  
   B. Cash was received as a stockholder investment.  
   C. Equipment was purchased on credit.  
   D. Supplies were purchased for cash.  
   E. Advertising expense for the month was paid in cash.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic: Transaction Analysis*

1. The expense recognition principle, also called the matching principle:   
   A. Prescribes that accounting information is based on actual cost.  
   B. Provides guidance on when a company must recognize revenue.  
   C. Prescribes that a company report the details behind financial statements that would impact users’ decisions.  
   D. Prescribes that a company record the expenses it incurred to generate the revenue reported.  
   E. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

Answer: D

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The measurement principle, also called the cost principle:   
   A. Prescribes that accounting information is based on actual cost.  
   B. Provides guidance on when a company must recognize revenue.  
   C. Prescribes that a company report the details behind financial statements that would impact users’ decisions.  
   D. Prescribes that a company record the expenses it incurred to generate the revenue reported.  
   E. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

Answer: A

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The revenue recognition principle:   
   A. Prescribes that accounting information is based on actual cost.  
   B. Provides guidance on when a company must recognize revenue.  
   C. Prescribes that a company report the details behind financial statements that would impact users’ decisions.  
   D. Prescribes that a company record the expenses it incurred to generate the revenue reported.  
   E. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

Answer: B

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The full disclosure principle:   
   A. Prescribes that accounting information is based on actual cost.  
   B. Provides guidance on when a company must recognize revenue.  
   C. Prescribes that a company report the details behind financial statements that would impact users’ decisions.  
   D. Prescribes that a company record the expenses it incurred to generate the revenue reported.  
   E. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

Answer: C

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The materiality constraint:   
   A. Prescribes that accounting information is based on actual cost.  
   B. Provides guidance on when a company must recognize revenue.  
   C. Prescribes that only information that would influence the decisions of a reasonable person need be disclosed.  
   D. Prescribes that a company record the expenses it incurred to generate the revenue reported.  
   E. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

Answer: C

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The going concern assumption:   
   A. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.  
   B. Means that we can express transactions and events in monetary, or money, units.  
   C. Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.  
   D. Means that a business is accounted for separately from other business entities, including its owners.

E. Prescribes that a company record the expenses it incurred to generate the revenue reported.

Answer: A

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The monetary assumption:   
   A. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.  
   B. Means that we can express transactions and events in monetary, or money, units.  
   C. Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.  
   D. Means that a business is accounted for separately from other business entities, including its owners.

E. Prescribes that a company record the expenses it incurred to generate the revenue reported.

Answer: B

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The time period assumption:   
   A. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.  
   B. Means that we can express transactions and events in monetary, or money, units.  
   C. Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.  
   D. Means that a business is accounted for separately from other business entities, including its owners.

E. Prescribes that a company record the expenses it incurred to generate the revenue reported.

Answer: C

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The business entity assumption:   
   A. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.  
   B. Means that we can express transactions and events in monetary, or money, units.  
   C. Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.  
   D. Means that a business is accounted for separately from other business entities, including its owners.

E. Prescribes that a company record the expenses it incurred to generate the revenue reported.

Answer: D

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (or Dodd-Frank) to:

A. Promote accountability and transparency in the financial system.  
B. Put an end to the notion of “too big to fail.”

C. Protect the taxpayer by ending bailouts.

D. Protect consumers from abusive financial services.

E. All of the choices are correct.

Answer: E

*Blooms: Understand*  
*AACSB: Ethics  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. Which of the following accounts is not included in the asset section of the balance sheet?

A. Cash.  
B. Accounts receivable.  
C. Supplies.  
D. Land.  
E. Services revenue.

Answer: E

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Which of the following accounts is not included in the asset section of the balance sheet?

A. Buildings.  
B. Wages expense.  
C. Supplies.  
D. Land.  
E. Furniture

Answer: B

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Which of the following accounts is not included in the liability section of the balance sheet?

A. Accounts receivable.  
B. Wages payable.  
C. Accounts payable.  
D. Notes payable.  
E. Taxes payable.

Answer: A

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Which of the following accounts is not included in the calculation of net income?

A. Services revenue.  
B. Wages expense.  
C. Rent expense.  
D. Cash.  
E. Rent revenue.

Answer: D

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Which of the following combinations results in a net loss reported on the income statement?

A. Total revenues of $80,000 and total expenses of $74,000.  
B. Total revenues of $70,000 and total expenses of $74,000.  
C. Total revenues of $60,000 and total expenses of $52,000.  
D. Total revenues of $20,000 and total expenses of $16,000.  
E. Total revenues of $40,000 and total expenses of $31,000.

Answer: B

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Which of the following combinations results does not result in the same amount of net income reported on the income statement?

A. Total revenues of $80,000 and total expenses of $60,000.  
B. Total revenues of $170,000 and total expenses of $150,000.  
C. Total revenues of $60,000 and total expenses of $40,000.  
D. Total revenues of $70,000 and total expenses of $60,000.  
E. Total revenues of $40,000 and total expenses of $20,000.

Answer: D

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

***Matching Questions***

1. Match the following terms with the appropriate definition.

a. Financial accounting  
b. Ethics  
c. Recordkeeping  
d. Internal users  
e. Accounting  
f. Certified Public Accountant (CPA)  
g. Fraud triangle  
h. Managerial accounting  
i. External users

\_\_\_\_ 1. An information and measurement system that identifies, records and communicates relevant reliable and comparable information about an organization’s business activities.  
\_\_\_\_ 2. The part of accounting that involves recording transactions and events, either electronically or manually.  
\_\_\_\_ 3. Persons using accounting information who are not directly involved in running the organization.  
\_\_\_\_ 4. Persons using accounting information who are directly involved in managing and operating the organization.  
\_\_\_\_ 5. The area of accounting that serves the decision-making needs of internal users.  
\_\_\_\_ 6. The area of accounting aimed at serving external users by providing them with general-purpose financial statements.  
\_\_\_\_ 7. Accounting specialists that have met educational and experience requirements, passed an examination and exhibit ethical characteristics to achieve a professional certification.  
\_\_\_\_ 8. Beliefs that distinguish right from wrong, considered accepted standards of good and bad behavior.  
 \_\_\_\_ 9. A model that asserts the factors that must exist for a person to commit fraud.

