

ch1

Student: _____

1. A business entity's accounting system creates financial accounting reports which are provided to external decision makers.
True False
2. Business managers utilize managerial accounting reports to plan and manage the daily operations.
True False
3. The balance sheet includes assets, liabilities and stockholders' equity as of a point in time.
True False
4. Revenue is recognized within the income statement during the period in which cash is collected.
True False
5. Total assets are \$37,500, total liabilities are \$20,000 and contributed capital is \$10,000; therefore, retained earnings are \$7,500.
True False
6. The income statement is a measure of an entity's economic performance for a period of time.
True False
7. The accounting equation states that $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$.
True False
8. A decision maker who wants to understand a company's financial statements must carefully read the notes to the financial statements because the notes provide useful supplemental information.
True False
9. The financial statement that shows an entity's economic resources and claims against those resources is the balance sheet.
True False
10. Assets are initially recorded on the balance sheet at the total cost paid to acquire the asset.
True False
11. Stockholders' equity on the balance sheet consists of contributed capital and retained earnings.
True False

12. The amount of cash paid by a business for dividends would be reported on the statement of cash flows as an operating activity.

True False

13. A company's retained earnings balance increased \$50,000 last year; therefore, net income last year must have been \$50,000.

True False

14. The statement of retained earnings explains the change in the retained earnings balance caused by stockholder investments and dividend declarations.

True False

15. The Financial Accounting Standards Board (FASB) has been given the authority by the Securities and Exchange Commission (SEC) to develop generally accepted accounting principles.

True False

16. In the United States, the Securities and Exchange Commission (SEC) is considering the adoption of International Financial Reporting Standards (IFRS).

True False

17. The primary responsibility for the content of the financial statements lies with the external auditor.

True False

18. An audit examines the financial statements provided by management to ensure that they represent what they claim and to make sure that they are in compliance with Generally Accepted Accounting Principles.

True False

19. The auditor can be held liable for malpractice in situations where the investors suffered losses while relying on the financial statements.

True False

20. One of the advantages of a corporation when compared to a partnership is the limited liability of the owners.

True False

21. Which of the following describes the primary objective of the balance sheet?

- A. To measure the net income of a business up to a particular point in time.
- B. To report the difference between cash inflows and cash outflows for the period.
- C. To report the financial position of the reporting entity at a particular point in time.
- D. To report the market value of assets, liabilities and stockholders' equity at a particular point in time.

22. During the fiscal year ended 2010, a company had revenues of \$400,000, expenses of \$280,000, and an income tax rate of 30 percent. What was the company's 2010 net income?
- A. \$120,000
 - B. \$36,000
 - C. \$84,000
 - D. \$400,000
23. Atlantic Corporation reported the following amounts at the end of the first year of operations: contributed capital \$200,000; sales revenue \$800,000; total assets \$600,000; dividends declared \$40,000; and total liabilities \$320,000. What are Atlantic's retained earnings at the end of the year and how much expenses were incurred during the year?
- A. Retained earnings are \$80,000 and expenses incurred totaled \$680,000.
 - B. Retained earnings are \$80,000 and expenses incurred totaled \$720,000.
 - C. Retained earnings are \$280,000 and expenses incurred totaled \$480,000.
 - D. Retained earnings are \$280,000 and expenses incurred totaled \$520,000.
24. Which of the following best describes the balance sheet?
- A. It includes a listing of assets at their market values.
 - B. It includes a listing of assets, liabilities, and stockholders' equity at their market values.
 - C. It provides information pertaining to a company's assets and the providers of the assets.
 - D. It provides information pertaining to a company's liabilities for a period of time.
25. Which of the following statements is correct?
- A. Assets on the balance sheet include retained earnings.
 - B. Retained earnings include contributed capital.
 - C. The balance sheet equation states that assets equal contributed capital.
 - D. A corporation's net income does not necessarily equal its cash flow from operations.
26. Which of the following correctly describes the various financial statements?
- A. An income statement covers a period of time.
 - B. The cash flow statement is a point in time financial statement.
 - C. The balance sheet is a period of time financial statement.
 - D. The statement of retained earnings is a point in time financial statement.
27. Which of the following accounts would not be reported on the balance sheet?
- A. Retained earnings
 - B. Inventory
 - C. Accounts payable
 - D. Dividends
28. Which of the following would not be found on the statement of cash flows?
- A. Cost flow from manufacturing activities
 - B. Cash flow from operating activities
 - C. Cash flow from investing activities
 - D. Cash flow from financing activities

29. Which of the following accounts is not a liability on the balance sheet?
- A. Retained earnings
 - B. Notes payable
 - C. Taxes payable
 - D. Interest payable
30. What financial statement would you look at to determine the dividends declared by a business?
- A. Income statement
 - B. Statement of retained earnings
 - C. Statement of cash flows
 - D. Balance sheet
31. Which financial statement would you utilize to determine whether a company will be able to pay liabilities which are due in 30 days?
- A. Income statement
 - B. Balance sheet
 - C. Statement of retained earnings
 - D. Statement of cash flows
32. Which of the following is considered to be an expense on the income statement?
- A. Accounts payable
 - B. Notes payable
 - C. Wages payable
 - D. Cost of goods sold
33. Which of the following best describes assets?
- A. They are equal to liabilities minus stockholders' equity.
 - B. They are considered to be the economic resources of the business.
 - C. They are all reported on the balance sheet at their current market value.
 - D. They equal contributed capital.
34. Which of the following accounts would be reported as assets on the balance sheet?
- A. Cash, accounts payable, and notes payable.
 - B. Cash, retained earnings, and accounts receivable.
 - C. Cash, accounts receivable, and inventory.
 - D. Inventories, property and equipment, and contributed capital.
35. Which of the following statements describes the balance sheet?
- A. It reports a company's revenues and expenses.
 - B. Assets are generally reported on the balance sheet at their historical cost.
 - C. Stockholders' equity includes only retained earnings.
 - D. It reports a company's cash flow from operations.

36. Which of the following best describes liabilities and stockholders' equity?
- A. They are the sources of financing an entity's assets.
 - B. They are the economic resources used by a business entity.
 - C. They are reported on the income statement.
 - D. They both increase when assets increase.
37. Which of the following equations is the balance sheet equation?
- A. $\text{Assets} + \text{Liabilities} = \text{Stockholders' Equity}$
 - B. $\text{Assets} + \text{Stockholder's Equity} = \text{Liabilities}$
 - C. $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$
 - D. $\text{Assets} = \text{Liabilities} + \text{Contributed Capital}$
38. Willie Company's retained earnings increased \$20,000 during 2010. What was Willie's 2010 net income or loss given that Willie declared \$25,000 of dividends during 2010?
- A. Net income was \$5,000.
 - B. Net income was \$45,000.
 - C. Net loss was \$45,000.
 - D. Net loss was \$5,000.
39. Which of the following are the components of stockholders' equity on the balance sheet?
- A. Contributed capital and long-term liabilities.
 - B. Contributed capital and property, plant, and equipment.
 - C. Retained earnings and notes payable.
 - D. Contributed capital and retained earnings.
40. Which financial statement would you use to determine a company's earnings performance during an accounting period?
- A. Balance sheet
 - B. Statement of retained earnings
 - C. Income statement
 - D. Statement of cash flows
41. Which of the following equations best describes the income statement?
- A. $\text{Assets} - \text{Liabilities} = \text{Stockholders' Equity}$
 - B. $\text{Net income} = \text{Revenues} + \text{Expenses}$
 - C. $\text{Net income} = \text{Revenues} - \text{Expenses}$.
 - D. $\text{Retained earnings} = \text{Net Income} + \text{Dividends}$

42. Lena Company has provided the following data (ignore income taxes):

2010 revenues were \$99,000.

2010 expenses were \$47,800.

Dividends declared and paid during 2010 totaled \$9,500.

Total assets on December 31, 2010 were \$177,000.

Total liabilities on December 31, 2010 were \$89,000.

Contributed capital on December 31, 2010 was \$28,000.

Which of the following is correct?

A. 2010 net income was \$41,700.

B. Total stockholders' equity on December 31, 2010 was \$236,000.

C. Retained earnings on December 31, 2010 were \$60,000.

D. Retained earnings on December 31, 2010 were \$41,700.

43. Lena Company has provided the following data (ignore income taxes):

2010 revenues were \$99,000.

2010 expenses were \$47,800.

Dividends declared and paid during 2010 totaled \$9,500.

Total assets on December 31, 2010 were \$177,000.

Total liabilities on December 31, 2010 were \$89,000.

Contributed capital on December 31, 2010 was \$28,000.

Which of the following is not correct?

A. 2010 net income was \$51,200.

B. Total stockholders' equity on December 31, 2010 was \$88,000.

C. Retained earnings increased \$41,700 during 2010.

D. Retained earnings on December 31, 2010 were \$41,700.

44. Madrid Company has provided the following data (ignore income taxes):

2010 revenues were \$77,500.

2010 net income was \$33,900.

Dividends declared and paid during 2010 totaled \$5,700.

Total assets on December 31, 2010 were \$217,000.

Total stockholders' equity on December 31, 2010 was \$123,000.

Retained earnings on December 31, 2010 were \$83,000.

Which of the following is not correct?

A. 2010 expenses were \$43,600.

B. Total liabilities on December 31, 2010 were \$94,000.

C. Retained earnings increased \$33,900 during 2010.

D. Contributed capital on December 31, 2010 was \$40,000.

45. Madrid Company has provided the following data (ignore income taxes):
2010 revenues were \$77,500.
2010 net income was \$33,900.
Dividends declared and paid during 2010 totaled \$5,700.
Total assets on December 31, 2010 were \$217,000.
Total stockholders' equity on December 31, 2010 was \$123,000.
Retained earnings on December 31, 2010 were \$83,000.
Which of the following is correct?
- A. 2010 expenses were \$37,900.
 - B. Total liabilities on December 31, 2010 were \$11,000.
 - C. Retained earnings increased \$28,200 during 2010.
 - D. Contributed capital on December 31, 2010 was \$206,000.
46. Which of the following is the amount of revenue reported on the income statement of a retail company?
- A. The cash collected from customers during the current period.
 - B. Both cash and credit sales for the period.
 - C. Cash sales for the period.
 - D. Cash sales and stockholders' investments.
47. On January 1, 2010 Miller Corporation had retained earnings of \$8,000,000. During 2010, Miller reported net income of \$1,500,000, declared dividends of \$500,000, and issued stock for \$1,000,000. What were Miller's retained earnings on December 31, 2010?
- A. \$7,000,000
 - B. \$9,500,000
 - C. \$9,000,000
 - D. \$7,500,000
48. What are the categories of cash flows that appear on a statement of cash flows?
- A. Cash flows from investing, financing, and service activities.
 - B. Cash flows from operating, production, and internal activities.
 - C. Cash flows from financing, production, and growth activities.
 - D. Cash flows from operating, investing, and financing activities.
49. When would a company report a net loss on the income statement?
- A. When revenues are less than the sum of expenses plus dividends during an accounting period.
 - B. If assets decreased during an accounting period.
 - C. If liabilities increased during an accounting period.
 - D. When expenses exceeded revenues for an accounting period.
50. Which of the following describes the amount of insurance expense reported on the income statement?
- A. The amount of cash paid for insurance in the current period.
 - B. The amount of cash paid for insurance in the current period less any unpaid insurance at the end of the period.
 - C. The amount of insurance used up (incurred) in the current period to help generate revenue.
 - D. The amount of cash paid for insurance that is reported within the statement of cash flows.

51. Which of the following would immediately cause a change in a corporation's retained earnings?
- A. Net income or net loss and declaration of dividends.
 - B. Declaration of dividends and issuance of stock to new stockholders.
 - C. Net income and issuance of stock to new stockholders.
 - D. Declaration of dividends and purchase of new machinery.
52. Which of the following describes the operations section of a cash flow statement?
- A. It provides information about how operations have been financed.
 - B. It provides information pertaining to dividend payments to stockholders.
 - C. It provides information with respect to a company's ability to generate cash flow to pay for goods and services.
 - D. It provides the net increase or decrease in cash during the period.
53. Within which of the following would you find the inventory method(s) being used by a business entity?
- A. Balance sheet
 - B. Income statement
 - C. Notes to the financial statements
 - D. Headings of the financial statements
54. At the beginning of 2010, a corporation had assets of \$270,000 and liabilities of \$160,000. During 2010, assets increased \$25,000 and liabilities increased \$5,000. What was stockholders' equity on December 31, 2010?
- A. \$140,000
 - B. \$130,000
 - C. \$190,000
 - D. \$80,000
55. During 2011, Canton Company's assets increased \$95,500 and their liabilities decreased \$17,300. Canton Company's stockholders' equity on December 31, 2011 was \$211,500. How much was stockholders' equity on January 1, 2011?
- A. \$98,700
 - B. \$324,300
 - C. \$133,300
 - D. \$289,700
56. How are creditor and investor claims reported on a balance sheet?
- A. The claims of creditors are liabilities and those of investors are assets.
 - B. The claims of both creditors and investors are liabilities, but only the claims of investors are considered to be long-term.
 - C. The claims of creditors are reported as liabilities while the claims of investors are recorded as stockholders' equity.
 - D. The claims of creditors and investors are considered to be essentially equivalent.

