1. A corporation is a business that is legally separate and distinct from its owners.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The role of accounting is to provide many different users with financial information to make economic decisions.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Accounting information users need reports about the economic activities and condition of businesses.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Managerial accounting information is used by external and internal users equally.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.ACBSP.APC.25 - Managerial Characteristics/Terminology ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. Senior executives cannot be criminally prosecuted for the wrong doings they commit on behalf of the companies where they work.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.03 - Legal

ACCT.AICPA.FN.03 - Measurement BUSPROG: Ethics

1. Financial accounting provides information to all users, while the main focus for managerial accounting is to provide information to the management.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Proper ethical conduct implies that you only consider what's in your best interest.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.BB.03 - Legal

ACCT.AICPA.FN.03 - Measurement BUSPROG: Ethics

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

*ANSWER:* True

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.BB.03 - Legal

ACCT.AICPA.FN.03 - Measurement BUSPROG: Ethics

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

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.BB.06 - Resource Management BUSPROG: Analytic

1. Two factors that typically lead to ethical violations are relevance and timeliness of accounting information.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The Sarbanes-Oxley Act established standards for corporate responsibility and disclosure.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.20 - Accounting for Corporations

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Ethics

1. The main objective for all business is to maximize unrealized profits.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Proprietorships are owned by one owner and provide only services to their customers.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. About 90% of the businesses in the United States are organized as corporations.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* True

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The cost concept is the basis for entering the purchase price into the accounting records.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The unit of measurement concept requires that economic data be recorded in dollars.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The financial statements of a proprietorship should include the owner's personal assets and liabilities.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. No significant differences exist between the accounting standards issued by the FASB and the IASB.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Generally accepted accounting principles regulate how and what financial information is reported by businesses.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The accounting equation can be expressed as Assets – Liabilities = Shareholder's Equity.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The rights or claims to the assets of a business may be subdivided into rights of creditors and rights of stockholders.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Challenging

Bloom's: Remembering *LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03 *ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The stockholders' rights to the assets rank ahead of the creditors' rights to the assets.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering *LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03 *ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. If the liabilities owed by a business total $300,000 and stockholders' equity is equal to $300,000, then the assets also total $300,000.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. If total assets decreased by $30,000 during a specific period and stockholders' equity decreased by $35,000 during the same period, the period's change in total liabilities was a $65,000 increase.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. If total assets increased by $190,000 during a specific period and liabilities decreased by $10,000 during the same period, the period's change in total stockholders' equity was a $200,000 increase.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. If net income for a company was $50,000, $20,000 in cash dividends were paid and the shareholders invested $10,000 in cash, the stockholders' equity increased by $40,000.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. An account receivable is typically classified as a revenue.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.15 - Current Assets Reporting

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. An account receivable is a claim against a customer resulting from a sale on account.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.12 - Receivables Reporting

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Paying an account payable increases liabilities and decreases assets.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.16 - Current Liabilities Reporting ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. Receiving payments on an account receivable increases both equity and assets.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Challenging

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Dividends paid to stockholders decrease assets and increase equity.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Purchasing supplies on account increases liabilities and decreases equity.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Receiving a bill or otherwise being notified that an amount is owed is **not** recorded until the amount is paid.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.ACBSP.APC.04 - Cash vs. Accrual ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Revenue is earned only when money is received.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.ACBSP.APC.04 - Cash vs. Accrual ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Assets that are used up during the process of earning revenue are called expenses.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.15 - Current Assets Reporting ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. The excess of revenue over the expenses incurred in earning the revenue is called capital.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The primary financial statements of a corporation are the income statement, retained earnings statement, and the balance sheet.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. An income statement is a summary of the revenues and expenses of a business as of a specific date.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. A retained earnings statement reports the changes in the retained earnings for a period of time.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The statement of cash flows consists of three sections: cash flows from operating activities, cash flows from income activities, and cash flows from equity activities.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.ACBSP.APC.24 - Statement of Cash Flows ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. The balance sheet represents the accounting equation.
   1. True
   2. False

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Net income and net profit do **not** mean the same thing.
   1. True
   2. False

*ANSWER:* False

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Two common areas of accounting that respectively provide information to internal and external users are
   1. forensic accounting and financial accounting
   2. managerial accounting and financial accounting
   3. managerial accounting and environmental accounting
   4. financial accounting and tax accounting systems