Answer:  
1. E; 2. C; 3. I; 4. D; 5. H; 6. A; 7. F; 8. B; 9. G

*Blooms: Remember*  
*AACSB: Communication*

*AACSB: Ethics  
AICPA BB: Industry*

*AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C1*

*Learning Objective: 01-C2*

*Learning Objective: 01-C3*

*Topic: Importance of Accounting*

*Topic: Users of Accounting Information*

*Topic: Ethics*

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

a. Return on assets  
b. Assets  
c. Expenses  
d. Risk  
e. Liabilities  
f. Dividends  
g. Accounting equation  
h. Common stock  
  
\_\_\_\_ 1. The uncertainty about the return to be earned.  
\_\_\_\_ 2. Evidence of inflows of resources such as cash and other assets from stockholders.  
\_\_\_\_ 3. A financial ratio stated as income divided by assets invested.  
\_\_\_\_ 4. Creditor’s claims on a company’s assets.  
\_\_\_\_ 5. Decreases in equity from costs of providing products or services to customers.  
\_\_\_\_ 6. Reflects outflows of resources such as cash and other assets to stockholders.  
\_\_\_\_ 7. Resources a company owns or controls that are expected to yield future benefit.  
\_\_\_\_ 8. Expresses the relation of assets, liabilities and equity in a company, comparing the resources the company owns to the sources of funds to acquire the resources.

Answer:

1. D; 2. H; 3. A; 4. E; 5. C; 6. F; 7. B; 8. G

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry*

*AICPA BB: Legal  
AICPA FN: Reporting*

*AICPA FN: Risk Analysis  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Learning Objective: 01-A2  
Learning Objective: 01-A3*

*Topic: The Accounting Equation*

*Topic: Return on Assets*

*Topic: Return and Risk Analysis*

1. The following is a list of selected users of accounting information. Match the appropriate user to the following decisions they make with accounting information.  
     
   a. Suppliers  
   b. Lenders  
   c. Shareholders  
   d. Purchasing Managers  
   e. Regulators  
     
   \_\_\_\_ 1. Know what, when, and how much to purchase.  
   \_\_\_\_ 2. Judge the soundness of a customer before making sales on credit.  
   \_\_\_\_ 3. Assess whether a company has paid all required taxes and complied with securities rules.  
   \_\_\_\_ 4. Assess whether an organization is likely to repay its loans with interest.  
   \_\_\_\_ 5. Decide whether to buy, hold, or sell a company’s stock.

Answer:  
1. D; 2. A; 3. E; 4. B; 5. C

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry*

*AICPA BB: Legal  
AICPA FN: Reporting*

*AICPA FN: Risk Analysis  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

1. Match the following definitions with terms 1 through 8. Place the letter that identifies the best definition in the blank space next to the term.  
     
   \_\_\_\_ 1. Generally accepted accounting principles  
   \_\_\_\_ 2. Time period assumption  
   \_\_\_\_ 3. Statement of retained earnings.  
   \_\_\_\_ 4. Balance sheet  
   \_\_\_\_ 5. Objectivity principle  
   \_\_\_\_ 6. Measurement (Cost) principle  
   \_\_\_\_ 7. Securities and Exchange Commission  
   \_\_\_\_ 8. IASB  
   \_\_\_\_ 9. Full disclosure principle  
   \_\_\_\_10. Statement of cash flows  
     
   a. Prescribes that assets and services to be recorded initially on a cash or equal-to-cash basis.  
   b. A principle that requires the information in financial statements to be supported by independent unbiased evidence.  
   c. An independent group consisting of individuals from many countries that identify preferred accounting practices.  
   d. Presumes that the life of a company can be divided into periods for reporting purposes.  
   e. The concepts and rules that govern financial accounting.  
   f. A financial statement that reports the changes in equity over the reporting period; including increases from net income and decreases from dividends or net losses.  
   g. A report that identifies cash receipts and cash payments over a period of time.  
   h. Prescribes that a company report the details behind financial statements that would impact user decisions.  
   i. The governmental agency that has the legal authority to establish accounting rules.  
   j. A report that describes a company’s financial position at a point in time.

Answer:  
1. E; 2. D; 3. F; 4. J; 5. B; 6. A; 7. I; 8. C; 9. H; 10. G

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry*

*AICPA BB: Legal  
AICPA FN: Reporting*

*AIPCA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4  
  
Learning Objective: 01-P2*

*Topic: Generally Accepted Accounting Principles*

*Topic: Financial Statements*

1. Match the following definitions with the terms 1 through 9. Place the letter that identifies the best definition in the blank space next to the term.  
     
   \_\_\_\_ 1. Statement of cash flows  
   \_\_\_\_ 2. Events  
   \_\_\_\_ 3. Monetary unit principle  
   \_\_\_\_ 4. Business entity principle  
   \_\_\_\_ 5. Revenue recognition principle  
   \_\_\_\_ 6. Accounting equation  
   \_\_\_\_ 7. Income statement  
   \_\_\_\_ 8. Expenses  
   \_\_\_\_ 9. Liabilities

a. The relation between a company’s assets, liabilities, and equity.  
b. Happenings, such as changes in market value, that effect the accounting equation and are reliably measured.  
c. The principle that assumes transactions and events can be expressed in money units.  
d. Describes a company’s revenues and expenses along with the resulting net income or loss over a period of time.  
e. A financial statement that lists cash inflows (receipts) and cash outflows (payments); the cash flows are arranged by operating, investing, and financing activities.  
f. Creditor’s claims on assets.  
g. The cost of assets or services used to earn revenue.  
h. The principle that requires a business to be accounted for separately from its owners.  
i. The principle that revenue is recorded when earned through providing goods or services.

Answer:  
1. E; 2. B; 3. C; 4. H; 5. I; 6. A; 7. D; 8. G; 9. F

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry*

*AICPA BB: Legal  
AICPA FN: Reporting*

*AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Learning Objective: 01-C5  
Learning Objective: 01-A1  
Learning Objective: 01-P2*

*Topic: Generally Accepted Accounting Principles*

*Topic: Business Activities and the Accounting Equation*

*Topic: The Accounting Equation*

*Topic: Financial Statements*

1. Identify each of the following business activities 1 through 6 into the appropriate category a, b, and c.   
     
   a. Operating  
   b. Investing  
   c. Financing  
     
   \_\_\_\_ 1. Paid utilities expenses.  
   \_\_\_\_ 2. Dividends to stockholders.  
   \_\_\_\_ 3. Purchase of land.  
   \_\_\_\_ 4. Sale of used equipment.  
   \_\_\_\_ 5. Borrowed money from a bank on a long-term note.  
   \_\_\_\_ 6. Paid employee wages.   
   \_\_\_\_ 7. Received investment from stockholder.

\_\_\_\_ 8. Paid an amount due on a long-term bank loan.