57. In what order would the items on the balance sheet appear?
- A. Assets, retained earnings, liabilities, and contributed capital.
 - B. Contributed capital, retained earnings, liabilities, and assets.
 - C. Assets, liabilities, contributed capital, and retained earnings.
 - D. Contributed capital, assets, liabilities, and retained earnings.
58. Which of the following would increase retained earnings?
- A. An increase in expenses.
 - B. An increase in revenues.
 - C. Declaring a cash dividend.
 - D. Issuing additional common stock.
59. A company's retained earnings increased \$375,000 last year and its assets increased \$973,000. The company declared a \$79,000 cash dividend during the year. What was last year's net income?
- A. \$296,000
 - B. \$375,000
 - C. \$454,000
 - D. \$519,000
60. Which of the following items is reported as an expense on the income statement?
- A. Dividends declared
 - B. Cost of goods sold
 - C. Dividends paid
 - D. Accounts payable
61. Which of the following has primary responsibility to develop Generally Accepted Accounting Principles?
- A. Financial Accounting Standards Board
 - B. American Accounting Association
 - C. Securities & Exchange Commission
 - D. Public Company Accounting Oversight Board
62. Which of the following has the legal authority to determine financial reporting in the United States?
- A. Financial Accounting Standards Board
 - B. American Accounting Association
 - C. Securities & Exchange Commission
 - D. Public Company Accounting Oversight Board
63. Which of the following is not reported as a liability on a balance sheet?
- A. Income taxes payable
 - B. Contributed capital
 - C. Accounts payable
 - D. Dividends declared

64. Which of the following transactions increases both cash and net income?
- A. Cash receipts from a bank loan.
 - B. Cash receipts from sale of stock.
 - C. Cash receipts from customers for services provided.
 - D. Cash receipts from a bond issue.
65. Which of the following properly describes the impact on the financial statements when a company reports wage expense of \$7,500, of which \$2,500 remains unpaid?
- A. Net income decreased \$9,000.
 - B. Cash decreased \$2,500.
 - C. Net income decreased \$7,500.
 - D. Cash decreased \$7,500.
66. Which of the following properly describes the impact on the financial statements when a company purchases and pays \$8,000 for supplies inventory, of which \$2,000 remains unused at the end of the period?
- A. Net income decreased \$6,000.
 - B. Cash decreased \$6,000.
 - C. Net income decreased \$8,000.
 - D. Cash decreased \$2,000.
67. Which of the following properly describes the impact on the financial statements when a company incurs operating expenses of \$9,000, of which \$3,000 remains unpaid?
- A. Net income decreased \$9,000.
 - B. Cash increased \$6,000.
 - C. Net income decreased \$3,000.
 - D. Cash decreased \$9,000.
68. Which of the following properly describes the impact on the financial statements when a company borrows \$20,000 from a local bank?
- A. Net income decreased \$20,000.
 - B. Assets decreased \$20,000.
 - C. Stockholders' equity increased \$20,000.
 - D. Liabilities increased \$20,000.
69. Which of the following would not be reported in the operating activities section of a cash flow statement?
- A. Cash paid for dividends to stockholders.
 - B. Cash paid for interest expense.
 - C. Cash paid for employee wages.
 - D. Cash received from customers.
70. Which of the following would be reported in the financing section of a cash flow statement?
- A. Cash paid for dividends to stockholders.
 - B. Cash paid for interest expense.
 - C. Cash paid to acquire equipment.
 - D. Cash received from sale of investments.

71. Which of the following would be reported in the investing section of a cash flow statement?
- A. Cash received from customers.
 - B. Cash received from the issue of stock.
 - C. Cash paid to repay a bank loan.
 - D. Cash paid to acquire stock of another company.
72. Which of the following statements is correct?
- A. The payment of a cash dividend reduces net income.
 - B. Cash received from an issuance of stock to stockholders is reported as a financing cash flow within the statement of cash flows.
 - C. Providing services to a customer on account doesn't impact net income.
 - D. Interest payments are reported within the statement of cash flows as a financing activity.
73. Husky Company has provided the following information for its most recent year of operation:
- Cash collected from customers totaled \$89,300.
 - Cash borrowed from banks totaled \$31,700.
 - Cash paid to employees totaled \$32,100.
 - Cash paid for interest totaled \$2,900.
 - Cash received from selling Husky stock to stockholders totaled \$41,000.
 - Cash payments to banks for repayment of money borrowed totaled \$7,500.
 - Cash paid for operating expenses totaled \$9,600.
 - Land costing \$25,000 was sold for \$25,000 cash.
 - Cash paid for dividends to stockholders totaled \$3,300.
- How much was Husky's cash flow from operating activities?
- A. \$47,600
 - B. \$44,700
 - C. \$41,400
 - D. \$37,200
74. Husky Company has provided the following information for its most recent year of operation:
- Cash collected from customers totaled \$89,300.
 - Cash borrowed from banks totaled \$31,700.
 - Cash paid to employees totaled \$32,100.
 - Cash paid for interest totaled \$2,900.
 - Cash received from selling Husky stock to stockholders totaled \$41,000.
 - Cash payments to banks for repayment of money borrowed totaled \$7,500.
 - Cash paid for operating expenses totaled \$9,600.
 - Land costing \$25,000 was sold for \$25,000 cash.
 - Cash paid for dividends to stockholders totaled \$3,300.
- How much was Husky's cash flow from financing activities?
- A. \$72,700
 - B. \$59,000
 - C. \$65,200
 - D. \$61,900

75. Sparty Corporation has provided the following information for its most recent year of operation:
Revenues earned were \$97,000, of which \$9,000 were uncollected at the end of the year.
Operating expenses incurred were \$39,000, of which \$7,000 were unpaid at the end of the year.
Dividends declared were \$11,000, of which \$3,000 were unpaid at the end of the year.
Income tax expense is 30% of pretax income.
How much net income was reported on Sparty's income statement?
- A. \$32,900
 - B. \$39,300
 - C. \$33,600
 - D. \$40,600
76. Which of the following statements is correct?
- A. Revenues are reported on the income statement regardless of whether the customer has paid for the goods or services.
 - B. Expenses are reported within the income statement during the period that they are paid for.
 - C. Net income includes a deduction for dividend payments made to stockholders.
 - D. Net income normally equals the net cash generated by operations.
77. During 2010, Rock Company's cash balance increased from \$79,000 to \$91,300. Rock's net cash flow from operating activities was \$37,300 and its net cash flow from financing activities was \$11,100. How much was Rock's net cash flow from investing activities?
- A. A net cash flow of \$42,900.
 - B. A net cash flow of (\$36,100).
 - C. A net cash flow of \$60,700.
 - D. A net cash flow of (\$60,700).
78. Which of the following statements is false?
- A. A positive net income results in an increase in retained earnings.
 - B. The ending retained earnings balance from the statement of retained earnings is reported on the balance sheet.
 - C. The change in the cash balance on the statement of cash flows added to the beginning cash balance equals the ending cash balance.
 - D. The dividends reported on the statement of retained earnings are also reported as dividend expense on the income statement.
79. Which of the following is not a consequence to a company resulting from the issue of their financial statements?
- A. The effect on the selling price of their stock.
 - B. The providing of information to their competitors.
 - C. The effect on bonus payments to its employees.
 - D. The providing of information to their auditors.
80. Which of the following statements pertaining to the audit function is incorrect?
- A. The primary responsibility for the information in the financial statements lies with the auditors.
 - B. The audit report describes the auditor's opinion of the fairness of the financial statements.
 - C. An audit ensures that the financial statements conform to generally accepted accounting principles.
 - D. The auditor doesn't examine all of the transactions an entity incurred.

81. The International Accounting Standards Board has worked to develop global accounting standards known as
- A. generally accepted accounting principles.
 - B. globally accepted financial standards.
 - C. international financial reporting standards.
 - D. worldwide financial standards.
82. An examination of the financial statements of a business to ensure that they conform to generally accepted accounting principles is called
- A. a certification.
 - B. an audit.
 - C. a verification.
 - D. a validation.
83. Which of the following best describes the purpose of an audit?
- A. To prove the accuracy of an entity's financial statements.
 - B. To lend credibility to an entity's financial statements.
 - C. To audit every transaction that an entity entered into.
 - D. To establish that a corporation's stock is a sound investment.
84. Why does a company hire independent auditors?
- A. To guarantee the accuracy of both annual and quarterly financial statements.
 - B. To verify the accounting accuracy of every transaction entered into.
 - C. To report on the fairness of financial statement presentation.
 - D. The auditors are responsible for the content of the financial statements.
85. Why is the CPA's role in performing audits important to our economic system?
- A. The auditors provide direct financial advice to potential investors.
 - B. The auditors have the primary responsibility for the information contained in financial statements.
 - C. The auditors issue reports on the accuracy of each financial transaction.
 - D. The audit of financial statements helps investors and others to know that they can rely on the information presented in the financial statements.
86. Which of the following is not one of the three steps taken by a corporation to assure the accuracy of its records?
- A. Implementing a system of internal controls.
 - B. The hiring of an independent auditor to report on the fairness of the financial statements.
 - C. The hiring of a financial analyst.
 - D. The formation of a committee made up of board of directors' members to oversee the integrity of its safeguards utilized.
87. Which of the following groups has primary responsibility for the information contained in the financial statements?
- A. The company's management
 - B. The company's auditors
 - C. The company's investors
 - D. The company's internal auditors

88. Which private sector body was given the primary responsibility to determine detailed auditing standards?
- A. Financial Accounting Standards Board
 - B. Securities & Exchange Commission
 - C. Public Company Accounting Oversight Board
 - D. American Institute of Certified Public Accountants
89. Which group maintains the professional code of ethics to which CPAs must adhere?
- A. American Institute of Certified Public Accountants
 - B. Financial Accounting Standards Board
 - C. Securities & Exchange Commission
 - D. Public Company Accounting Oversight Board
90. Which of the following is a disadvantage of a corporation when compared to a partnership?
- A. The stockholders have limited liability.
 - B. The corporation is treated as a separate legal entity from the stockholders.
 - C. The corporation and its stockholders are subject to double taxation.
 - D. The corporation must account for the business's transactions separate and apart from those of the owners.
91. Which of the following statements is true about a sole proprietorship?
- A. The owner and the business are separate legal entities but not separate accounting entities.
 - B. The owner and the business are separate accounting entities but not separate legal entities.
 - C. The owner and the business are separate legal entities and separate accounting entities.
 - D. Most large businesses in this country are organized as sole proprietorships.
92. For a business organized as a general partnership, which statement is true?
- A. The owners and the business are separate legal entities.
 - B. Each partner is potentially responsible for the debts of the business.
 - C. Formation of a partnership requires getting a charter from the state of incorporation.
 - D. A partnership is not considered to be a separate accounting entity.
93. Which of the following would not be reported on a statement of retained earnings?
- A. Dividend payments
 - B. Net income
 - C. Beginning retained earnings
 - D. Ending retained earnings
94. Which of the following statements is correct?
- A. The statement of retained earnings always reports the same amount of dividend payments as does the statement of cash flows.
 - B. The statement of cash flows has a relationship with the balance sheet.
 - C. Dividends paid are reported on the statement of cash flows as an operating cash flow and on the income statement as a financing cash flow.
 - D. Net income is reported on the income statement but not on the statement of retained earnings.

95. Which of the following is not provided within the notes that accompany the financial statements?
- A. A description of the accounting rules applied.
 - B. A description of the terms of a lease agreement.
 - C. A description pertaining to a particular line on the financial statements.
 - D. A description of net income for each of the prior three years.
96. Which of the following transactions affects both retained earnings and net income?
- A. The payment of a cash dividend.
 - B. The recording of revenue for services provided.
 - C. The issue of stock in exchange for cash.
 - D. The borrowing of money from a bank.
97. Which of the following transactions affects both the income statement and the statement of cash flows?
- A. Selling stock in exchange for cash.
 - B. Declaring and paying a cash dividend.
 - C. Selling a product to a customer which creates an account receivable.
 - D. Paying employee wages as they are earned.
98. Which of the following would not be found within the investing section of the statement of cash flows?
- A. Cash paid to purchase a manufacturing building.
 - B. Cash received from the sale of stock to stockholders.
 - C. Cash received from the sale of manufacturing equipment.
 - D. Cash paid to purchase land.
99. Which of the following is primarily responsible for the information provided in the financial statements?
- A. Chief Executive Officer
 - B. External Auditors
 - C. Board of Directors
 - D. Internal Accounting Staff
100. Which of the following doesn't represent a professional accounting certification?
- A. Certified Management Accountant
 - B. Certified Public Accountant
 - C. Certified Internal Auditor
 - D. Certified Tax Accountant
101. Determine the missing amounts for each independent case below. Assume the amounts given are at the end of the company's first year of operation.