*ANSWER:* b

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following **best** describes accounting?
   1. records economic data but does not communicate the data to users according to any specific rules
   2. is an information system that provides reports to users regarding economic activities and condition of a business
   3. is of no use by individuals outside of the business
   4. is used only for filling out tax returns and for financial statements for various type of governmental reporting requirements

*ANSWER:* b

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* a

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Financial reports are used by
   1. management
   2. creditors
   3. investors
   4. all are correct

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. All of the following are general-purpose financial statements **except**
   1. balance sheet
   2. income statement
   3. retained earnings statement
   4. cash budget

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following is a manufacturing business?
   1. General Motors
   2. Facebook
   3. American Airlines
   4. Target

*ANSWER:* a

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following is a service business?
   1. Microsoft
   2. Dell Computers
   3. Facebook
   4. Walmart

*ANSWER:* c

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following groups of companies are all examples of a merchandising business?
   1. Delta Airlines, Marriott, Gap
   2. Gap, Amazon, NIKE
   3. GameStop, Sony, Dell
   4. GameStop, Best Buy, Gap

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following groups are considered to be **internal users** of accounting information?
   1. employees and customers
   2. customers and vendors
   3. employees and managers
   4. government entities and banks

*ANSWER:* c

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The following are examples of external users of accounting information **except**
   1. government entities
   2. customers
   3. creditors
   4. managers

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following is the **best** description of accounting’s role in business?
   1. Accounting provides stockholders with information regarding the market value of the company’s stocks.
   2. Accounting provides information to managers to operate the business and to other users to make decisions regarding the economic condition of the company.
   3. Accounting helps in decreasing the credit risk of the company.
   4. Accounting is not responsible for providing any form of information to users. That is the role of the Information Systems Department.

*ANSWER:* b

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Managerial accountants would be responsible for providing information regarding
   1. tax reports to government agencies
   2. profit reports to owners and management
   3. expansion of a product line report to management
   4. consumer reports to customers

*ANSWER:* c

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.ACBSP.APC.25 - Managerial Characteristics/Terminology ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following is **not** a certification for accountants?
   1. CIA
   2. CMA
   3. CISA
   4. IRS

*ANSWER:* d

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following is **not** a role of accounting in business?
   1. to provide reports to users about the economic activities and conditions of a business
   2. to personally guarantee loans of the business
   3. to provide information to external users to determine the economic performance and condition of the business
   4. to assess the various informational needs of users and design its accounting system to meet those needs

*ANSWER:* b

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* d

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.03 - Legal

ACCT.AICPA.FN.03 - Measurement BUSPROG: Ethics

1. Which of the following would **not** normally operate as a service business?
   1. pet groomer
   2. grocer
   3. lawn care company
   4. styling salon

*ANSWER:* b

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Most businesses in the United States are
   1. proprietorships
   2. partnerships
   3. corporations
   4. cooperatives

*ANSWER:* a

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the items below is **not** a business entity?
   1. entrepreneurship
   2. proprietorship
   3. partnership
   4. corporation

*ANSWER:* a

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

BUSPROG: Analytic

1. An entity that is organized according to state or federal statutes and in which ownership is divided into shares of stock is a
   1. proprietorship
   2. corporation
   3. partnership
   4. governmental unit

*ANSWER:* b

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following is **true** in regards to a limited liability company?
   1. Makes up 10% of business organizations in the United States.
   2. Combines the attributes of a partnership and a corporation.
   3. Provides tax and liability advantages to the owners.
   4. All are correct.

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. On May 20, White Repair Service extended an offer of $108,000 for land that had been priced for sale at $140,000. On May 30, White Repair Service accepted the seller’s counteroffer of $115,000. On June 20, the land was assessed at a value of $95,000 for property tax purposes. On July 4, White Repair Service was offered $150,000 for the land by a national retail chain. At what value should the land be recorded in White Repair Service’s records?

a. $108,000

b. $95,000

c. $140,000

d. $115,000

*ANSWER:* d

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.ACBSP.APC.13 - Long-term Assets Reporting ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Select the type of business that is most likely to obtain large amounts of resources by issuing stock.
   1. partnership
   2. corporation
   3. proprietorship
   4. government entity

*ANSWER:* b

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following is **not** a characteristic of a corporation?
   1. Corporations are organized as a separate legal taxable entity.
   2. Ownership is divided into shares of stock.
   3. Corporations experience an ease in obtaining large amounts of resources by issuing stock.
   4. A corporation’s resources are limited to its individual owners’ resources.