Answer:  
1. A; 2. C; 3. B; 4. B; 5. C; 6. A; 7. C; 8. C

*Blooms: Apply*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-C5*

*Topic: Business Activities and the Accounting Equation*

1. Match each of the following items 1 through 8 with the financial statement a through d in which each item would most likely appear. An item may appear on more than one statement.  
     
   a. Income statement  
   b. Statement of retained earnings  
   c. Balance sheet  
   d. Statement of cash flows  
     
    \_\_\_\_\_1. Assets.  
    \_\_\_\_\_2. Dividends.  
    \_\_\_\_\_3. Revenues.  
    \_\_\_\_\_4. Cash from investing activities.  
    \_\_\_\_\_5. Expenses.  
    \_\_\_\_\_6. Liabilities.  
   \_\_\_\_\_7. Cash from operating activities.  
    \_\_\_\_\_8. Cash from financing activities.

Answer:  
1. C; 2. B; 3. A; 4. D; 5. A; 6. C; 7. D; 8. D

*Blooms: Apply*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Classify the following activities according to the appropriate section of the statement of cash flows.   
     
   a. Operating activity  
   b. Investing activity  
   c. Financing activity   
     
   \_\_\_\_ 1. Cash received from a one-time sale of used office equipment.  
   \_\_\_\_ 2. Cash dividends paid to stockholders.  
   \_\_\_\_ 3. Cash received from customers.  
   \_\_\_\_ 4. Cash received from stockholders in exchange for common stock.  
   \_\_\_\_ 5. Cash paid for utilities.  
   \_\_\_\_ 6. Cash paid for a delivery van to be used in the business.

Answer:  
1. B; 2. C; 3. A; 4. C; 5. A; 6. B

*Blooms: Apply*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-C5*

*Learning Objective: 01-P2*

*Topic: Business Activities and the Accounting Equation*

*Topic: Financial Statements*

***Short Answer Questions***

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

Answer: Accounting is an information and measurement system. It identifies, records, and communicates relevant, reliable and comparable information about business activities. Accounting also includes the crucial process of analysis and interpretation. It is part of our everyday lives, through such activities as banking, paying taxes, and receiving payroll checks. Technology plays a major role in accounting by reducing the time effort and cost or recordkeeping while improving clerical accuracy.

*Blooms: Understand*  
*AACSB: Communication*

*AACSB: Technology  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C1*

*Topic: Importance of Accounting*

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

Answer: The balance sheet is one of the four required financial statements a company prepares periodically. It describes a company’s financial position by listing the types and amounts of assets, liabilities, and equity of a business at a specified point in time. The statement’s purpose is to provide information that helps users assess the financial condition of the business.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Identify the users and uses of accounting information.

Answer: There are two general types of users of accounting information. Internal users are managers and officers of businesses. They require information about business activities in order to make decisions about planning, monitoring, and control. External users rely on financial statements to make business decisions. These users include lenders, and shareholders. Lenders need information for measuring the risk and return of loans. Shareholders need information for assessing the risk and return in owning shares.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

1. Identify several opportunities in accounting and distinguish between private accounting and public accounting.

Answer: The four broad areas of accounting are financial accounting, managerial accounting, taxation and other accounting related employment. The majority of the employment opportunities are in private accounting where employees work for businesses. Private sector jobs would include general accounting, taxation, budgeting, and cost accounting activities. Public accounting offers opportunities to perform work such as auditing, tax services, and consulting.

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C2  
Topic: Users of Accounting Information*

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

Answer: The purpose of accounting is to provide useful information for decision makers. For information to be useful, it must be trusted. This requires ethical behavior by accountants and managers in all phases of gathering, analyzing and reporting financial information so that good decisions are made.

*Blooms: Understand*  
*AACSB: Communication*

*AACSB: Ethics  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C3*

*Topic: Ethics*

1. Describe the three important guidelines for revenue recognition.

Answer: The three important guidelines for revenue recognition include: (1) Revenue is recognized when earned. (2) Assets received from selling products and services do not need to be in cash. (3) Revenue recognized is measured by cash received plus the cash equivalent of other assets received.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium*

*Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. Identify the three basic forms of business organizations and their key attributes.

Answer: The three basic forms of business organizations are sole proprietorships, partnerships, and corporations. Sole proprietorships are businesses owned by one person. They are separate entities for accounting purposes, but are not separate from the owner legally or for tax purposes. Partnerships are businesses owned by two or more people who are jointly liable for tax and other obligations. Corporations are businesses legally separate from their owners, making them responsible for their own acts and own debts. They conduct business with the rights, duties and responsibilities of a person.

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Legal  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. How does the objectivity principle support ethical behavior?

Answer: The objectivity principle supports ethical behavior since it requires that financial information be documented by independent, unbiased evidence. Consequently, the impact of belief and opinions on the recording and reporting of business transactions and events is lessened.

*Blooms: Understand*  
*AACSB: Communication*

*AACSB: Ethics  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C3*

*Learning Objective: 01-C4*

*Topic: Ethics*

*Topic: Generally Accepted Accounting Principles*

1. Identify and describe the two main groups involved in establishing generally accepted accounting principles.

Answer: The Financial Accounting Standards Board (FASB) is the private-sector group that has been delegated the task to set both the broad and specific principles of GAAP. The Securities and Exchange Commission (SEC) is a government agency that has the legal authority to set GAAP and oversees proper use of GAAP by companies that issue stock and debt to the public.

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: The going-concern principle means that financial statements reflect an assumption that the business continues in operation instead of being closed or sold. Assets are therefore reported at cost rather than at liquidation value.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. Describe the income statement and the relation between revenues, expenses, and net income or loss.

Answer: The income statement describes a company’s revenues and expenses along with the resulting net income or loss over a period of time due to earnings activities. Revenues are the increases in equity from sales of products and services to customers. Expenses are the costs of providing products and services to customers. When revenues exceed expenses, net income occurs. When expenses exceed revenues, a net loss occurs.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P2  
Learning Objective: 01-A1  
Topic: Financial Statements*

*Topic: The Accounting Equation*

1. Explain the accounting equation and define its terms.

Answer: The accounting equation is stated as: Assets = Liabilities + Equity. Assets are resources owned or controlled by a business that are expected to provide future benefit. Creditors’ claims on assets are called liabilities. Owners’ claims on assets are called equity. The accounting equation shows that the resources (assets) of the business equal the source of funds to acquire and the claims against those resources.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. What distinguishes liabilities from equity?

Answer: Liabilities are creditors’ claims on assets. They reflect obligations to transfer assets or provide products or services to others in a future outflow of resources. Equity is owners’ claims to assets. It includes the investments by the stockholders, less dividends paid to stockholders, and what the company earns on the stockholders’ behalf. Equity is also called net assets or residual interest.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

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

Answer: Return on assets is useful in evaluating management, analyzing and forecasting profits, and planning activities. It shows the effectiveness of using assets to earn profit.