102. Gail's Greenhouse, Inc., a small retail store which sells house plants, started business on January 1, 2010. At the end of January, 2010, the following information was available:
103. Indicate on which financial statement you would expect to find each of the following. If an item can be found on more than one statement, list each statement.
104. For each of the following items that appear on the balance sheet, identify each as an asset (A), liability (L), or element of stockholders' equity (SE). For any item that would not appear on the balance sheet, write the letter, N.
105. Rose Corporation began operations at the start of 2010. During 2010, it made cash and credit sales totaling \$500,000 and collected \$420,000 in cash from its customers. It purchased inventory costing \$250,000, paid \$15,000 for dividends and the cost of goods sold was \$210,000. The corporation incurred the following expenses during 2010:

106. Cosmos Corporation was established on December 31, 2010, by a group of investors who invested a total of \$1,000,000 for shares of the new corporation's stock. During the month of January, 2011, Cosmos provided services to customers for which the total revenue was \$100,000. Of this amount, \$10,000 had not been collected by the end of January. Cosmos recorded salary expense of \$20,000, of which 90% had been paid by the end of the month; rent expense of \$5,000, which had been paid on January 1; and other expenses of \$12,000, which had been paid by check. On January 31, 2011, Cosmos purchased a van by paying cash of \$30,000. There were no other transactions that affected cash.

107. Parker Pool Supply, Inc. reported the following items for the year ended December 31, 2010:

108. National Shops, Inc. reported the following amounts on its balance sheet as of December 31, 2010:

109. During 2010, Winterset Company performed services for which customers paid or promised to pay \$587,000. Of this amount, \$552,000 had been collected by year-end. Winterset paid \$340,000 in cash for employee wages and owed the employees \$15,000 at the end of the year for work that had been done but had not paid for. Winterset paid interest expense of \$3,000 and \$195,000 for other service expenses. The income tax rate was 35%, and income taxes had not yet been paid at the end of the year. Winterset declared and paid dividends of \$20,000. There were no other transactions that affected cash.

110. Alfred Company manufactures men's clothing. During 2010, the company reported the following items that affected cash. Indicate whether each of these items is a cash flow from operating activities (O), investing activities (I), or financing activities (F).
111. Fulton Company was established at the beginning of 2010 when several investors paid a total of \$200,000 to purchase Fulton stock. No additional investments in stock were made during the year. By December 31, 2010, Fulton had cash on hand of \$45,000, office equipment (net) of \$40,000, inventories of \$156,000, and accounts payable of \$10,000. Sales for the year were \$812,000. Of this amount, customers still owed \$20,000. Fulton paid dividends of \$25,000 to its stockholders during 2010.
112. For Glad Rags Shops, the following information is available for the year ended December 31, 2010:
113. Baseline Corporation was formed two years ago to manufacture fitness equipment. It has been profitable and is growing rapidly. It currently has 150 stockholders and 90 employees; most of the employees own at least a few shares of Baseline's stock. The company has received financing from two banks. It will sell additional shares of stock within the next three months and will also seek additional loans and hire new employees to support its continued growth.

114. Larson Company ends its recent year of operations with \$3,500,000 in retained earnings. During the year Larson's net income exceeded its dividend declarations by \$200,000. Larson's dividend declarations were \$25,000 greater than the dividend payments.
How much was Larson Company's beginning retained earnings?
115. As of January 1, 2010, a corporation had assets of \$340,000 and liabilities of \$120,000. During 2010, assets increased \$45,000 and liabilities increased \$15,000. What was stockholders' equity on December 31, 2010?
116. Laker Company has provided the following information for its most recent year of operation:

117.Laker Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled \$99,300.

Cash borrowed from banks totaled \$42,700.

Cash paid to employees totaled \$23,300.

Cash paid for interest totaled \$3,100.

Cash received from selling an investment in Husky stock totaled \$73,000.

Cash payments to banks for repayment of money borrowed totaled \$9,700.

Cash paid for operating expenses totaled \$11,200.

Land costing \$75,000 was sold for \$75,000 cash.

Cash paid for dividend payments to stockholders totaled \$7,700.

How much was Laker's net cash flow from investing activities?

118.Laker Company has provided the following information for its most recent year of operation:

119.During 2010, Rock Company's cash balance increased from \$57,000 to \$94,300. Rock's net cash flow from operating activities was \$26,900 and its net cash flow from financing activities was \$13,700. How much was Rock's net cash flow from investing activities?

120.Moss Company has provided the following data:

121. Describe the roles of the Securities & Exchange Commission and The Financial Accounting Standards Board with respect to the development of Generally Accepted Accounting Principles.
122. Describe the elements of the balance sheet equation.
123. Describe the role of a company's management and the external auditors in the accounting communication process.
124. What is the objective of the cash flow statement? Describe the three cash flow classifications that are reported within the cash flow statement.

125. How is net income in the income statement different than cash flow from operations in the cash flow statement?

ch1 Key

1. A business entity's accounting system creates financial accounting reports which are provided to external decision makers.

TRUE

The accounting system collects financial data and produces reports used by both internal decision makers and external decision makers.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).
Libby - Chapter 01 #1
Topic Area: Understanding the Business

2. Business managers utilize managerial accounting reports to plan and manage the daily operations.

TRUE

Managerial accounting reports are for internal use to assist managers with day-to-day operations.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).
Libby - Chapter 01 #2
Topic Area: Understanding Business

3. The balance sheet includes assets, liabilities and stockholders' equity as of a point in time.

TRUE

The balance sheet reports the amount of assets, liabilities, and stockholders' equity of an entity at a point in time.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).
Libby - Chapter 01 #3
Topic Area: The Four Basic Financial Statements: An Overview

4. Revenue is recognized within the income statement during the period in which cash is collected.

FALSE

Revenue is recognized within the income statement during the period in which revenue is earned.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #4

Topic Area: The Four Basic Financial Statements: An Overview

5. Total assets are \$37,500, total liabilities are \$20,000 and contributed capital is \$10,000; therefore, retained earnings are \$7,500.

TRUE

$$\$37,500 = \$20,000 + \$10,000 + X, X = \$7,500$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #5

Topic Area: The Four Basic Financial Statements: An Overview

6. The income statement is a measure of an entity's economic performance for a period of time.

TRUE

The income statement reports the performance of a business during the accounting period.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #6

Topic Area: The Four Basic Financial Statements: An Overview

7. The accounting equation states that Assets = Liabilities + Stockholders' Equity.

TRUE

The accounting equation, also known as the balance sheet equation, states that Assets = Liabilities + Stockholders' Equity.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #7

Topic Area: The Four Basic Financial Statements: An Overview

8. A decision maker who wants to understand a company's financial statements must carefully read the notes to the financial statements because the notes provide useful supplemental information.

TRUE

The notes provide supplemental information necessary to fully understand the financial statements.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #8

Topic Area: The Four Basic Financial Statements: An Overview

9. The financial statement that shows an entity's economic resources and claims against those resources is the balance sheet.

TRUE

Balance sheet contains assets (economic resources), liabilities (claims against those resources), and stockholders' equity.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #9

Topic Area: The Four Basic Financial Statements: An Overview

10. Assets are initially recorded on the balance sheet at the total cost paid to acquire the asset.

TRUE

Assets on the balance sheet are reported at the cost incurred to acquire them.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #10

Topic Area: The Four Basic Financial Statements: An Overview

11. Stockholders' equity on the balance sheet consists of contributed capital and retained earnings.

TRUE

The stockholders' equity section of the balance sheet represents financing provided by owners of the business (contributed capital) and earnings (retained earnings).

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #11

Topic Area: The Four Basic Financial Statements: An Overview

12. The amount of cash paid by a business for dividends would be reported on the statement of cash flows as an operating activity.

FALSE

Dividends are reported on the statement of retained earnings. On the statement of cash flows, dividends show up as a financing activity.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #12

Topic Area: The Four Basic Financial Statements: An Overview

13. A company's retained earnings balance increased \$50,000 last year; therefore, net income last year must have been \$50,000.

FALSE

Retained earnings is increased by net income and decreased by dividends, we would need to know the dividend amount was zero in this situation to make the above statement true.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #13

Topic Area: The Four Basic Financial Statements: An Overview

14. The statement of retained earnings explains the change in the retained earnings balance caused by stockholder investments and dividend declarations.

FALSE

Beginning retained earnings + net income - dividends = ending retained earnings

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #14

Topic Area: The Four Basic Financial Statements: An Overview

15. The Financial Accounting Standards Board (FASB) has been given the authority by the Securities and Exchange Commission (SEC) to develop generally accepted accounting principles.

TRUE

Previously the Securities and Exchange Commission worked with organizations of professional accountants to develop generally accepted accounting principles; today this is handled by the Financial Accounting Standards Board.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining the content of financial statements.

Libby - Chapter 01 #15

Topic Area: Responsibilities for the Accounting Communication Process

16. In the United States, the Securities and Exchange Commission (SEC) is considering the adoption of International Financial Reporting Standards (IFRS).

TRUE

Since 2002 there has been a significant movement in the United States to adopt the International Financial Reporting Standards.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining the content of financial statements.

Libby - Chapter 01 #16

Topic Area: Responsibilities for the Accounting Communication Process

17. The primary responsibility for the content of the financial statements lies with the external auditor.

FALSE

Primary responsibility for the information in the financial statements lies with management.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-03 Distinguish the roles of managers and auditors in the accounting communication process.
Libby - Chapter 01 #17

Topic Area: Management Responsibility and the Demand for Auditing

18. An audit examines the financial statements provided by management to ensure that they represent what they claim and to make sure that they are in compliance with Generally Accepted Accounting Principles.

TRUE

This is the definition of an audit.

AACSB: Reflective Thinking
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-03 Distinguish the roles of managers and auditors in the accounting communication process.
Libby - Chapter 01 #18

Topic Area: Management Responsibility and the Demand for Auditing

19. The auditor can be held liable for malpractice in situations where the investors suffered losses while relying on the financial statements.

TRUE

If it is determined that the independent CPA committed malpractice, they may be held liable for losses suffered by investors who relied on the financial statements.

AACSB: Reflective Thinking
AICPA BB: Legal
AICPA FN: Risk Analysis
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-04 Appreciate the importance of ethics; reputation; and legal liability in accounting.
Libby - Chapter 01 #19

Topic Area: Ethics, Reputation and Legal Liability

20. One of the advantages of a corporation when compared to a partnership is the limited liability of the owners.

TRUE

In a partnership each partner has unlimited liability, in a corporation the stockholders have limited liability.

AACSB: Reflective Thinking
AICPA BB: Legal
AICPA FN: Decision Modeling
Blooms: Remember
Difficulty: Easy

Learning Objective: Supplement A
Libby - Chapter 01 #20

Topic Area: Types of Business Entities

21. Which of the following describes the primary objective of the balance sheet?
- A. To measure the net income of a business up to a particular point in time.
 - B. To report the difference between cash inflows and cash outflows for the period.
 - C.** To report the financial position of the reporting entity at a particular point in time.
 - D. To report the market value of assets, liabilities and stockholders' equity at a particular point in time.

The balance sheet reports the amount of assets, liabilities, and stockholders' equity (financial position) of an accounting entity at a particular point in time. These positions are reported at historical cost, not market value.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #21

Topic Area: The Four Basic Financial Statements: An Overview

22. During the fiscal year ended 2010, a company had revenues of \$400,000, expenses of \$280,000, and an income tax rate of 30 percent. What was the company's 2010 net income?
- A. \$120,000
 - B. \$36,000
 - C.** \$84,000
 - D. \$400,000

$$(\$400,000 - \$280,000) (1 - .30) = \$84,000$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #22

Topic Area: The Four Basic Financial Statements: An Overview

23. Atlantic Corporation reported the following amounts at the end of the first year of operations: contributed capital \$200,000; sales revenue \$800,000; total assets \$600,000; dividends declared \$40,000; and total liabilities \$320,000. What are Atlantic's retained earnings at the end of the year and how much expenses were incurred during the year?

- A. Retained earnings are \$80,000 and expenses incurred totaled \$680,000.
- B. Retained earnings are \$80,000 and expenses incurred totaled \$720,000.
- C. Retained earnings are \$280,000 and expenses incurred totaled \$480,000.
- D. Retained earnings are \$280,000 and expenses incurred totaled \$520,000.