*ANSWER:* d

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.ACBSP.APC.20 - Accounting for Corporations ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Within the United States, the dominant body in the primary development of accounting principles is the
   1. American Institute of Certified Public Accountants (AICPA)
   2. American Accounting Association (AAA)
   3. Financial Accounting Standards Board (FASB)
   4. Institute of Management Accountants (IMA)

*ANSWER:* c

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. For accounting purposes, the business entity should be considered separate from its owners if the entity is
   1. a corporation
   2. a proprietorship
   3. a partnership
   4. any of these

*ANSWER:* d

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* d

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Karen Meyer owns and operates Crystal Cleaning Company. Recently, Meyer withdrew $10,000 from Crystal Cleaning, and she contributed $6,000, in her name, to the American Red Cross. The contribution of the $6,000 should be recorded on the accounting records of which of the following entities?
   1. Crystal Cleaning and the American Red Cross
   2. Karen Meyer's personal records and the American Red Cross
   3. Karen Meyer's personal records and Crystal Cleaning
   4. Karen Meyer's personal records, Crystal Cleaning, and the American Red Cross

*ANSWER:* b

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Equipment with an estimated market value of $30,000 is offered for sale at $45,000. The equipment is acquired for $15,000 in cash and a note payable of $20,000 due in 30 days. The amount used in the buyer's accounting records to record this acquisition is

a. $30,000

b. $35,000

c. $15,000

d. $45,000

*ANSWER:* b

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which one of the following is the authoritative body in the United States having the primary responsibility for developing accounting principles?
   1. FASB
   2. IRS
   3. SEC
   4. AICPA

*ANSWER:* a

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following concepts relates to separating the reporting of business and personal economic transactions?
   1. cost concept
   2. unit of measure concept
   3. business entity concept
   4. objectivity concept

*ANSWER:* c

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Donner Company is selling a piece of land adjacent to its business premises. An appraisal reported the market value of the land to be $220,000. The Focus Company initially offered to buy the land for $177,000. The companies settled on a purchase price of $212,000. On the same day, another piece of land on the same block sold for $232,000. Under the cost concept, at what amount should the land be recorded in the accounting records of Focus Company?

a. $177,000

b. $212,000

c. $220,000

d. $232,000

*ANSWER:* b

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Many countries outside the United States use financial accounting standards issued by the
   1. AICPA
   2. SEC
   3. IASB
   4. FASB

*ANSWER:* c

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The unit of measure concept
   1. is only used in the financial statements of manufacturing companies
   2. is not important when applying the cost concept
   3. requires that different units be used for assets and liabilities
   4. requires that economic data be reported in yen in Japan or dollars in the United States

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* c

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The initials GAAP stand for
   1. General Accounting Procedures
   2. Generally Accepted Plans
   3. Generally Accepted Accounting Principles
   4. Generally Accepted Accounting Practices

*ANSWER:* c

*DIFFICULTY:* Bloom's: Remembering Moderate

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Assets are
   1. always lower than liabilities
   2. equal to liabilities less stockholders' equity
   3. the same as expenses because they are acquired with cash
   4. financed by the stockholders and/or creditors

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Debts owed by a business are referred to as
   1. accounts receivables
   2. expenses
   3. stockholders' equity
   4. liabilities

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.16 - Current Liabilities Reporting ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. The accounting equation may be expressed as
   1. Assets = Equities − Liabilities
   2. Assets + Liabilities = Stockholders' Equity
   3. Assets = Revenues − Liabilities
   4. Assets − Liabilities = Stockholders' Equity

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following is **not** an asset?
   1. investments
   2. cash
   3. inventory
   4. stockholders' equity

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The assets and liabilities of the company are $128,000 and $84,000, respectively. Stockholders' equity should equal

a. $212,000

b. $44,000

c. $128,000

d. $84,000

*ANSWER:* b

*DIFFICULTY:* Easy

Bloom's: Applying

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. If total liabilities decreased by $46,000 during a period of time and stockholder's equity increased by $60,000 during the same period, the amount and direction (increase or decrease) of the period's change in total assets is
   1. $106,000 increase
   2. $14,000 increase
   3. $14,000 decrease
   4. $106,000 decrease

*ANSWER:* b

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following is **not** a business transaction?
   1. make a sales offer
   2. sell goods for cash
   3. receive cash for services to be rendered later
   4. pay for supplies

*ANSWER:* a

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.ACBSP.APC.06 - Recording Transactions ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. A business paid $7,000 to a creditor in payment of an amount owed. The effect of the transaction on the accounting equation was to
   1. increase an asset, decrease another asset
   2. decrease an asset, decrease a liability
   3. increase an asset, increase a liability
   4. increase an asset, increase stockholders' equity