*Blooms: Understand*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A2*

*Topic: Return on Assets*

1. Define risk and return and discuss the relation between them.

Answer: Net income is often related to return, which is what is earned from investments. Risk is the uncertainty about the return that will be earned. All investments involve risk, but risk and return vary among investment opportunities. In general, the lower the risk of an investment; the lower the expected return. Higher return is expected in exchange for accepting higher risk.

*Blooms: Understand*

*AACSB: Communication*  
*AACSB: Reflective Thinking  
AICPA BB: Critical Thinking  
AICPA FN: Risk Analysis  
Difficulty: 2 Medium  
Learning Objective: 01-A3*

*Topic: Return and Risk Analysis*

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

Answer: The three types of activities reported in the statement of cash flows are (1) operating, which involve using cash to research, develop, purchase, produce, distribute, and market products and services as well as receiving cash from selling products and services; (2) financing, which are the cash inflows and cash outflows related to stockholder investments and dividends and long-term borrowing and repaying cash from lending and (3) investing, which represent the cash inflows and outflows from the purchase and sale of long-term assets.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Identify and describe the four basic financial statements:

Answer: The four basic financial statements are the balance sheet, income statement, statement of retained earnings and statement of cash flows. The balance sheet describes the company’s financial position and lists the types and amounts of assets, liabilities, and equity at a point in time. The income statement describes the company’s revenues, expenses, and net income over a period of time. The statement of retained earnings explains changes in equity from net income or loss, and from stockholder dividends over a period of time. The statement of cash flows reports on cash flows for operating, investing, and financing activities over a period of time.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

***Problems***

1. The characteristics below apply to at least one of the forms of business organization.   
   a. Is a separate legal entity.  
   b. Is allowed to be owned by one person only.  
   c. Owner or owners are personally liable for debts of the business.  
   d. Is a separately taxable entity.  
   e. Is a business entity.  
   f. May have a contract specifying the division of profits among the owners.  
   g. Has an unlimited life  
     
   Use the following format to indicate (with a “yes” or “no”) whether or not a characteristic applies to each type of business organization.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Proprietorship | Partnership | Corporation |
| a. |  |  |  |
| b. |  |  |  |
| c. |  |  |  |
| d. |  |  |  |
| e. |  |  |  |
| f. |  |  |  |
| g. |  |  |  |

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Proprietorship | Partnership | Corporation |
| a. | no | no | yes |
| b. | yes | no | yes |
| c. | yes | yes | no |
| d. | no | no | yes |
| e. | yes | yes | yes |
| f. | no | yes | no |
| g. | no | no | yes |

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: $570,000. The Measurement (Cost) principle requires the acquisition of an asset to be recorded in the accounting records at cost.

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. You are reviewing the accounting records of Buddy’s Foreign Automotive, owned by Bruce Jones, its sole stockholder. You have uncovered the following situations. List the appropriate accounting principle related to each independent scenario and suggest a correct action for each .  
    1. In August, a check for $500 was written to Community Sports. This amount represents soccer camp for his daughter Cassie.  
    2. Bruce plans a Going Out of Business Sale for June, since he will be closing the business for a month-long vacation in July. He plans to reopen August 1 and will continue operating Buddy’s Foreign Automotive indefinitely.  
    3. Buddy received a shipment of tools from Ontario, Canada. The invoice was stated in Canadian dollars.  
    4. Sandy Lane paid $1,500 for a major repair services. The amount was recorded as revenue. The parts for the repair must be ordered from overseas and the service won’t be complete until the following month.

Answer:

1. Business entity assumption. Buddy should refund the $500 to the business or record it as a dividend. In the future, he should use a personal check to pay for soccer camp.  
2. Going-concern assumption. Buddy’s Foreign Automotive is not going out of business. The business is just closing for vacation. He could hold an appropriate sale to generate extra business before going on vacation.  
3. Monetary unit assumption. The invoice should be restated in U.S. dollars for accounting purposes.  
4. Revenue recognition principle. Since the service has not been completed, revenue should not be recognized. The $1,500 should be placed in an account such as Deposits Received from Customers (a type of unearned revenue) until the service is completed.

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry*

*AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-C4  
Topic: Generally Accepted Accounting Principles*

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

Answer: Beginning equity = $80,000; Ending equity = $260,000

*Feedback:*

*Beginning Assets = Beginning Liabilities + Beginning Equity*

*$200,000 = $120,000 + $80,000*

*Ending Assets = Ending Liabilities + Ending Equity*

*$360,000 = $100,000 + $260,000*

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1  
Learning Objective: 01-P2*

*Topic: The Accounting Equation*

*Topic: Financial Statements*

1. At the beginning of the period, a company had $350,000 worth of assets, $110,000 worth of liabilities, and $240,000 worth of equity. Assume the only change during the period was a $30,000 purchase of equipment by issuing a note payable. Show the accounting equation with the appropriate amounts at the end of the period.

Answer: $380,000 = $140,000 + $240,000

*Feedback:*

*Ending assets = $350,000 + $30,000*

*Ending liabilities = $110,000 + $30,000*

*Ending equity = $240,000 (no change)*

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1  
Topic: Transaction Analysis*

1. The accounts of Odie Company with the increases or decreases that occurred during the past year are as follows:   
     
   Account Increase Decrease

Cash $25,000

Accounts receivable $(5,000)

Accounts payable (11,000)

Notes payable 16,000

Except for net income, an investment of $3,000 by its sole stockholder in exchange for common stock, and a dividend of $11,000 to its stockholder, no other items affected equity. Using the balance sheet equation, compute net income for the past year.

Answer: $23,000

*Feedback:*

Assets = Liabilities + Equity

Assets Increased by $20,000; Liabilities Increased by $5,000; Therefore, Equity needs to Increase by $15,000.

Change in Equity = Stockholder Investments + Net Income – Dividends

Increase of $15,000 = $3,000 + Net Income – $11,000

$15,000 = Net Income – $8,000

Net Income = $23,000

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-P1  
Learning Objective: 01-P2*

*Topic:*  *Transaction Analysis*

*Topic: Financial Statements*

1. The accounts of Mason Company at the end of the past year report the following amounts:   
     
   Accounts Amount

Dividends……. $15,500

Revenues…………………………… $97,000

Expenses……………………………. $43,800

Stock issuances………………..... 2,000

If the beginning equity for the year was $173,000, calculate the ending equity for Mason Company.

Answer: $212,700

*Feedback:*

*Beginning Equity + Stock Issuances – Dividends + Revenues – Expenses = Ending Equity  
 $173,000 + $2,000 – $15,500 + $97,000 – $43,800 = $212,700*

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P2  
Topic: Financial Statements*

1. Cornelia’s Closet has the following account balances for the dates given:

October 1 October 31

Cash $40,000 60,000

Accounts Receivable 40,000 38,000

Accounts payable 6,000 ?