Stockholders' equity (\$600,000 - \$320,000) = Contributed capital (\$200,000) + Retained earnings (\$80,000).

Retained earnings (\$80,000) = Net income (\$120,000 - Dividends (\$40,000).)

Net income (\$120,000) = Sales Revenue (\$800,000) - Expenses (\$680,000).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #23

Topic Area: The Four Basic Financial Statements: An Overview

24. Which of the following best describes the balance sheet?

- A. It includes a listing of assets at their market values.
- B. It includes a listing of assets, liabilities, and stockholders' equity at their market values.
- C. It provides information pertaining to a company's assets and the providers of the assets.
- D. It provides information pertaining to a company's liabilities for a period of time.

The balance sheet reports the assets, liabilities, and stockholders' equity at their historical costs.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #24

Topic Area: The Four Basic Financial Statements: An Overview

25. Which of the following statements is correct?

- A. Assets on the balance sheet include retained earnings.
- B. Retained earnings include contributed capital.
- C. The balance sheet equation states that assets equal contributed capital.
- D. A corporation's net income does not necessarily equal its cash flow from operations.**

Revenue is recorded as it is earned, not necessarily when the cash from the sales is collected. Expenses are recorded when incurred in generating revenue regardless of when cash is expended.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #25

Topic Area: The Four Basic Financial Statements: An Overview

26. Which of the following correctly describes the various financial statements?

- A. An income statement covers a period of time.**
- B. The cash flow statement is a point in time financial statement.
- C. The balance sheet is a period of time financial statement.
- D. The statement of retained earnings is a point in time financial statement.

The income statement reports the performance of a business during the accounting period.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #26

Topic Area: The Four Basic Financial Statements: An Overview

27. Which of the following accounts would not be reported on the balance sheet?

- A. Retained earnings
- B. Inventory
- C. Accounts payable
- D. Dividends**

Dividends are reported on the statement of retained earnings.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #27

Topic Area: The Four Basic Financial Statements: An Overview

28. Which of the following would not be found on the statement of cash flows?

- A. Cost flow from manufacturing activities
- B. Cash flow from operating activities
- C. Cash flow from investing activities
- D. Cash flow from financing activities

The statement of cash flows includes cash flows from operating, investing, and financing activities.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #28

Topic Area: The Four Basic Financial Statements: An Overview

29. Which of the following accounts is not a liability on the balance sheet?

- A. Retained earnings
- B. Notes payable
- C. Taxes payable
- D. Interest payable

Retained earnings is reported on the balance sheet as a component of stockholders' equity.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #29

Topic Area: The Four Basic Financial Statements: An Overview

30. What financial statement would you look at to determine the dividends declared by a business?

- A. Income statement
- B. Statement of retained earnings
- C. Statement of cash flows
- D. Balance sheet

Beginning retained earnings + net income - dividends = ending retained earnings

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #30

Topic Area: The Four Basic Financial Statements: An Overview

31. Which financial statement would you utilize to determine whether a company will be able to pay liabilities which are due in 30 days?
- A. Income statement
 - B. Balance sheet**
 - C. Statement of retained earnings
 - D. Statement of cash flows

The balance sheet includes the current assets and current liabilities account balances.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #31

Topic Area: The Four Basic Financial Statements: An Overview

32. Which of the following is considered to be an expense on the income statement?
- A. Accounts payable
 - B. Notes payable
 - C. Wages payable
 - D. Cost of goods sold**

Income statements begin with sales less cost of goods sold. Payables are liabilities not expenses.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #32

Topic Area: The Four Basic Financial Statements: An Overview

33. Which of the following best describes assets?
- A. They are equal to liabilities minus stockholders' equity.
 - B. They are considered to be the economic resources of the business.**
 - C. They are all reported on the balance sheet at their current market value.
 - D. They equal contributed capital.

Assets include but are not limited to cash, inventory, and land. These are considered to be economic resources of a business.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #33

Topic Area: The Four Basic Financial Statements: An Overview

34. Which of the following accounts would be reported as assets on the balance sheet?

- A. Cash, accounts payable, and notes payable.
- B. Cash, retained earnings, and accounts receivable.
- C. Cash, accounts receivable, and inventory.**
- D. Inventories, property and equipment, and contributed capital.

Assets are considered the economic resources of a business. Cash, accounts receivable, and inventory are all considered economic resources.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #34

Topic Area: The Four Basic Financial Statements: An Overview

35. Which of the following statements describes the balance sheet?

- A. It reports a company's revenues and expenses.
- B. Assets are generally reported on the balance sheet at their historical cost.**
- C. Stockholders' equity includes only retained earnings.
- D. It reports a company's cash flow from operations.

The balance sheet reports assets, liabilities, and stockholders' equity all at historical costs.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #35

Topic Area: The Four Basic Financial Statements: An Overview

36. Which of the following best describes liabilities and stockholders' equity?

- A. They are the sources of financing an entity's assets.**
- B. They are the economic resources used by a business entity.
- C. They are reported on the income statement.
- D. They both increase when assets increase.

Liabilities are a source of financing from creditors. Stockholders' equity is a source of financing from stockholders.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #36

Topic Area: The Four Basic Financial Statements: An Overview

37. Which of the following equations is the balance sheet equation?

- A. Assets + Liabilities = Stockholders' Equity
- B. Assets + Stockholder's Equity = Liabilities
- C. Assets = Liabilities + Stockholders' Equity**
- D. Assets = Liabilities + Contributed Capital

A balance sheet has two sides, the left side is assets and the right side has both liabilities and stockholders' equity. The total balance from each side must equal each other. Thus Assets = Liabilities + Stockholders' Equity.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Reporting

Blooms: Remember

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #37

Topic Area: The Four Basic Financial Statements: An Overview

38. Willie Company's retained earnings increased \$20,000 during 2010. What was Willie's 2010 net income or loss given that Willie declared \$25,000 of dividends during 2010?

- A. Net income was \$5,000.
- B. Net income was \$45,000.**
- C. Net loss was \$45,000.
- D. Net loss was \$5,000.

The increase in retained earnings (\$20,000) equals net income (\$45,000) less dividends (\$25,000).

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Reporting, Measurement

Blooms: Apply

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #38

Topic Area: The Four Basic Financial Statements: An Overview

39. Which of the following are the components of stockholders' equity on the balance sheet?

- A. Contributed capital and long-term liabilities.
- B. Contributed capital and property, plant, and equipment.
- C. Retained earnings and notes payable.
- D. Contributed capital and retained earnings.**

Stockholders' equity indicates the amount of financing provided by owners of the business and earnings. Investments from owners are called contributed capital; the amount of earnings reinvested in the business is called retained earnings.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #39

Topic Area: The Four Basic Financial Statements: An Overview

40. Which financial statement would you use to determine a company's earnings performance during an accounting period?

- A. Balance sheet
- B. Statement of retained earnings
- C. Income statement**
- D. Statement of cash flows

The income statement reports the company's financial performance over an accounting period.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #40

Topic Area: The Four Basic Financial Statements: An Overview

41. Which of the following equations best describes the income statement?

- A. Assets - Liabilities = Stockholders' Equity
- B. Net income = Revenues + Expenses
- C. Net income = Revenues - Expenses.**
- D. Retained earnings = Net Income + Dividends

The income statement equation is revenues - expenses = net income

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #41

Topic Area: The Four Basic Financial Statements: An Overview

42. Lena Company has provided the following data (ignore income taxes):
2010 revenues were \$99,000.
2010 expenses were \$47,800.
Dividends declared and paid during 2010 totaled \$9,500.
Total assets on December 31, 2010 were \$177,000.
Total liabilities on December 31, 2010 were \$89,000.
Contributed capital on December 31, 2010 was \$28,000.
Which of the following is correct?

- A. 2010 net income was \$41,700.
B. Total stockholders' equity on December 31, 2010 was \$236,000.
C. Retained earnings on December 31, 2010 were \$60,000.
D. Retained earnings on December 31, 2010 were \$41,700.

Stockholders' equity (\$177,000 - \$89,000) = Contributed capital (\$28,000) + Retained earnings (\$60,000).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #42
Topic Area: The Four Basic Financial Statements: An Overview

43. Lena Company has provided the following data (ignore income taxes):
2010 revenues were \$99,000.
2010 expenses were \$47,800.
Dividends declared and paid during 2010 totaled \$9,500.
Total assets on December 31, 2010 were \$177,000.
Total liabilities on December 31, 2010 were \$89,000.
Contributed capital on December 31, 2010 was \$28,000.
Which of the following is not correct?

- A. 2010 net income was \$51,200.
B. Total stockholders' equity on December 31, 2010 was \$88,000.
C. Retained earnings increased \$41,700 during 2010.
D. Retained earnings on December 31, 2010 were \$41,700.

Stockholders' equity (\$177,000 - \$89,000) = Contributed capital (\$28,000) + Retained earnings (\$60,000).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #43
Topic Area: The Four Basic Financial Statements: An Overview

44. Madrid Company has provided the following data (ignore income taxes):
2010 revenues were \$77,500.
2010 net income was \$33,900.
Dividends declared and paid during 2010 totaled \$5,700.
Total assets on December 31, 2010 were \$217,000.
Total stockholders' equity on December 31, 2010 was \$123,000.
Retained earnings on December 31, 2010 were \$83,000.
Which of the following is not correct?

- A. 2010 expenses were \$43,600.
- B. Total liabilities on December 31, 2010 were \$94,000.
- C. Retained earnings increased \$33,900 during 2010.
- D. Contributed capital on December 31, 2010 was \$40,000.

Retained earnings increased \$28,200 because net income (\$33,900) was greater than dividends (\$5,700).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).
Libby - Chapter 01 #44

Topic Area: The Four Basic Financial Statements: An Overview

45. Madrid Company has provided the following data (ignore income taxes):
2010 revenues were \$77,500.
2010 net income was \$33,900.
Dividends declared and paid during 2010 totaled \$5,700.
Total assets on December 31, 2010 were \$217,000.
Total stockholders' equity on December 31, 2010 was \$123,000.
Retained earnings on December 31, 2010 were \$83,000.
Which of the following is correct?

- A. 2010 expenses were \$37,900.
- B. Total liabilities on December 31, 2010 were \$11,000.
- C. Retained earnings increased \$28,200 during 2010.
- D. Contributed capital on December 31, 2010 was \$206,000.

Retained earnings increased \$28,200 because net income (\$33,900) was greater than dividends (\$5,700).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Hard
Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).
Libby - Chapter 01 #45

Topic Area: The Four Basic Financial Statements: An Overview

46. Which of the following is the amount of revenue reported on the income statement of a retail company?
- A. The cash collected from customers during the current period.
 - B. Both cash and credit sales for the period.**
 - C. Cash sales for the period.
 - D. Cash sales and stockholders' investments.

Revenue for a retail company includes all sales earned during the accounting period, both cash and credit.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #46

Topic Area: The Four Basic Financial Statements: An Overview

47. On January 1, 2010 Miller Corporation had retained earnings of \$8,000,000. During 2010, Miller reported net income of \$1,500,000, declared dividends of \$500,000, and issued stock for \$1,000,000. What were Miller's retained earnings on December 31, 2010?
- A. \$7,000,000
 - B. \$9,500,000
 - C. \$9,000,000**
 - D. \$7,500,000

Ending retained earnings (\$9,000,000) = Beginning retained earnings (\$8,000,000) + Net income (\$1,500,000) - Dividends (\$500,000).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #47

Topic Area: The Four Basic Financial Statements: An Overview

48. What are the categories of cash flows that appear on a statement of cash flows?

- A. Cash flows from investing, financing, and service activities.
- B. Cash flows from operating, production, and internal activities.
- C. Cash flows from financing, production, and growth activities.
- D. Cash flows from operating, investing, and financing activities.**

The statement of cash flows has three sections: cash flows from 1) Operations 2) Investing and 3) Financing.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #48

Topic Area: The Four Basic Financial Statements: An Overview

49. When would a company report a net loss on the income statement?

- A. When revenues are less than the sum of expenses plus dividends during an accounting period.
- B. If assets decreased during an accounting period.
- C. If liabilities increased during an accounting period.
- D. When expenses exceeded revenues for an accounting period.**

Net income or loss is equal to revenues less expenses. If expenses exceed revenues, a business would report a net loss.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #49

Topic Area: The Four Basic Financial Statements: An Overview

50. Which of the following describes the amount of insurance expense reported on the income statement?

- A. The amount of cash paid for insurance in the current period.
- B. The amount of cash paid for insurance in the current period less any unpaid insurance at the end of the period.
- C. The amount of insurance used up (incurred) in the current period to help generate revenue.**
- D. The amount of cash paid for insurance that is reported within the statement of cash flows.