*ANSWER:* b

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Earning revenue
   1. increases assets, increases stockholders' equity
   2. increases assets, decreases stockholders' equity
   3. increases one asset, decreases another asset
   4. decreases assets, increases liabilities

*ANSWER:* a

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The monetary value charged to customers for the performance of services sold is called a(n)
   1. asset
   2. net income
   3. capital
   4. revenue

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Revenues are reported when
   1. a contract is signed
   2. cash is received from the customer
   3. work is begun on the job
   4. work is completed on the job

*ANSWER:* d

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.ACBSP.APC.06 - Recording Transactions ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. Expenses are recorded when
   1. cash is paid for services rendered
   2. a bill is received in advance of services rendered
   3. assets are used in the process of earning revenue
   4. assets are purchased

*ANSWER:* c

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.ACBSP.APC.06 - Recording Transactions ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. Goods purchased on account for future use in the business, such as supplies, are called
   1. prepaid liabilities
   2. revenues
   3. prepaid expenses
   4. liabilities

*ANSWER:* c

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The asset created by a business when it makes a sale on account is termed
   1. accounts payable
   2. prepaid expense
   3. unearned revenue
   4. accounts receivable

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.12 - Receivables Reporting ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The debt created by a business when it makes a purchase on account is referred to as an
   1. account payable
   2. account receivable
   3. asset
   4. expense payable

*ANSWER:* a

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.16 - Current Liabilities Reporting ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. If total assets decreased by $88,000 during a period of time and stockholders' equity increased by $71,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total liabilities is
   1. $17,000 increase
   2. $88,000 decrease
   3. $159,000 increase
   4. $159,000 decrease

*ANSWER:* d

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Cash dividends
   1. increase expenses
   2. decrease expenses
   3. increase cash
   4. decrease stockholders' equity

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. How does paying a liability in cash affect the accounting equation?
   1. assets increase; liabilities decrease
   2. assets increase; liabilities increase
   3. assets decrease; liabilities decrease
   4. liabilities decrease; stockholders' equity increases

*ANSWER:* c

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. How does receiving a bill to be paid next month for services received affect the accounting equation?
   1. assets decrease; stockholders' equity decreases
   2. assets increase; liabilities increase
   3. liabilities increase; stockholders' equity increases
   4. liabilities increase; stockholders' equity decreases

*ANSWER:* d

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. How does the purchase of equipment by signing a note affect the accounting equation?
   1. assets increase; assets decrease
   2. assets increase; liabilities decrease
   3. assets increase; liabilities increase
   4. assets increase; stockholders' equity increases

*ANSWER:* c

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Land, originally purchased for $30,000, is sold for $62,000 in cash. What is the effect of the sale on the accounting equation?
   1. assets increase $62,000; stockholders' equity increases $62,000
   2. assets increase $32,000; stockholders' equity increases $32,000
   3. assets increase $62,000; liabilities decrease $30,000; stockholders' equity increases $32,000
   4. assets increase $30,000; no change for liabilities; stockholders' equity increases $62,000

*ANSWER:* b

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.13 - Long-term Assets Reporting ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. Which of the following accounts is a liability?
   1. Accounts Payable
   2. Accounts Receivable
   3. Wages Expense
   4. Service Revenue

*ANSWER:* a

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.16 - Current Liabilities Reporting

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. As of the end of its accounting period, December 31, Year 1, Great Plains Company has assets of $940,000 and liabilities of $300,000. During Year 2, stockholders invested an additional $73,000 and received $33,000 in dividends from the business. What is the amount of net income during Year 2, assuming that as of December 31, Year 2, assets were $995,000, and liabilities were $270,000?

a. $45,000

b. $50,000

c. $106,000

d. $370,000

*ANSWER:* a

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following asset accounts is increased when a receivable is collected?
   1. Accounts Receivable
   2. Supplies
   3. Accounts Payable
   4. Cash

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.15 - Current Assets Reporting ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. Transactions affecting stockholders' equity include
   1. capital contributions and payment of liabilities
   2. capital contributions, stockholder dividends, earning of revenues, and incurrence of expenses
   3. capital contributions, earning of revenues, incurrence of expenses, and collection of accounts receivable
   4. stockholder dividends, earning of revenues, incurrence of expenses, and purchase of supplies on account