Also, its net income, for October 1 through October 31 was $20,000 and there were no dividends or stock issuances. Determine the equity at both October 1 and October 31.

Answer: October 1st Equity = $74,000; October 31st Equity = $94,000

*Feedback:*

Total assets:

October 1 October 31

Cash $40,000 60,000

Accounts Receivable 40,000 38,000

Total assets $80,000 $98,000

At October 1:  
Assets = Liabilities + Equity  
$80,000 = $6,000 + Equity  
Equity = $74,000  
  
At October 31:

Equity, September 1 $74,000

Plus September net income 20,000

Equity, September 30 $94,000   
  
or:  
October 1 Equity + Net Income + October 31 Equity  
$74,000 + $20,000 = $94,000

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-P1*

*Learning Objective: 01-P2*

*Topic:*  *Transaction Analysis*

*Topic: Financial Statements*

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

Answer: Assets increased by $62,000.

*Feedback:* Assets = Liabilities + Equity  
 $62,000 = $92,000 – $30,000

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Soo Lin began an Internet Consulting practice and completed these transactions during April of the current year:

|  |  |  |
| --- | --- | --- |
| April. | 1 | Invested $100,000 of her personal savings into a checking account opened in the name of the business in exchange for common stock. |
|  | 2 | Rented office space and paid $1,200 cash for the month of September. |
|  | 3 | Purchased office equipment for $30,000, paying $8,000 cash and agreeing to pay the balance in one year. |
|  | 4 | Purchased office supplies for $750 cash. |
|  | 8 | Completed work for a client and immediately collected $2,700 cash for the services. |
|  | 15 | Completed $3,600 services for a client on credit. |
|  | 20 | Received $3,600 from a client for the work completed on September 15. |
|  | 30 | Paid the office secretary’s monthly salary, $3,000 cash. |
|  | 30 | The company paid Lin $2,000 as a dividend. |

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

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Assets | Liabilities | Equity |
| **Example:** |  |  |  |
| April 1 | I | N | I |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Assets | Liabilities | Equity |
| April 1 | I | N | I |
| April 2 | D | N | D |
| April 3 | I,D | I | N |
| April 4 | I,D | N | N |
| April 8 | I | N | I |
| April 15 | I | N | I |
| April 20 | I,D | N | N |
| April 30 | D | N | D |
| April 30 | D | N | D |

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-P1  
Topic:*  *Transaction Analysis*

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| a. | L. Chester invested $100,000 in exchange for common stock. |  | +A |  | +E |
| b. | Land was purchased for $50,000.  A down payment of $15,000 cash was made and a note was signed for the balance. |  |  |  |  |
| c. | Services were rendered to customers for cash. |  |  |  |  |
| d. | A building was purchased for cash. |  |  |  |  |
| e. | Supplies were purchased for cash. |  |  |  |  |
| f. | Paid the office secretary’s salary. |  |  |  |  |
| g. | The amount owed on the land from Part (b) was paid. |  |  |  |  |

Answer:

a. +A +E  
b. +A +L  
c. +A +E  
d. +A –A  
e. +A –A  
f. -A –E  
g. –A –L

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-P1*

*Topic:*  *Transaction Analysis*

1. The following schedule reflects shows the first month’s transactions of the Green Construction Company; Jennifer Green is its sole stockholder:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Accounts** |  |  |  |  |  | **Accounts** |  | |
|  | **Cash** | + | **Receivable** | + | **Supplies** | + | **Equipment** | = | **Payable** | + | **Equity** |
| 1. | +20,000 |  |  |  |  |  |  |  |  |  | +20,000 |
| 2. | –5,000 |  |  |  |  |  | +5,000 |  |  |  |  |
| 3. |  |  |  |  | +$1,500 |  |  |  | +1,500 |  |  |
| 4. | +3,000 |  |  |  |  |  |  |  |  |  | +3,000 |
| 5. | +1,000 |  | +1,500 |  |  |  |  |  |  |  | +2,500 |
| 6. | –750 |  |  |  |  |  |  |  | –750 |  |  |
| 7. | +500 |  | –500 |  |  |  |  |  |  |  |  |
| 8. |  |  |  |  | –400 |  |  |  |  |  | –400 |
| 9. | –2,000 |  |  |  |  |  |  |  |  |  | –2,000 |

Provide descriptions for each transaction.

Answer:

1. Investment of cash in business by stockholder *or* performed services for cash.  
2. Purchased equipment for cash.  
3. Purchased supplies on credit.  
4. Performed services for cash *or* investment of cash in business by stockholder in exchange for stock.  
5. Performed services for both cash and on credit.  
6. Paid accounts payable.  
7. Received cash for an account receivable.  
8. Used supplies in business.  
9. Cash dividend paid to stockholder *or* paid expense of business.

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-P1*

*Topic: Transaction Analysis*

*Topic: Accounting Equation*

1. The accountant of Action Adventure Games prepared a balance sheet after every 10 day period. The only resources invested by its sole stockholder were at the start of the company on June 1. During June, the first month of operation, the following balance sheets were prepared:

|  |  |  |  |
| --- | --- | --- | --- |
| ACTION ADVENTURE GAMES Balance Sheet June 10 | | | |
| Assets |  | Equity |  |
| Cash…………………….. | $60,000 | Common stock…………….. | $60,000 |
| Total assets……………… | $60,000 | Total liabilities and equity…………………….. | $60,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| ACTION ADVENTURE GAMES Balance Sheet June 20 | | | |
| Assets |  | Liabilities |  |
| Cash……………………. | $48,000 | Notes payable……. | $18,000 |
| Land……………………. | 10,000 | Equity |  |
| Building………………… | 20,000 | Common stock….. | 60,000 |
| Total assets………….. | $78,000 | Total liabilities and equity…………….. | $78,000 |

 

|  |  |  |  |
| --- | --- | --- | --- |
| ACTION ADVENTURE GAMES Balance Sheet June 30 | | | |
| Assets |  | Liabilities |  |
| Cash……………………. | $51,000 | Accounts payable…. | $2,000 |
| Office supplies………… | 2,000 | Notes payable……. | 18,000 |
| Land……………………. | 10,000 | Equity |  |
| Building………………… | 20,000 | Common stock….. | 60,000 |
|  |  | Retained earnings | 3,000 |
| Total assets………….. | $83,000 | Total liabilities and equity…………….. | $83,000 |

Required: Describe the nature of each of the four transactions that took place between the balance sheet dates shown. Assume only one transaction affected each account.

|  |  |  |
| --- | --- | --- |
| June |  |  |
|  | 10 |  |
|  | 20 |  |
|  | 30 |  |
|  |  |  |

Answer:

|  |  |  |
| --- | --- | --- |
| June | 10 | The owner invested $60,000 cash in the company in exchange for common stock. |
|  | 20 | Land and building were purchased for $12,000 cash and an $18,000 note payable. |
|  | 30 | Office supplies were purchased for $2,000 on account. Cash was received for $3,000 of services provided. |
|  |  |  |
|  |  |  |

 Blooms: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-P1

Learning Objective: 01-P2

Topic: Accounting Equation

Topic: Transaction Analysis

Topic: Financial Statements

1. Identify the risk and the return in each of the following examples.   
   a. Investing $500 in a certificate of deposit at 4.5% interest.  
   b. Placing a $100 bet on an NBA game.  
   c. Investing $10,000 in Microsoft stock.  
   d. Borrowing $20,000 in student loans.