The income statement reports expenses as they are incurred for the accounting period.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #50

Topic Area: The Four Basic Financial Statements: An Overview

51. Which of the following would immediately cause a change in a corporation's retained earnings?

- A. Net income or net loss and declaration of dividends.
- B. Declaration of dividends and issuance of stock to new stockholders.
- C. Net income and issuance of stock to new stockholders.
- D. Declaration of dividends and purchase of new machinery.

Beginning retained earnings + net income - dividends = ending retained earnings

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #51

Topic Area: The Four Basic Financial Statements: An Overview

52. Which of the following describes the operations section of a cash flow statement?

- A. It provides information about how operations have been financed.
- B. It provides information pertaining to dividend payments to stockholders.
- C. It provides information with respect to a company's ability to generate cash flow to pay for goods and services.
- D. It provides the net increase or decrease in cash during the period.

Cash flows from operating activities are cash flows directly related to earning income.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #52

Topic Area: The Four Basic Financial Statements: An Overview

53. Within which of the following would you find the inventory method(s) being used by a business entity?

- A. Balance sheet
- B. Income statement
- C. Notes to the financial statements
- D. Headings of the financial statements

The notes provide information behind the numbers that allow the user to completely understand the financial statements.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #53

Topic Area: The Four Basic Financial Statements: An Overview

54. At the beginning of 2010, a corporation had assets of \$270,000 and liabilities of \$160,000. During 2010, assets increased \$25,000 and liabilities increased \$5,000. What was stockholders' equity on December 31, 2010?
- A. \$140,000
B. \$130,000
C. \$190,000
D. \$80,000

Stockholders' equity (\$130,000) on December 31, 2010 = Beginning stockholders' equity (\$270,000 - \$160,000) + increase in stockholders' equity (\$25,000 - \$5,000) during 2010.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #54

Topic Area: The Four Basic Financial Statements: An Overview

55. During 2011, Canton Company's assets increased \$95,500 and their liabilities decreased \$17,300. Canton Company's stockholders' equity on December 31, 2011 was \$211,500. How much was stockholders' equity on January 1, 2011?
- A. \$98,700**
B. \$324,300
C. \$133,300
D. \$289,700

Stockholders' equity (\$98,700) on January 1, 2010 = Stockholders equity (\$211,500) on December 31, 2010 - the increase in stockholders' equity (\$95,500 + 17,300) during 2010.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #55

Topic Area: The Four Basic Financial Statements: An Overview

56. How are creditor and investor claims reported on a balance sheet?

- A. The claims of creditors are liabilities and those of investors are assets.
- B. The claims of both creditors and investors are liabilities, but only the claims of investors are considered to be long-term.
- C.** The claims of creditors are reported as liabilities while the claims of investors are recorded as stockholders' equity.
- D. The claims of creditors and investors are considered to be essentially equivalent.

Liabilities and Stockholders' Equity are the sources of financing for the firm's economic resources. Creditors' claims are reported as liabilities while investors' claims are reported as stockholders' equity.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #56

Topic Area: The Four Basic Financial Statements: An Overview

57. In what order would the items on the balance sheet appear?

- A. Assets, retained earnings, liabilities, and contributed capital.
- B. Contributed capital, retained earnings, liabilities, and assets.
- C.** Assets, liabilities, contributed capital, and retained earnings.
- D. Contributed capital, assets, liabilities, and retained earnings.

The balance sheet order is assets, liabilities, and stockholders' equity. Stockholders' equity includes contributed capital and retained earnings.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #57

Topic Area: The Four Basic Financial Statements: An Overview

58. Which of the following would increase retained earnings?

- A. An increase in expenses.
- B. An increase in revenues.**
- C. Declaring a cash dividend.
- D. Issuing additional common stock.

Net income increases retained earnings. Increased revenue, given a fixed expense amount, would increase net income.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #58

Topic Area: The Four Basic Financial Statements: An Overview

59. A company's retained earnings increased \$375,000 last year and its assets increased \$973,000. The company declared a \$79,000 cash dividend during the year. What was last year's net income?

- A. \$296,000
- B. \$375,000
- C. \$454,000**
- D. \$519,000

The \$375,000 increase in retained earnings = Net income (\$454,000) - Dividends (\$79,000).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #59

Topic Area: The Four Basic Financial Statements: An Overview

60. Which of the following items is reported as an expense on the income statement?

- A. Dividends declared
- B. Cost of goods sold**
- C. Dividends paid
- D. Accounts payable

Income statements begin with sales less cost of goods sold. Cost of goods sold is an expense.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #60

Topic Area: The Four Basic Financial Statements: An Overview

61. Which of the following has primary responsibility to develop Generally Accepted Accounting Principles?

- A. Financial Accounting Standards Board
- B. American Accounting Association
- C. Securities & Exchange Commission
- D. Public Company Accounting Oversight Board

The Securities and Exchange Commission have charged the Financial Accounting Standards Board with developing Generally Accepted Accounting Principles.

AACSB: Reflective Thinking
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining the content of financial statements.
Libby - Chapter 01 #61

Topic Area: Responsibilities for the Accounting Communication Process

62. Which of the following has the legal authority to determine financial reporting in the United States?

- A. Financial Accounting Standards Board
- B. American Accounting Association
- C. Securities & Exchange Commission
- D. Public Company Accounting Oversight Board

The Securities and Exchange Commission is the government agency that determines the financial statements that public companies must provide to stockholders.

AACSB: Reflective Thinking
AICPA BB: Legal
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining the content of financial statements.
Libby - Chapter 01 #62

Topic Area: Responsibilities for the Accounting Communication Process

63. Which of the following is not reported as a liability on a balance sheet?

- A. Income taxes payable
- B. Contributed capital
- C. Accounts payable
- D. Dividends declared

Contributed capital is a component of stockholders' equity on the balance sheet.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #63

Topic Area: The Four Basic Financial Statements: An Overview

64. Which of the following transactions increases both cash and net income?

- A. Cash receipts from a bank loan.
- B. Cash receipts from sale of stock.
- C. Cash receipts from customers for services provided.
- D. Cash receipts from a bond issue.

Net income is the result of revenues less expenses. Cash receipts from customers increases revenue, which flows through to an increase in net income. The cash receipt aspect also increases the cash account.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Reporting

Blooms: Understand

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #64

Topic Area: The Four Basic Financial Statements: An Overview

65. Which of the following properly describes the impact on the financial statements when a company reports wage expense of \$7,500, of which \$2,500 remains unpaid?

- A. Net income decreased \$9,000.
- B. Cash decreased \$2,500.
- C. Net income decreased \$7,500.
- D. Cash decreased \$7,500.

The expense portion is reported on the income statement as it is incurred. This increases expenses, thus decreasing net income. The unpaid portion is classified a liability on the balance sheet.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Reporting, Measurement

Blooms: Apply

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #65

Topic Area: The Four Basic Financial Statements: An Overview

66. Which of the following properly describes the impact on the financial statements when a company purchases and pays \$8,000 for supplies inventory, of which \$2,000 remains unused at the end of the period?
- A. Net income decreased \$6,000.
 - B. Cash decreased \$6,000.
 - C. Net income decreased \$8,000.
 - D. Cash decreased \$2,000.

The amount used during the period ($\$8,000 - \$2,000 = \$6,000$) is reported on the income statement as an expense.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #66

Topic Area: The Four Basic Financial Statements: An Overview

67. Which of the following properly describes the impact on the financial statements when a company incurs operating expenses of \$9,000, of which \$3,000 remains unpaid?
- A. Net income decreased \$9,000.
 - B. Cash increased \$6,000.
 - C. Net income decreased \$3,000.
 - D. Cash decreased \$9,000.

Expenses are reported on the income statement as they are incurred regardless of whether they have been paid or not. The entire \$9,000 is reported on the income statement and thus decreases net income.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #67

Topic Area: The Four Basic Financial Statements: An Overview

68. Which of the following properly describes the impact on the financial statements when a company borrows \$20,000 from a local bank?
- A. Net income decreased \$20,000.
 - B. Assets decreased \$20,000.
 - C. Stockholders' equity increased \$20,000.
 - D. Liabilities increased \$20,000.**

The amount borrowed needs to be repaid, and the local bank is a creditor, therefore liabilities are increased by the amount of the loan.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #68

Topic Area: The Four Basic Financial Statements: An Overview

69. Which of the following would not be reported in the operating activities section of a cash flow statement?
- A. Cash paid for dividends to stockholders.**
 - B. Cash paid for interest expense.
 - C. Cash paid for employee wages.
 - D. Cash received from customers.

Cash paid for dividends to stockholders is not a cash flow directly related to earning income, therefore it is not reported in the operating activities section of the cash flow statement.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #69

Topic Area: The Four Basic Financial Statements: An Overview

70. Which of the following would be reported in the financing section of a cash flow statement?

- A. Cash paid for dividends to stockholders.
- B. Cash paid for interest expense.
- C. Cash paid to acquire equipment.
- D. Cash received from sale of investments.

The financing section of the statement of cash flows reflects cash received and paid out as a result of financing the business. Cash paid for dividends to stockholders is part of this section because stockholders are a component of the financing of a business.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #70

Topic Area: The Four Basic Financial Statements: An Overview

71. Which of the following would be reported in the investing section of a cash flow statement?

- A. Cash received from customers.
- B. Cash received from the issue of stock.
- C. Cash paid to repay a bank loan.
- D. Cash paid to acquire stock of another company.

Cash flows from investing include cash flows related to the purchase and sale of a company's assets. Stock of another company is considered an asset.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #71

Topic Area: The Four Basic Financial Statements: An Overview

72. Which of the following statements is correct?

- A. The payment of a cash dividend reduces net income.
- B. Cash received from an issuance of stock to stockholders is reported as a financing cash flow within the statement of cash flows.**
- C. Providing services to a customer on account doesn't impact net income.
- D. Interest payments are reported within the statement of cash flows as a financing activity.

Issuance of stock is a financing activity and the cash received as a result of this is reported in the financing section of the statement of cash flows.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Reporting

Blooms: Remember

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #72

Topic Area: The Four Basic Financial Statements: An Overview

73. Husky Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled \$89,300.

Cash borrowed from banks totaled \$31,700.

Cash paid to employees totaled \$32,100.

Cash paid for interest totaled \$2,900.

Cash received from selling Husky stock to stockholders totaled \$41,000.

Cash payments to banks for repayment of money borrowed totaled \$7,500.

Cash paid for operating expenses totaled \$9,600.

Land costing \$25,000 was sold for \$25,000 cash.

Cash paid for dividends to stockholders totaled \$3,300.

How much was Husky's cash flow from operating activities?

A. \$47,600

B. \$44,700

C. \$41,400

D. \$37,200

$$\$44,700 = \$89,300 - \$32,100 - \$2,900 - \$9,600$$

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Reporting, Measurement

Blooms: Apply

Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #73

Topic Area: The Four Basic Financial Statements: An Overview

74. Husky Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled \$89,300.

Cash borrowed from banks totaled \$31,700.

Cash paid to employees totaled \$32,100.

Cash paid for interest totaled \$2,900.

Cash received from selling Husky stock to stockholders totaled \$41,000.

Cash payments to banks for repayment of money borrowed totaled \$7,500.

Cash paid for operating expenses totaled \$9,600.

Land costing \$25,000 was sold for \$25,000 cash.

Cash paid for dividends to stockholders totaled \$3,300.

How much was Husky's cash flow from financing activities?

A. \$72,700

B. \$59,000

C. \$65,200

D. \$61,900

$$\$61,900 = \$31,700 + \$41,000 - \$7,500 - \$3,300$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium
Libby - Chapter 01 #74
Topic Area: The Four Basic Financial Statements: An Overview

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

75. Sparty Corporation has provided the following information for its most recent year of operation:

Revenues earned were \$97,000, of which \$9,000 were uncollected at the end of the year.

Operating expenses incurred were \$39,000, of which \$7,000 were unpaid at the end of the year.

Dividends declared were \$11,000, of which \$3,000 were unpaid at the end of the year.

Income tax expense is 30% of pretax income.

How much net income was reported on Sparty's income statement?

A. \$32,900

B. \$39,300

C. \$33,600

D. \$40,600

$$\$40,600 = (\$97,000 - \$39,000) (1 - .30)$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium
Libby - Chapter 01 #75
Topic Area: The Four Basic Financial Statements: An Overview

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

76. Which of the following statements is correct?

- A. Revenues are reported on the income statement regardless of whether the customer has paid for the goods or services.
- B. Expenses are reported within the income statement during the period that they are paid for.
- C. Net income includes a deduction for dividend payments made to stockholders.
- D. Net income normally equals the net cash generated by operations.

Accrual accounting requires revenues to be reported when they are earned.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #76

Topic Area: The Four Basic Financial Statements: An Overview

77. During 2010, Rock Company's cash balance increased from \$79,000 to \$91,300. Rock's net cash flow from operating activities was \$37,300 and its net cash flow from financing activities was \$11,100. How much was Rock's net cash flow from investing activities?