*ANSWER:* b

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Computer Corporation is starting its computer programming business and has sold stock of $15,000. Identify how the accounting equation will be affected.
   1. increase assets (Cash) and increase liabilities (Accounts Payable)
   2. increase assets (Cash) and increase stockholders' equity (Capital Stock)
   3. increase assets (Accounts Receivable) and decrease liabilities (Accounts Payable)
   4. increase assets (Cash) and increase assets (Accounts Receivable)

*ANSWER:* b

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Gomez Service Company paid its first installment on a note payable in the amount of $2,000. How will this transaction affect the accounting equation?
   1. increase liabilities (Notes Payable) and decrease assets (Cash)
   2. decrease assets (Cash) and decrease stockholders' equity (Note Payable Expense)
   3. decrease assets (Cash) and decrease assets (Notes Receivable)
   4. decrease assets (Cash) and decrease liabilities (Notes Payable)

*ANSWER:* d

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.16 - Current Liabilities Reporting ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. Ramos Repair Company is paying a cash dividend. How does this transaction affect Ramos Repair Company’s accounting equation?
   1. increase assets (Accounts Receivable) and decrease assets (Cash)
   2. decrease assets (Cash) and decrease stockholders' equity (Dividends)
   3. decrease assets (Cash) and decrease liabilities (Accounts Payable)
   4. increase assets (Cash) and decrease stockholders' equity (Dividends)

*ANSWER:* b

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following is **not** a business transaction?
   1. Erin, the CEO, buys $15,000 in stock in a bank account in the name of Bob's Lawn Service.
   2. Erin provided services to customers earning fees of $600.
   3. Erin purchased hedge trimmers for Bob's Lawn service agreeing to pay the supplier next month.
   4. Erin pays her monthly personal credit card bill.

*ANSWER:* d

*DIFFICULTY:* Challenging

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.ACBSP.APC.06 - Recording Transactions ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following is a business transaction?
   1. purchase inventory on account
   2. plan advertising for upcoming sale
   3. give employees a raise beginning next month
   4. submit estimate for construction project

*ANSWER:* a

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.ACBSP.APC.06 - Recording Transactions ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The financial statement that presents a summary of the revenues and expenses of a business for a specific period of time, such as a month or year, is called a(n)
   1. prior period statement
   2. retained earnings statement
   3. income statement
   4. balance sheet

*ANSWER:* c

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Which of the following financial statements reports information as of a specific date?
   1. income statement
   2. retained earnings statement
   3. statement of cash flows
   4. balance sheet

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Four financial statements are usually prepared for a business. The statement of cash flows is usually prepared last. The retained earnings statement (RES), the balance sheet (B), and the income statement (I) are prepared in a certain order to obtain information needed for the next statement. In what order are these three statements prepared?
   1. I, RES, B
   2. B, I, RES
   3. RES, I, B
   4. B, RES, I

*ANSWER:* a

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Liabilities are reported on the
   1. income statement
   2. retained earnings statement
   3. statement of cash flows
   4. balance sheet

*ANSWER:* d

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.ACBSP.APC.16 - Current Liabilities Reporting ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. Cash investments made by the owner in the business are reported on the statement of cash flows in the
   1. financing activities section
   2. investing activities section
   3. operating activities section
   4. supplemental statement

*ANSWER:* a

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.ACBSP.APC.24 - Statement of Cash Flows ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. The year-end balance of the retained earnings account appears in
   1. both the retained earnings statement and the income statement
   2. only the retained earnings statement
   3. both the retained earnings statement and the balance sheet
   4. both the retained earnings statement and the statement of cash flows

*ANSWER:* c

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. A financial statement user would determine if a company was profitable or not during a specific period of time by reviewing the
   1. income statement
   2. balance sheet
   3. statement of cash flows
   4. statement of retained earnings

*ANSWER:* a

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. If a shareholder wanted to know how money flowed into and out of the company, which financial statement would the shareholder use?
   1. income statement
   2. statement of cash flows
   3. balance sheet
   4. statement of retained earnings

*ANSWER:* b

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.ACBSP.APC.24 - Statement of Cash Flows ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. The assets section of the balance sheet normally presents assets in
   1. alphabetical order
   2. the order of largest to smallest dollar amounts
   3. the order in which they will be converted into cash or used in operations
   4. the order of smallest to largest dollar amounts

*ANSWER:* c

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. All of the following statements regarding the ratio of liabilities to stockholders' equity are true **except**
2. a ratio of 1 indicates that liabilities equal stockholders' equity
3. sole proprietorships can use this ratio but substitute total owner's equity for total stockholders' equity
4. the higher this ratio, the better able a business is to withstand poor business conditions and pay creditors
5. the lower this ratio, the better able a business is to withstand poor business conditions and pay creditors

*ANSWER:* c

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-06 - LO: 01-06

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.23 - Financial Statement Analysis

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

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

External users of accounting information include customers, creditors, banks, and government entities. These users are not directly involved in managing or operating the business. The area of accounting that provides external users with information is called financial accounting. General-purpose financial statements are one type of financial accounting report that is distributed to external users.