Answer:

a. The risk involved is that the investor may need the money in the CD before the CD matures and would have to give up the interest. The return is the 4.5% interest on the $500 invested in the CD.  
b. The risk is that the team bet on may not beat the point spread and the bet would be lost. The return would be any winnings based on the odds.  
c. The risk is that the value of Microsoft stock could go down. The return would come from increase in the value of the stock.  
d. The risk is that the student might not be able to find a job that pays enough to live on and allow for loan payments with interest. The return is that the student would be able to finance an education and earn higher wages.

*Blooms: Apply*  
*AACSB: Reflective Thinking  
AICPA BB: Critical Thinking  
AICPA FN: Risk Analysis  
Difficulty: 3 Hard  
Learning Objective: 01-A3*

*Topic: Return and Risk Analysis*

1. Prepare a April 30 balance sheet in proper form for Two Rivers Vending Service from the following alphabetical list of the accounts at April 30:

|  |  |
| --- | --- |
| Accounts receivable………………………. | $10,000 |
| Accounts payable………………………….. | 18,000 |
| Building…………………………………….... | 28,000 |
| Cash………………………….…………….... | 10,000 |
| Notes payable………………………………. | 47,000 |
| Office equipment……………...…………….. | 12,000 |
| Stockholders’ equity………………………. | ? |
| Trucks……………………………………….. | 55,000 |

  Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| TWO RIVERS VENDING SERVICE Balance Sheet April 30 | | | |
| Assets |  | Liabilities |  |
| Cash…………………….. | $ 10,000 | Accounts payable……… | $ 18,000 |
| Accounts receivable…… | 10,000 | Notes payable………….. | 47,000 |
| Office equipment………. | 12,000 | Total liabilities………… | $ 65,000 |
| Building…………………. | 28,000 |  |  |
| Trucks………………….. | 55,000 |  |  |
|  |  | Stockholders equity…….. | 50,000 |
| Total assets……………. | $115,000 | Total liabilities and equity……………………. | $115,000 |

*Blooms: Create*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2  
Topic: Financial Statements*

1. Prepare a December 31 balance sheet in proper form for Smokey River Supplies from the following list of the accounts:

|  |  |
| --- | --- |
| Cash………………………….……………......... | $10,000 |
| Accounts receivable…………………………….. | 8,000 |
| Supplies…………………………………………. | 12,000 |
| Equipment…………………………………….. | 35,000 |
| Land…………………………………….............. | 18,000 |
| Accounts payable…………………………….. | 13,000 |
| Notes payable……………………………….…. | 41,000 |
| Common stock………………………….….. | 20,000 |
| Retained earnings | 9,000 |

  Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| SMOKEY RIVER SUPPLIES Balance Sheet December 31 | | | |
| Assets |  | Liabilities |  |
| Cash…………………….. | $10,000 | Accounts payable……… | $13,000 |
| Accounts receivable…… | 8,000 | Notes payable………….. | 41,000 |
| Supplies……………….... | 12,000 | Total liabilities…………… | $54,000 |
| Equipment………………. | 35,000 |  |  |
| Land…………………….. | 18,000 | Equity |  |
|  |  | Common stock…….. | 20,000 |
|  |  | Retained earnings | 9,000 |
| Total assets……………. | $83,000 | Total liabilities and equity……………………. | $83,000 |

*Blooms: Create*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Prepare a December 31 balance sheet in proper form for Cane Property Management using the following accounts and amounts:

|  |  |
| --- | --- |
| Commissions earned……............ | $40,000 |
| Accounts payable……………… | 3,500 |
| Accounts receivable…………… | 5,000 |
| Common stock……………… | 100,000 |
| Retained earnings | 4,500 |
| Office equipment………………. | 10,000 |
| Advertising expense…………. … | 3,200 |
| Cash……………………………. | 7,500 |
| Land............................................... | 35,000 |
| Note payable................................. | 50,000 |
| Office supplies.............................. | 1,500 |
| Salaries expense........................... | 12,000 |
| Salaries payable........................... | 1,000 |
| Building......................................... | 100,000 |

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| CANE PROPERTY MANAGEMENT Balance Sheet December 31 | | | |
| Assets |  | Liabilities |  |
| Cash…………………….. | $ 7,500 | Accounts payable……….. | $ 3,500 |
| Accounts receivable…… | 5,000 | Salaries payable………….. | 1,000 |
| Office supplies…………. | 1,500 | Note payable……………… | 50,000 |
| Land…………………….. | 35,000 | Total liabilities…………….. | $ 54,500 |
| Building…………………. | 100,000 | Equity |  |
| Office equipment………. | 10,000 | Common stock………… | 100,000 |
|  |  | Retained earnings | 4,500 |
| Total assets……………. | \_\_\_\_\_\_\_\_\_\_ $159,000 | Total liabilities and Equity | $159,000 |

*Blooms: Create*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. From the information given below, prepare a November income statement, a November statement of retained earnings, and a November 30 balance sheet. On November 1 of the current year, Victoria Garza, the sole stockholder, began Garza Décor with an initial investment of $50,000 cash in exchange for common stock. On November 30, her records showed the following items and amounts.