- A. A net cash flow of \$42,900.
- B. A net cash flow of (\$36,100).
- C. A net cash flow of \$60,700.
- D. A net cash flow of (\$60,700).

The increase in cash ($\$91,300 - \$79,000$) = Net cash flow from operating activities ($\$37,300$) + Net cash flow from investing activities ($\$-36,100$) + Net cash flow from financing activities ($\$11,100$).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #77

Topic Area: The Four Basic Financial Statements: An Overview

78. Which of the following statements is false?

- A. A positive net income results in an increase in retained earnings.
- B. The ending retained earnings balance from the statement of retained earnings is reported on the balance sheet.
- C. The change in the cash balance on the statement of cash flows added to the beginning cash balance equals the ending cash balance.
- D.** The dividends reported on the statement of retained earnings are also reported as dividend expense on the income statement.

Dividends are not an expense and therefore are not reported on the income statement.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #78

Topic Area: The Four Basic Financial Statements: An Overview

79. Which of the following is not a consequence to a company resulting from the issue of their financial statements?

- A. The effect on the selling price of their stock.
- B. The providing of information to their competitors.
- C. The effect on bonus payments to its employees.
- D.** The providing of information to their auditors.

Providing information to their auditors is a step towards the issue of their financial statements and not a consequence of issuing their financial statements.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining the content of financial statements.

Libby - Chapter 01 #79

Topic Area: Responsibilities for the Accounting Communication Process

80. Which of the following statements pertaining to the audit function is incorrect?

- A. The primary responsibility for the information in the financial statements lies with the auditors.
- B. The audit report describes the auditor's opinion of the fairness of the financial statements.
- C. An audit ensures that the financial statements conform to generally accepted accounting principles.
- D. The auditor doesn't examine all of the transactions an entity incurred.

The primary responsibility for the information in the financial statements lies with the management.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-03 Distinguish the roles of managers and auditors in the accounting communication process.

Libby - Chapter 01 #80

Topic Area: Management Responsibility and the Demand for Auditing

81. The International Accounting Standards Board has worked to develop global accounting standards known as

- A. generally accepted accounting principles.
- B. globally accepted financial standards.
- C. international financial reporting standards.
- D. worldwide financial standards.

Global convergence of accounting standards is being facilitated by the adoption of International Financial Reporting Standards. These standards are developed by the International Accounting Standards Board.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining the content of financial statements.

Libby - Chapter 01 #81

Topic Area: Responsibilities for the Accounting Communication Process

82. An examination of the financial statements of a business to ensure that they conform to generally accepted accounting principles is called

- A. a certification.
- B. an audit.
- C. a verification.
- D. a validation.

The technical term for the examination of the financial statements to ensure that they represent what they claim to and conform with generally accepted accounting principles is an audit.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-03 Distinguish the roles of managers and auditors in the accounting communication process.

Libby - Chapter 01 #82

Topic Area: Management Responsibility and the Demand for Auditing

83. Which of the following best describes the purpose of an audit?

- A. To prove the accuracy of an entity's financial statements.
- B. To lend credibility to an entity's financial statements.**
- C. To audit every transaction that an entity entered into.
- D. To establish that a corporation's stock is a sound investment.

An audit is an independent review of an entity's financial statements. The result of an audit is an audit report that lends credibility to these financial statements.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium

Learning Objective: 01-03 Distinguish the roles of managers and auditors in the accounting communication process.

Libby - Chapter 01 #83

Topic Area: Management Responsibility and the Demand for Auditing

84. Why does a company hire independent auditors?

- A. To guarantee the accuracy of both annual and quarterly financial statements.
- B. To verify the accounting accuracy of every transaction entered into.
- C. To report on the fairness of financial statement presentation.**
- D. The auditors are responsible for the content of the financial statements.

The role of auditors is to review the financial statements and issue an opinion on the fairness of these statements.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-03 Distinguish the roles of managers and auditors in the accounting communication process.

Libby - Chapter 01 #84

Topic Area: Management Responsibility and the Demand for Auditing

85. Why is the CPA's role in performing audits important to our economic system?

- A. The auditors provide direct financial advice to potential investors.
- B. The auditors have the primary responsibility for the information contained in financial statements.
- C. The auditors issue reports on the accuracy of each financial transaction.
- D. The audit of financial statements helps investors and others to know that they can rely on the information presented in the financial statements.**

The CPA conducting the audit, and issuing the report, is independent of the firm and therefore allows the users of financial statements to rely on these statements.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium

Learning Objective: 01-03 Distinguish the roles of managers and auditors in the accounting communication process.

Libby - Chapter 01 #85

Topic Area: Management Responsibility and the Demand for Auditing

86. Which of the following is not one of the three steps taken by a corporation to assure the accuracy of its records?
- A. Implementing a system of internal controls.
 - B. The hiring of an independent auditor to report on the fairness of the financial statements.
 - C. The hiring of a financial analyst.**
 - D. The formation of a committee made up of board of directors' members to oversee the integrity of its safeguards utilized.

The three steps to ensure the accuracy of records include implementing a system of controls, hiring external auditors, and having a board of directors. A financial analyst does not provide services that help a corporation assure the accuracy of its records.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium

Learning Objective: 01-03 Distinguish the roles of managers and auditors in the accounting communication process.
Libby - Chapter 01 #86

Topic Area: Management Responsibility and the Demand for Auditing

87. Which of the following groups has primary responsibility for the information contained in the financial statements?
- A. The company's management**
 - B. The company's auditors
 - C. The company's investors
 - D. The company's internal auditors

The primary responsibility for the information in the financial statements lies with management.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium

Learning Objective: 01-03 Distinguish the roles of managers and auditors in the accounting communication process.
Libby - Chapter 01 #87

Topic Area: Management Responsibility and the Demand for Auditing

88. Which private sector body was given the primary responsibility to determine detailed auditing standards?

- A. Financial Accounting Standards Board
- B. Securities & Exchange Commission
- C. Public Company Accounting Oversight Board**
- D. American Institute of Certified Public Accountants

The Public Company Accounting Oversight Board in consultation with the SEC sets standards for the audits of public companies.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-03 Distinguish the roles of managers and auditors in the accounting communication process.
Libby - Chapter 01 #88

Topic Area: Management Responsibility and the Demand for Auditing

89. Which group maintains the professional code of ethics to which CPAs must adhere?

- A. American Institute of Certified Public Accountants**
- B. Financial Accounting Standards Board
- C. Securities & Exchange Commission
- D. Public Company Accounting Oversight Board

The American Institute of Certified Public Accountants requires all of its members to adhere to a professional code of ethics and professional auditing standards.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-04 Appreciate the importance of ethics; reputation; and legal liability in accounting.
Libby - Chapter 01 #89

Topic Area: Ethics, Reputation, and Legal Liability

90. Which of the following is a disadvantage of a corporation when compared to a partnership?

- A. The stockholders have limited liability.
- B. The corporation is treated as a separate legal entity from the stockholders.
- C. The corporation and its stockholders are subject to double taxation.**
- D. The corporation must account for the business's transactions separate and apart from those of the owners.

A corporation's income is subject to double taxation, it is taxed when it is earned and again when it is distributed to stockholders as dividends.

AACSB: Reflective Thinking
AICPA BB: Legal
Blooms: Remember
Difficulty: Easy
Learning Objective: Supplement A
Libby - Chapter 01 #90
Topic Area: Types of Business Entities

91. Which of the following statements is true about a sole proprietorship?

- A. The owner and the business are separate legal entities but not separate accounting entities.
- B.** The owner and the business are separate accounting entities but not separate legal entities.
- C. The owner and the business are separate legal entities and separate accounting entities.
- D. Most large businesses in this country are organized as sole proprietorships.

A sole proprietorship is an unincorporated business owned by one person. Legally, the business and the owner are not separate entities; however, the owner and business are separate accounting entities.

AACSB: Reflective Thinking
AICPA BB: Legal
Blooms: Remember
Difficulty: Easy
Learning Objective: Supplement A
Libby - Chapter 01 #91
Topic Area: Types of Business Entities

92. For a business organized as a general partnership, which statement is true?

- A. The owners and the business are separate legal entities.
- B.** Each partner is potentially responsible for the debts of the business.
- C. Formation of a partnership requires getting a charter from the state of incorporation.
- D. A partnership is not considered to be a separate accounting entity.

Legally, each partner in a general partnership is responsible for the debts of the business. In this case, each general partner has unlimited liability.

AACSB: Reflective Thinking
AICPA BB: Legal
Blooms: Remember
Difficulty: Easy
Learning Objective: Supplement A
Libby - Chapter 01 #92
Topic Area: Types of Business Entities

93. Which of the following would not be reported on a statement of retained earnings?

- A.** Dividend payments
- B. Net income
- C. Beginning retained earnings
- D. Ending retained earnings

The statement of retained earnings reports dividends declared. The statement of cash flows reports dividend payments.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium
Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).
Libby - Chapter 01 #93
Topic Area: The Four Basic Financial Statements: An Overview

94. Which of the following statements is correct?

- A. The statement of retained earnings always reports the same amount of dividend payments as does the statement of cash flows.
- B.** The statement of cash flows has a relationship with the balance sheet.
- C. Dividends paid are reported on the statement of cash flows as an operating cash flow and on the income statement as a financing cash flow.
- D. Net income is reported on the income statement but not on the statement of retained earnings.

The change in cash on the statement of cash flows is added to the beginning balance of cash on the balance sheet. The result will equal the end-of-year balance in cash.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #94

Topic Area: The Four Basic Financial Statements: An Overview

95. Which of the following is not provided within the notes that accompany the financial statements?

- A. A description of the accounting rules applied.
- B. A description of the terms of a lease agreement.
- C. A description pertaining to a particular line on the financial statements.
- D.** A description of net income for each of the prior three years.

A description of net income for previous years is not one of the three basic types of notes that accompany the financial statements.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #95

Topic Area: The Four Basic Financial Statements: An Overview

96. Which of the following transactions affects both retained earnings and net income?

- A. The payment of a cash dividend.
- B. The recording of revenue for services provided.**
- C. The issue of stock in exchange for cash.
- D. The borrowing of money from a bank.

Recording of revenue increases net income which in turn increases retained earnings.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #96

Topic Area: The Four Basic Financial Statements: An Overview

97. Which of the following transactions affects both the income statement and the statement of cash flows?

- A. Selling stock in exchange for cash.
- B. Declaring and paying a cash dividend.
- C. Selling a product to a customer which creates an account receivable.
- D. Paying employee wages as they are earned.**

Paying an employee wages as they are earned results in an expense being recognized (income statement) and a cash outflow (statement of cash flows).

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #97

Topic Area: The Four Basic Financial Statements: An Overview

98. Which of the following would not be found within the investing section of the statement of cash flows?

- A. Cash paid to purchase a manufacturing building.
- B. Cash received from the sale of stock to stockholders.**
- C. Cash received from the sale of manufacturing equipment.
- D. Cash paid to purchase land.

Cash received from the sale of stock is a financing activity. Investing activities involve the purchase of the company's productive assets.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #98

Topic Area: The Four Basic Financial Statements: An Overview

99. Which of the following is primarily responsible for the information provided in the financial statements?

A. Chief Executive Officer
B. External Auditors
C. Board of Directors
D. Internal Accounting Staff

Primary responsibility for the information in the financial statements lies with management. Management is represented by the highest officer of the company and the highest financial officer.

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy*

*Learning Objective: 01-03 Distinguish the roles of managers and auditors in the accounting communication process.
Libby - Chapter 01 #99*

Topic Area: Management Responsibility and the Demand for Auditing

100. Which of the following doesn't represent a professional accounting certification?

A. Certified Management Accountant
B. Certified Public Accountant
C. Certified Internal Auditor
D. Certified Tax Accountant

There is no professionally recognized accounting certification known as a Certified Tax Accountant.

*AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy*

*Learning Objective: Supplement B
Libby - Chapter 01 #100*

Topic Area: Employment in the Accounting Profession Today

101. Determine the missing amounts for each independent case below. Assume the amounts given are at the end of the company's first year of operation.

Answers will vary

Company Name	Total Revenue	Total Assets	Total Expenses	Total Liabilities	Net Income (Loss)	Stockholders' Equity
Randolph	\$600,000	\$450,000	\$350,000	\$130,000		
Newman	\$105,000			\$80,000	\$10,000	\$75,000
Wiseman		\$190,000	\$70,000		(\$30,000)	\$100,000
Martin	\$180,000	\$215,000	\$115,000	\$75,000		
VanTassel			\$55,000	\$75,000	\$19,000	\$79,000

Feedback:

Company Name	Total Revenue	Total Assets	Total Expenses	Total Liabilities	Net Income (Loss)	Stockholders' Equity
Randolph					\$250,000	\$320,000
Newman		\$155,000	\$95,000			
Wiseman	\$40,000			\$90,000		
Martin					\$65,000	\$140,000
VanTassel	\$74,000	\$154,000				

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #101

Topic Area: The Four Basic Financial Statements: An Overview

102. Gail's Greenhouse, Inc., a small retail store which sells house plants, started business on January 1, 2010. At the end of January, 2010, the following information was available:

Answers will vary

Sales of plants for cash	\$75,000
Sales of plants for credit (not yet collected)	15,000
Cost of plants which were sold and paid for during January	45,000
Expenses during incurred and paid for during January unless otherwise noted:	
Salaries	\$5,000
Telephone	250
Office supplies (all used)	150
Electricity	300
Rent on the store for January, 2010 (will not be paid until February, 2010)	1,000

Feedback:

Requirements:

A. Using the above information, prepare the income statement for Gail's Greenhouse for the month ended January 31, 2010.

B. What is the amount of cash flows provided by operating activities to be presented on the statement of cash flows?

Gail's Greenhouse, Inc.
Income Statement
For the Month Ended January 31, 2010

Revenue (\$75,000 + \$15,000).....	\$90,000
Expenses:	
Cost of goods sold.....	\$45,000
Salaries.....	5,000
Telephone.....	250
Office supplies	150
Electricity.....	300
Rent.....	1,000
	51,700
Net income.....	\$38,300

B. $\$38,300 - 15,000 + 1,000 = \$24,300$ or $\$75,000 - 45,000 - 5,000 - 250 - 150 - 300 = \$24,300$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #102

Topic Area: The Four Basic Financial Statements: An Overview

103. Indicate on which financial statement you would expect to find each of the following. If an item can be found on more than one statement, list each statement.

Answers will vary

Cash	Balance Sheet
Notes payable	_____
Wages expense	_____
Cost of goods sold	_____
Sales revenue	_____
Inventory	_____
Income tax expense	_____
Dividends	_____
Retained earnings	_____
Accounts payable	_____
Rent expense	_____

Feedback:

Cash	Balance sheet
Notes payable	Balance sheet
Wages expense	Income statement
Cost of goods sold	Income statement
Sales revenue	Income statement
Inventory	Balance sheet
Income tax expense	Income statement
Dividends	Statement of retained earnings
Retained earnings	Balance sheet and Statement of retained earnings
Accounts payable	Balance sheet
Rent expense	Income statement

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #103

Topic Area: The Four Basic Financial Statements: An Overview

104. For each of the following items that appear on the balance sheet, identify each as an asset (A), liability (L), or element of stockholders' equity (SE). For any item that would not appear on the balance sheet, write the letter, N.

Answers will vary

Retained earnings	_____
Accounts payable	_____
Selling expense	_____
Contributed capital	_____
Accounts receivable	_____
Income tax expense	_____
Dividends	_____
Property and equipment	_____

Feedback:

Retained earnings	SE
Accounts payable	L
Selling expense	N
Contributed capital	SE
Accounts receivable	A
Income tax expense	N
Dividends	N
Property and equipment	A

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Reporting

Blooms: Remember

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #104

Topic Area: The Four Basic Financial Statements: An Overview

105. Rose Corporation began operations at the start of 2010. During 2010, it made cash and credit sales totaling \$500,000 and collected \$420,000 in cash from its customers. It purchased inventory costing \$250,000, paid \$15,000 for dividends and the cost of goods sold was \$210,000. The corporation incurred the following expenses during 2010:

Answers will vary

Salary expense	\$80,000
Interest expense	5,000
Insurance expense	4,000
Supplies expense	6,000
Income tax expense	34,000

Feedback:

Requirements:

1. Prepare an income statement showing revenues, expenses, pretax income, income tax expense, and net income for the year ended December 31, 2010.
2. Based on the above information, what is the amount of accounts receivable on the balance sheet prepared as of December 31, 2010?
3. Based on the above information, what is the amount of retained earnings on the balance sheet prepared as of December 31, 2010?

Rose Corporation
Income Statement
For the Year Ended December 31, 2010

Revenues:		
Sales	\$500,000	
Total revenues		\$500,000
Expenses:		
Cost of goods sold	210,000	
Salary expense	80,000	
Interest expense	5,000	
Insurance expense	4,000	
Supplies expense	6,000	
Total expenses		305,000
Pretax income		195,000
Income tax expense		34,000
Net income		\$161,000

1. $\$500,000 - 420,000 = \$80,000$ Accounts receivable at the end of the year. $\$0$ beginning balance + $\$161,000$ net income - $\$15,000$ dividends = $\$146,000$.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #105

Topic Area: The Four Basic Financial Statements: An Overview

106. Cosmos Corporation was established on December 31, 2010, by a group of investors who invested a total of \$1,000,000 for shares of the new corporation's stock. During the month of January, 2011, Cosmos provided services to customers for which the total revenue was \$100,000. Of this amount, \$10,000 had not been collected by the end of January. Cosmos recorded salary expense of \$20,000, of which 90% had been paid by the end of the month; rent expense of \$5,000, which had been paid on January 1; and other expenses of \$12,000, which had been paid by check. On January 31, 2011, Cosmos purchased a van by paying cash of \$30,000. There were no other transactions that affected cash.

Answers will vary

Feedback: Requirements:

1. In which section of the statement of cash flows would the amount of cash paid for rent be reported?
2. In which section of the statement of cash flows would the amount of cash paid for the van purchase be reported?
3. By how much did Cosmos's cash increase or decrease during January, 2011?
4. What was Cosmos's net income or net loss (after income tax expense) for the month of January, 2011? The income tax rate was 30%.
5. Explain why the net increase or decrease in cash for a business generally will be different than the net income, or net loss, for the same period.

1. Cash used in operating activities.	
2. Cash used in investing activities.	
3. Amount collected from customers	\$90,000
Payment of salaries	(18,000)
Payment of rent	(5,000)
Payment of other expenses	(12,000)
Payment for van	<u>(30,000)</u>
Increase in cash	\$25,000

4. Revenues	\$100,000
Less expenses:	
Salaries expense	\$20,000
Rent expense	5,000
Other expenses	12,000
Total expenses	37,000
Income before income taxes	63,000
Income tax expense	18,900
Net income	\$44,100

5. Net income or net loss for a period is equal to revenues minus expenses; it is not equal to the change in cash. Revenues are reported on the income statement when the goods or services are sold to the customer, which may be before or after the period in which cash is received from the customer. Expenses are reported on the income statement in the period they are used to earn revenues. Again, the payment of cash may occur before or after the period when an expense appears on the income statement.

AACSB: Analytic, Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #106
Topic Area: The Four Basic Financial Statements: An Overview

107. Parker Pool Supply, Inc. reported the following items for the year ended December 31, 2010:

Answers will vary

Wages and salary expense	\$527,000
Cost of goods sold	1,124,000
Rent expense	395,000
Sales revenue	2,564,000
Interest expense	30,000
Income tax expense	121,000
Accounts receivable	27,000

Feedback:

Requirement:

Prepare an income statement for the year ended December 31, 2010.

Parker Pool Supply, Inc.

Income Statement

For the Year Ended December 31, 2010

Revenue:

Sales revenue	\$2,564,000	
Total revenues		\$2,564,000

Expenses:

Cost of goods sold	1,124,000	
Wages and salary expense	527,000	
Rent expense	395,000	
Interest expense	30,000	
Total expenses		2,076,000
Pretax income		488,000
Income tax expense		121,000
Net income		\$367,000

Note: Accounts receivable of \$27,000 would appear on the balance sheet, not the income statement.

Feedback:

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #107

Topic Area: The Four Basic Financial Statements: An Overview

108. National Shops, Inc. reported the following amounts on its balance sheet as of December 31, 2010:

Answers will vary

Inventory	\$325,000
Notes payable	100,000
Cash	150,000
Contributed capital	750,000
Net property, plant and equipment	600,000
Accounts receivable	30,000
Accounts payable	45,000
Retained earnings	?

Feedback:

Requirements:

1. What is the amount of National's total assets as of December 31, 2010?
2. Identify the items listed above that are liabilities.
3. What is the amount of National's retained earnings as of December 31, 2010?
4. Prepare a balance sheet for National as of December 31, 2010.
5. National wishes to purchase merchandise from your company on account. The amount of the purchases would probably be about \$10,000 per month, and the terms would require National to make payment in full within 30 days. Would you recommend that your company grant credit to National under these terms? Explain the reasoning for your response.

1. Total assets = \$325,000 + 150,000 + 600,000 + 30,000 = \$1,105,000
2. Liabilities: Accounts payable and Notes payable.
3. Assets = Liabilities + Stockholders' equity
 $\$1,105,000 = (100,000 + 45,000 + \text{Stockholders' equity})$
Stockholders' equity = \$960,000 = Contributed capital (\$750,000) + retained earnings (\$210,000)

4. National Shops, Inc.
Balance Sheet
At December 31, 2010

Assets		
Cash	\$150,000	
Accounts receivable	30,000	
Inventory	325,000	
Property, plant and equipment	600,000	
Total assets		\$1,105,000
Liabilities		
Accounts payable	\$45,000	
Notes payable	100,000	
Total liabilities		145,000
Stockholders' equity		
Contributed capital	\$750,000	
Retained earnings	210,000	
Total stockholders' equity		960,000
Total liabilities and stockholders' equity		\$1,105,000

5. The balance sheet of National Shops shows that the company is capable of paying its short-term liabilities. There is cash of \$150,000, more than enough to settle the accounts payable of \$45,000. I would recommend that my company grant credit to National Shops.

AACSB: Analytic, Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Hard
Libby - Chapter 01 #108

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Topic Area: The Four Basic Financial Statements: An Overview

109. During 2010, Winterset Company performed services for which customers paid or promised to pay \$587,000. Of this amount, \$552,000 had been collected by year-end. Winterset paid \$340,000 in cash for employee wages and owed the employees \$15,000 at the end of the year for work that had been done but had not paid for. Winterset paid interest expense of \$3,000 and \$195,000 for other service expenses. The income tax rate was 35%, and income taxes had not yet been paid at the end of the year. Winterset declared and paid dividends of \$20,000. There were no other transactions that affected cash.

Answers will vary

Feedback: Requirements:

1. What was the amount of the increase or decrease in cash during the year?
2. Prepare an income statement for Winterset for the year.
3. At the beginning of 2010, Winterset's retained earnings were \$90,000. Prepare a statement of retained earnings.

1. Amount of increase or decrease in cash:

\$552,000	Collected from customers
(340,000)	Paid to employees
(3,000)	Interest expense
(195,000)	Other service expense
<u>(20,000)</u>	Dividends
\$6,000	Decrease in cash

2. Winterset Company
Income Statement
For the Year Ended December 31, 2010

Revenues:		
Service revenues	\$587,000	
Total revenues		\$587,000
Expenses:		
Wages expense	355,000	
Service expense	195,000	
Interest expense	3,000	
Total expenses		553,000
Pretax income		34,000
Income tax expense		11,900
Net income		\$ 22,100

3. Winterset Company
Statement of Retained Earnings
For the Year Ended December 31, 2010

Retained earnings, January 1, 2010	\$90,000
Net income	22,100
Dividends	<u>(20,000)</u>
Retained earnings, December 31, 2010	\$92,100

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #109

Topic Area: The Four Basic Financial Statements: An Overview

110. Alfred Company manufactures men's clothing. During 2010, the company reported the following items that affected cash. Indicate whether each of these items is a cash flow from operating activities (O), investing activities (I), or financing activities (F).

Answers will vary

Purchased equipment by paying cash:	_____
Collected cash on account from customers:	_____
Paid dividends to stockholders:	_____
Paid cash for supplies:	_____
Paid suppliers for fabric:	_____
Borrowed money from bank on a long-term note:	_____
Paid interest to bank on the note:	_____
Paid wages to employees:	_____
Sold shares of stock to new stockholders:	_____

Feedback:

Purchased equipment by paying cash: I
Collected cash on account from customers: O
Paid dividends to stockholders: F
Paid cash for supplies: O
Paid suppliers for fabric: O
Borrowed money from bank on a long-term note: F
Paid interest to bank on the note: O
Paid wages to employees: O
Sold shares of stock to new stockholders: F

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #110

Topic Area: The Four Basic Financial Statements: An Overview

111. Fulton Company was established at the beginning of 2010 when several investors paid a total of \$200,000 to purchase Fulton stock. No additional investments in stock were made during the year. By December 31, 2010, Fulton had cash on hand of \$45,000, office equipment (net) of \$40,000, inventories of \$156,000, and accounts payable of \$10,000. Sales for the year were \$812,000. Of this amount, customers still owed \$20,000. Fulton paid dividends of \$25,000 to its stockholders during 2010.