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable……………. | $12,000 | Office furnishings……….. | $40,000 |
| Accounts receivable………. | 19,000 | Rent expense…………… | 9,600 |
| Cash……………………… | 21,200 | Salaries expense………. | 4,200 |
| Dividends……. | 6,000 | Telephone expense……. | 250 |
| Fees earned………………. | 34,000 | Common stock | 50,000 |
| Notes payable………………… | 4,250 |  |  |

 Answer:

|  |  |  |
| --- | --- | --- |
| GARZA DÉCOR  Income Statement For Month Ended November 30 | | |
| Revenue: |  |  |
| Fees earned……………………….. |  | $34,000 |
| Operating expenses: |  |  |
| Rent expense……………………………. | $9,600 |  |
| Salaries expense………………………… | 4,200 |  |
| Telephone expense……………………… | 250 | 14,050 |
| Net income…………………………………….. |  | $19,950 |

|  |  |  |
| --- | --- | --- |
| GARZA DÉCOR  Statement of Retained Earnings For Month Ended November 30 | | |
| Retained Earnings, November 1……………………….. | | $ 0 |
| Plus: Net income……………………………. |  | 19,950 |
| Less: Dividends……………………. |  | (6,000) |
| Retained Earnings, November 30………………. |  | $13,950 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | |  |  | |
| GARZA DECOR Balance Sheet November 30 | | | | | | |
| Assets |  | Liabilities | | |  | |
| Cash…………………….. | $21,200 | Accounts payable……….. | | | $12,000 | |
| Accounts receivable…… | 19,000 | Notes payable………….... | | | 4,250 | |
| Office furnishings……….. | 40,000 | Total liabilities…………….. | | | $16,250 | |
|  |  | Equity | | |  | |
|  |  | Common stock | | | 50,000 | |
|  |  | Retained earnings………… | | | 13,950 | |
| Total assets……………. | $80,200 | Total liabilities and  equity……………………… | | | $80,200 | |

*Blooms: Create*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Data for Kennedy Realty are as follows:

|  |  |  |
| --- | --- | --- |
|  | Total assets at January 1 | $100,000 |
|  | Total liabilities at January 1 | 35,000 |
|  | Common stock at January 1 | 50,000 |
|  | Total revenues for the year | 79,000 |
|  | Total expenses for the year | 47,000 |
|  |  |  |

Cash dividends of $30,000 were paid to its sole stockholder, Finn Kennedy, during the year. No stock was issued during the year. Using the above data, prepare Kennedy Realty’s Statement of Retained Earnings for the year ended December 31.

Answer:

|  |  |
| --- | --- |
|  | KENNEDY REALTY  Statement of Retained Earnings  For year Ended December 31 |
|  | Retained earnings, January 1\* | $ 15,000 | \* |
|  | Plus Net income | 32,000 |  |
|  |  | $ 47,000 |  |
|  | Less Dividends | (30,000 | ) |
|  | Retained earnings, December 31 | $ 17,000 |  |
|  |  |  |  |
|  | \*Total assets at January 1 | $100,000 |  |
|  | Less total liabilities at January 1 | 35,000 |  |
|  | Total equity at January 1 | $ 65,000 |  |
|  | Common stock at January 1……………. | 50,000 |  |
|  | Retained earnings at January 1 | $ 15,000 |  |
|  |  |  |  |

*Blooms: Create  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

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

|  |  |  |
| --- | --- | --- |
| a. | Beginning cash balance…………….. | $ 3,200 |
| b. | Cash received from stock issuance. | 15,000 |
| c. | Cash payment toward long-term loan | 1,000 |
| d. | Cash payment of rent……………….. | 1,800 |
| e. | Purchased equipment for cash…….. | 7,500 |
| f. | Purchased store supplies for cash… | 1,500 |
| g. | Cash collected from customers……. | 7,750 |
| h. | Cash dividends paid………….. | 2,000 |
| i. | Cash payment of wages……………. | 4,000 |

Answer:

|  |  |  |
| --- | --- | --- |
| Jet Styling Statement of Cash Flows For Month Ended January 31 | | |
| Cash flows from operating activities: |  |  |
| Cash collected from customers………………… | $ 7,750 |  |
| Cash paid for supplies…………………………… | (1,500) |  |
| Cash paid for rent………………………………… | (1,800) |  |
| Cash paid for wages…………………………….. | (4,000) |  |
| Cash flows from operating activities………………… |  | $ 450 |
| Cash flows from investing activities: |  |  |
| Purchase of equipment…………………………. |  | (7,500) |
| Cash flows from financing activities: |  |  |
| Cash received from issuance of common stock………………. | 15,000 |  |
| Cash dividends paid…………………………… | (2,000) |  |
| Payment of loan………………………………… | (1,000) |  |
| Cash flows from financing activities……………….. |  | 12,000 |
| Net increase in cash………………………………… |  | $ 4,950 |
| Beginning cash balance……………………………. |  | 3,200 |
| Ending cash balance……………………………….. |  | $ 8,150 |

*Blooms: Create*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. The records of Roadmaster Auto Rentals show the following information as of December 31. The sole stockholder, Rob Fletcher received dividends of $52,000 during the year. Prepare a December income statement, a December statement of retained earnings, and a December 31 balance sheet.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Accounts payable | $36,000 |  | Wages expense | $75,000 |
| Insurance expense | 2,000 |  | Advertising expense | 22,000 |
| Accounts receivable | 24,000 |  | Cash | 11,000 |
| Common stock | 60,000 |  | Office Furniture | 15,000 |
| Airplanes | 150,000 |  | Maintenance expense | 39,000 |
| Notes payable | 47,000 |  | Revenues | 217,000 |
| Hangar | 60,000 |  | Retained earnings, January 1…….. | 90,000 |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | ROADMASTER AUTO RENTALS  Income Statement  For Year Ended December 31 | | | |
|  | Revenues |  | $ 217,000 |
|  | Expenses: |  |  |
|  | Insurance expense | $ 2,000 |  |
|  | Wages expense | 75,000 |  |
|  | Advertising expense | 22,000 |  |
|  | Maintenance expense | 39,000 |  |
|  | Total expenses |  | $ 138,000 |
|  | Net income |  | $ 79,000 |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | ROADMASTER AUTO RENTALS  Statement of Retained Earnings  For Year Ended December 31 | | |
|  | Retained earnings, January 1 | $90,000 |  |
|  | Add: Net income | 79,000 |  |
|  | Less: Dividends | (52,000 | ) |
|  | Retained earnings, December 31 | $117,000 |  |
|  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | ROADMASTER AUTO RENTALS  Balance Sheet  December 31 | | | | |
|  | Assets |  |  | Liabilities |  |
|  | Cash | $ 11,000 |  | Accounts payable | $ 36,000 |
|  | Accounts receivable | 24,000 |  | Notes payable | 47,000 |
|  | Airplanes | 150,000 |  | Total liabilities | $ 83,000 |
|  | Hangar | 60,000 |  | Equity |  |
|  | Office furniture | 15,000 |  | Common stock | 60,000 |
|  |  | \_\_\_\_\_\_\_ |  | Retained earnings | 117,000 |
|  | Total assets | $260,000 |  | Total liabilities and equity | $260,000 |

*Blooms: Create*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. Verity Siding Company, whose sole stockholder is S. Verity, began operations in May and completed the following transactions during that first month of operations. Show the effects of the transactions on the accounts of the accounting equation by recording increases and decreases in the appropriate columns in the table below. Do not determine new account balances after each transaction. Determine the final total for each account and verify that the equation is in balance.