Answers will vary

Feedback: Requirements:

1. Based on the information above, prepare a balance sheet for Fulton Company as of December 31, 2010. In the process of preparing the balance sheet, you must calculate the ending balance in retained earnings.
2. Prepare a statement of retained earnings for the year ended December 31, 2010.
3. What was the amount of Fulton's net income for 2010?
4. Was Fulton successful during its first year in operation?

1. Fulton Company
Balance Sheet
As of December 31, 2010

Assets	
Cash	\$ 45,000
Accounts receivable	20,000
Inventories	156,000
Office equipment (net)	40,000
Total assets	\$261,000

Liabilities	
Accounts payable	\$ 10,000
Stockholders' equity	
Contributed capital	\$200,000
Retained earnings	51,000
Total stockholders' equity	251,000
Total liabilities and stockholders' equity	\$261,000

2. Fulton Company
Statement of Retained Earnings
For the Year Ended December 31, 2010

Retained earnings, January 1, 2010	\$ -0-
Net income	76,000
Dividends to stockholders	(25,000)
Retained earnings, December 31, 2010	\$51,000

3. \$76,000 (see statement of retained earnings above)
4. Yes, Fulton's first year was successful. The company earned a positive amount of income; many new companies have losses during their early years of operations. Also, it was able to pay dividends to its stockholders. At the end of the first year, the company has just \$10,000 in liabilities. It appears to be in sound financial condition.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #111

Topic Area: The Four Basic Financial Statements: An Overview

112. For Glad Rags Shops, the following information is available for the year ended December 31, 2010:

Answers will vary

Sales revenue	\$4,200,000
Cost of goods sold	2,650,000
Salaries expense	500,000
Rent expense	300,000
Administrative expense	250,000

Feedback:

Dividends declared 10,000

The income tax rate is 30%.

Requirement:

Prepare an income statement for Glad Rags Shops.

Glad Rags Shops

Income Statement

For the Year Ended December 31, 2010

Revenue:

Sales revenue	\$4,200,000	
Total revenue		\$4,200,000

Expenses:

Cost of goods sold	2,650,000	
Salaries expense	500,000	
Rent expense	300,000	
Administrative expense	250,000	
Total expenses		3,700,000

Pretax income 500,000

Less income tax expense 150,000

Net income \$ 350,000

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #112

Topic Area: The Four Basic Financial Statements: An Overview

113. Baseline Corporation was formed two years ago to manufacture fitness equipment. It has been profitable and is growing rapidly. It currently has 150 stockholders and 90 employees; most of the employees own at least a few shares of Baseline's stock. The company has received financing from two banks. It will sell additional shares of stock within the next three months and will also seek additional loans and hire new employees to support its continued growth.

Answers will vary

Feedback: Requirement:

1. Explain who relies on the information in financial statements prepared by Baseline Corporation.
2. Why is compliance with generally accepted accounting principles and accuracy in accounting important for Baseline?

A new accountant who tried to prepare Baseline's financial statements at the end of the current year made several errors. For each of the following items, indicate how the income statement and balance sheet are affected by the error and the nature of the effect. (For example, an error might cause revenues and net income on the income statement and retained earnings and assets on the balance sheet to be overstated). Ignore the effects of income taxes.

The company had sales for cash of \$3,000,000. It also had sales on account of \$1,800,000 that had been collected by the end of the year, and sales on account of \$200,000 that are expected to be collected early the following year. The accountant reported total sales revenue of \$4,800,000.

The company had total inventories of \$600,000 at the end of the year. Of this amount, inventory reported at \$30,000 was obsolete and will have to be scrapped. The balance sheet prepared by the accountant showed total inventories of \$600,000.

The company has a bank loan for which interest expense during the year of \$10,000 will be paid early in January of the next year. The accountant recorded neither the interest expense nor the interest payable.

An insurance policy was listed as an asset of \$6,000 at the beginning of the year. The entire amount of the policy was for the current year and the policy has expired. The accountant took no action to recognize the expiration of the policy.

1. Various external decision makers rely on the financial statements of a corporation. For Baseline, these decision makers include the bankers who have loaned money to the company. These creditors would monitor the performance of Baseline to estimate the likelihood that Baseline will be able to repay existing loans when they come due, and to decide whether to make additional loans to Baseline in the future. Current stockholders would want to review Baseline's financial statements to decide whether they wanted to continue to own Baseline's stock. Potential stockholders and creditors would use the information to decide whether they wanted to purchase Baseline's stock or loan money to the company in the future. Baseline anticipates hiring additional workers in the near future; potential employees might use information in the financial statements to evaluate the company as an employer.

2. Compliance with generally accepted accounting principles and accuracy in accounting are important to Baseline because they are important to the people who use Baseline's financial statements. To maintain the credibility of its financial statements, Baseline must comply with GAAP and must ensure the accuracy of its accounting records.

3. On the income statement, revenues and net income are understated by \$200,000. On the balance sheet, accounts receivable and retained earnings are understated by \$200,000.

On the balance sheet, inventory and retained earnings are overstated by \$30,000. On the income statement, expenses are understated and the net income is overstated.

On the income statement, expenses are understated and net income is overstated by \$10,000. On the balance sheet, interest payable is understated and retained earnings are overstated by \$10,000.

On the balance sheet, prepaid insurance and retained earnings are overstated by \$6,000. On the income statement, expenses are understated and net income is overstated by \$6,000.

AACSB: Analytic, Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Reporting, Measurement

Blooms: Apply, Knowledge

Difficulty: Hard

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #113

Topic Area: The Four Basic Financial Statements: An Overview

114. Larson Company ends its recent year of operations with \$3,500,000 in retained earnings. During the year Larson's net income exceeded its dividend declarations by \$200,000. Larson's dividend declarations were \$25,000 greater than the dividend payments. How much was Larson Company's beginning retained earnings?

Answers will vary

Feedback: Beginning retained earnings = \$3,300,000 = \$3,500,000 - \$200,000

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Easy
(investors; creditors; and managers).
Libby - Chapter 01 #114

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers
Topic Area: The Four Basic Financial Statements: An Overview

115. As of January 1, 2010, a corporation had assets of \$340,000 and liabilities of \$120,000. During 2010, assets increased \$45,000 and liabilities increased \$15,000. What was stockholders' equity on December 31, 2010?

Answers will vary

Feedback: Beginning stockholders' equity = \$220,000 = \$340,000 - \$120,000
Ending stockholders' equity = \$250,000 = \$220,000 + \$45,000 - \$15,000

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Easy
(investors; creditors; and managers).
Libby - Chapter 01 #115

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers
Topic Area: The Four Basic Financial Statements: An Overview

116. Laker Company has provided the following information for its most recent year of operation:

Answers will vary

Feedback: Cash collected from customers totaled \$99,300.

Cash borrowed from banks totaled \$42,700.

Cash paid to employees totaled \$23,300.

Cash paid for interest totaled \$3,100.

Cash received from selling an investment in Husky stock totaled \$73,000.

Cash payments to banks for repayment of money borrowed totaled \$9,700.

Cash paid for operating expenses totaled \$11,200.

Land costing \$75,000 was sold for \$75,000 cash.

Cash paid for dividend payments to stockholders totaled \$7,700.

How much was Laker's net cash flow from financing activities?

Net cash flow from financing activities = $\$25,300 = \$42,700 - \$9,700 - \$7,700$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).
Libby - Chapter 01 #116
Topic Area: The Four Basic Financial Statements: An Overview

117. Laker Company has provided the following information for its most recent year of operation:

Cash collected from customers totaled \$99,300.

Cash borrowed from banks totaled \$42,700.

Cash paid to employees totaled \$23,300.

Cash paid for interest totaled \$3,100.

Cash received from selling an investment in Husky stock totaled \$73,000.

Cash payments to banks for repayment of money borrowed totaled \$9,700.

Cash paid for operating expenses totaled \$11,200.

Land costing \$75,000 was sold for \$75,000 cash.

Cash paid for dividend payments to stockholders totaled \$7,700.

How much was Laker's net cash flow from investing activities?

Answers will vary

Feedback: Net cash flow from investing activities = $\$148,000 = \$73,000 + \$75,000$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium
Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).
Libby - Chapter 01 #117
Topic Area: The Four Basic Financial Statements: An Overview

118. Laker Company has provided the following information for its most recent year of operation:

Answers will vary

Feedback: Cash collected from customers totaled \$99,300.

Cash borrowed from banks totaled \$42,700.

Cash paid to employees totaled \$23,300.

Cash paid for interest totaled \$3,100.

Cash received from selling an investment in Husky stock totaled \$73,000.

Cash payments to banks for repayment of money borrowed totaled \$9,700.

Cash paid for operating expenses totaled \$11,200.

Land costing \$75,000 was sold for \$75,000 cash.

Cash paid for dividend payments to stockholders totaled \$7,700.

How much was Laker's net cash flow from investing activities?

Net cash flow from operating activities = \$61,700 = \$99,300 - \$23,300 - \$3,100 - \$11,200

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).
Libby - Chapter 01 #118

Topic Area: The Four Basic Financial Statements: An Overview

119. During 2010, Rock Company's cash balance increased from \$57,000 to \$94,300. Rock's net cash flow from operating activities was \$26,900 and its net cash flow from financing activities was \$13,700. How much was Rock's net cash flow from investing activities?

Answers will vary

Feedback: Net cash flow from investing activities (-\$3,300) = The increase in cash (\$94,300 - \$57,000) -

Net cash flow from operating activities (\$26,900) - Net cash flow from financing activities (\$13,700).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting, Measurement
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #119

Topic Area: The Four Basic Financial Statements: An Overview

120. Moss Company has provided the following data:

Answers will vary

Feedback: 2010 revenues were \$87,500.

2010 net income was \$43,900.

Dividends declared and paid by Moss during 2010 totaled \$15,700.

Total assets on December 31, 2010 were \$227,000.

Total stockholders' equity on December 31, 2010 was \$133,000.

Contributed capital on December 31, 2010 was \$93,000.

What was the beginning retained earnings balance?

Stockholders' equity (\$133,000) = Contributed capital (\$93,000) + Ending retained earnings (\$40,000).

Beginning retained earnings (\$12,100) = Ending retained earnings (\$40,000) - Net income (\$87,500 - \$43,900) + Dividends (\$15,700).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Apply
Difficulty: Medium

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #120

Topic Area: The Four Basic Financial Statements: An Overview

121. Describe the roles of the Securities & Exchange Commission and The Financial Accounting Standards Board with respect to the development of Generally Accepted Accounting Principles.

Answers will vary

Feedback: The SEC was created through the Securities Acts of 1933 and 1934 to develop accounting guidelines for publically traded companies. The SEC has given the FASB the authority to develop GAAP.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-02 Identify the role of generally accepted accounting principles (GAAP) in determining the content of financial statements.

Libby - Chapter 01 #121

Topic Area: Responsibilities for the Accounting Communication Process

122. Describe the elements of the balance sheet equation.

Answers will vary

Feedback: The balance sheet equation states that assets equal liabilities plus stockholders' equity. Assets are a firm's economic resources such as cash, supplies, inventory, and equipment. Liabilities are a firm's debts such as accounts payable and notes payable. Stockholders' equity consists of contributed capital and retained earnings.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #122

Topic Area: The Four Basic Financial Statements: An Overview

123. Describe the role of a company's management and the external auditors in the accounting communication process.

Answers will vary

Feedback: Management is primarily responsible for the content of their company's financial reporting. The external auditors' opinion reports on the fairness of the financial statements while ensuring that they represent what they claim to and conform to GAAP.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-03 Distinguish the roles of managers and auditors in the accounting communication process.

Libby - Chapter 01 #123

Topic Area: Management Responsibility and the Demand for Auditing

124. What is the objective of the cash flow statement? Describe the three cash flow classifications that are reported within the cash flow statement.

Answers will vary

Feedback: The objective of the cash flow statement is to explain the change in the cash balance during a particular time period. The operations section describes the cash flows that resulted from normal profit seeking activities. The investing section describes cash flows resulting from acquisition and disposition of long-term assets and investments. The financing section describes the cash flows resulting from issuance and retirement of long-term debt and equity.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Remember
Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #124

Topic Area: The Four Basic Financial Statements: An Overview

125. How is net income in the income statement different than cash flow from operations in the cash flow statement?

Answers will vary

Feedback: Net income is based on the accrual concept and isn't based on cash flows. Cash flow from operations is cash flow based rather than accrual based.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking

AICPA FN: Reporting

Blooms: Remember

Difficulty: Easy

Learning Objective: 01-01 Recognize the information conveyed in each of the four basic financial statements and the way that it is used by different decision makers (investors; creditors; and managers).

Libby - Chapter 01 #125

Topic Area: The Four Basic Financial Statements: An Overview

ch1 Summary

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