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

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **VERITY SIDING CO.** | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
|  | **Assets = Liabilities** | | | | | **+** | **Equity** | | |
| **Date** |  | **Accounts** |  | **Accounts** | **Notes** | **Common** |  |  |  |
| **May** | **Cash** | **Receivable** | **Equipment** | **Payable** | **Payable** | **Stock** | **Dividends** | **Revenues** | **Expenses** |
| 1 |  |  |  |  |  |  |  |  |  |
| 2 |  |  |  |  |  |  |  |  |  |
| 2 |  |  |  |  |  |  |  |  |  |
| 6 |  |  |  |  |  |  |  |  |  |
| 7 |  |  |  |  |  |  |  |  |  |
| 8 |  |  |  |  |  |  |  |  |  |
| 9 |  |  |  |  |  |  |  |  |  |
| 15 |  |  |  |  |  |  |  |  |  |
| 17 |  |  |  |  |  |  |  |  |  |
| 20 |  |  |  |  |  |  |  |  |  |
| 28 |  |  |  |  |  |  |  |  |  |
| 31 |  |  |  |  |  |  |  |  |  |
| 31 |  |  |  |  |  |  |  |  |  |
| 31 |  |  |  |  |  |  |  |  |  |
|  | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

Answer:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  | |  | |
|  | **Assets =** | | | | | **Liabilities +** | **Equity** | | | | |
| **Date** |  | **Accounts** |  | **Accounts** | **Notes** | **Common** |  | |  | |  |
| **May** | **Cash** | **Receivable** | **Equipment** | **Payable** | **Payable** | **Stock** | **Dividends** | | **Revenues** | | **Expenses** |
| 1 | 90,000 |  |  |  |  | 90,000 |  | |  | |  |
| 2 | (10,000) |  | 25,000 |  | 15,000 |  |  | |  | |  |
| 2 | (3,000) |  |  |  |  |  |  | |  | | (3,000) |
| 6 | 5,000 |  |  |  |  |  |  | | 5,000 | |  |
| 7 | (2,000) |  |  |  |  |  |  | |  | | (2,000) |
| 8 |  |  | 2,500 | 2,500 |  |  |  | |  | |  |
| 9 |  | 16,000 |  |  |  |  |  | | 16,000 | |  |
| 15 | (2,300) |  |  |  |  |  |  | |  | | (2,300) |
| 17 | 2,400 |  |  |  |  |  |  | | 2,400 | |  |
| 20 | 10,000 | (10,000) |  |  |  |  |  | |  | |  |
| 28 | (1,500) |  |  | (1,500) |  |  |  | |  | |  |
| 31 | (2,400) |  |  |  |  |  |  | |  | | (2,400) |
| 31 | (5,300) |  |  |  |  |  |  | |  | | (5,300) |
| 31 | (450) |  |  |  |  |  |  | |  | | (450) |
|  | 80,450 | 6,000 | 27,500 | 1,000 | 15,000 | 90,000 | - | | 23,400 | | (15,450) |

*Blooms: Apply*

*Blooms: Analyze  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P1*

*Topic:*  *Transaction Analysis*

***Fill in the Blank Questions***

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is an information and measurement system that identifies, records and communicates relevant, reliable and comparable information about an organization’s economic activities.

Answer: Accounting

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C1*

*Topic: Importance of Accounting*

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

Answer: Sole proprietorship

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Generally Accepted Accounting Principles*

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

Answer: External

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Users of Accounting Information*

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the area of accounting aimed at serving external users by providing them with general-purpose financial statements.

Answer: Financial accounting

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C2  
Topic: Users of Accounting Information*

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

Answer: Sarbanes-Oxley Act

*Blooms: Remember*  
*AACSB: Communication*

*AACSB: Ethics  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy*

*Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. \_\_\_\_\_\_\_\_\_ are beliefs that separate right from wrong and are considered accepted standards of good and bad behavior.

Answer: Ethics

*Blooms: Remember*

*AACSB: Communication*  
*AACSB: Ethics  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C3*

*Topic: Ethics*

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

Answer: business entity

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ principle requires that financial information is supported by independent, unbiased evidence.

Answer: objectivity

*Bloom’s: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: going-concern

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: monetary unit

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: Measurement (Cost) principle

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: unlimited liability

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

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

Answer: limited partnership, limited liability partnership, limited liability company

*Feedback: answers can appear in any order*

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

1. There are three major types of business activities. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ activities are the means organizations use to pay for resources such as land, building, and equipment to carry out plans.

Answer: Financing

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities and the Accounting Equation*

1. There are three major types of business activities. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ activities involve the acquisition and disposal of resources that an organization uses to acquire and sell its products or services.

Answer: Investing

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities and the Accounting Equation*

1. There are three major types of business activities. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ activities involve using resources to research, develop, purchase, produce, distribute, and market products and services and receiving amounts from selling products and services.

Answer: Operating

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities and the Accounting Equation*

1. Resources such as cash distributed to the owners of a corporation are called \_\_\_\_\_\_\_\_\_\_\_\_.

Answer: Dividends

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. \_\_\_\_\_\_\_\_\_\_\_\_ are the increases in equity from a company’s sales of products and services to customers.

Answer: Revenues

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

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

Answer: assets

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Creditors’ claims on assets that reflect company obligations to provide assets, products, or services to others are called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Answer: liabilities

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. Owner claims on assets, also known as net assets, is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Answer: equity

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. The accounting equation is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Answer: Assets = Liabilities + Equity

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

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

Answer: payable

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

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

Answer: assets minus liabilities

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: The Accounting Equation*

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, which is one part of accounting, is the recording of transactions and events, either manually or electronically.

Answer: Record-keeping or Bookkeeping

*Blooms: Remember*  
*AACSB: Communications  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C1*

*Topic: Importance of Accounting*

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

Answer: Return on assets

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A2*

*Topic: Return on Assets*

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

Answer: uncertainty

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Risk Analysis  
Difficulty: 1 Easy  
Learning Objective: 01-A3*

*Topic: Return and Risk Analysis*

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ explains changes in the stockholders’ claim on the business’s assets from net income or loss, and dividends over a period of time.

Answer: The statement of retained earnings

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

1. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ describes a company’s revenues and expenses along with the resulting net income or net loss over a period of time due to earnings activities.

Answer: income statement

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*