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

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

*DIFFICULTY:* Moderate

Bloom's: Understanding

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.20 - Accounting for Corporations

ACCT.AICPA.BB.03 - Legal

ACCT.AICPA.FN.03 - Measurement BUSPROG: Ethics

1. List the five steps in the process by which accounting provide information to users.

*ANSWER:* 1. Identify users.

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

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

|  |  |
| --- | --- |
| A. | Payroll manager |
| B. | Bank |
| C. | President’s secretary |
| D. | Internal Revenue Service |
| E. | Raw material vendors |
| F. | Social Security Administration |
| G. | Health insurance provider |
| H. | Managerial accountant |

*ANSWER:*

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

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

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

*ANSWER:*

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

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

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

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* Accounting reports would become unstable and unreliable.

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. On May 7, Carpet Barn Company offered to pay $83,000 for land that had a selling price of $105,000. On May 15, Carpet Barn accepted a counteroffer of $95,000. On June 5, the land was assessed at a value of $115,000 for property tax purposes. On December 10, Carpet Barn Company was offered $135,000 for the land by another company. At what value should the land be recorded in Carpet Barn Company’s records?

*ANSWER:* $95,000

*DIFFICULTY:* Easy

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* $115,000

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.ACBSP.APC.13 - Long-term Assets Reporting ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. Explain the meaning of the business entity concept.

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

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

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

*ANSWER:* Darnell Company and Joseph Company

*DIFFICULTY:* Challenging

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Discuss the characteristics of a limited liability company (LLC).

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

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Explain the meaning of:
2. the objectivity concept
3. the unit of measure concept

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

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

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

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

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Dave Ryan is the CEO of Ryan's Arcade. At the end of its accounting period, December 31, Ryan’s Arcade has as liabilities of $125,000. Using the accounting equation, determine the following amounts:
2. stockholders' equity as of December 31 of the current year
3. stockholders' equity as of December 31 at the end of the next year, assuming that assets increased by $65,000 and liabilities increased by $35,000 during the year

*ANSWER:* (a) $325,000 ($450,000 − $125,000)

(b) $355,000 [($450,000 + $65,000) − ($125,000 + $35,000)]

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Krammer Company has liabilities equal to one fourth of the total assets. Krammer’s stockholders' equity is $45,000. Using the accounting equation, what is the amount of liabilities for Krammer?

*ANSWER:* Assets = Liabilities + Stockholders' Equity 4x = x + $45,000

3x = $45,000

x = $15,000 in liabilities

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

|  |  |  |
| --- | --- | --- |
| Assets | Liabilities | Stockholders' Equity |
| (a) | $38,000 | $45,000 |
| $30,000 | (b) | $22,000 |
| $53,000 | $32,000 | (c) |

*ANSWER:*

|  |  |
| --- | --- |
| (a) | $83,000  ($38,000 + $45,000) |
| (b) | $8,000  ($30,000 – $22,000) |
| (c) | $21,000  ($53,000 – $32,000) |

*DIFFICULTY:* Easy

Bloom's: Applying

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Determine the missing amount “X” for each of the following:

|  |  |  |
| --- | --- | --- |
| Assets | Liabilities | Stockholders' Equity |
| (a) $78,500 | $37,600 | X |
| (b) X | $53,280 | $145,000 |
| (c) $49,500 | X | $34,000 |

*ANSWER:* (a) $40,900 ($78,500 − $37,600)

(b) $198,280 ($53,280 + $145,000)

(c) $15,500 ($49,500 − $34,000)

*DIFFICULTY:* Easy

Bloom's: Applying

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Use the accounting equation to answer each of the independent questions below.
2. At the beginning of the year, Norton Company's assets were $75,000 and its stockholders' equity was $38,000. During the year, assets increased by $18,000 and liabilities increased by $4,000. What was the stockholders' equity at the end of the year?
3. At the beginning of the year, Turpin Industries had liabilities of $44,000 and stockholders' equity of $66,000. If assets increased by $10,000 and liabilities decreased by $5,000, what was the stockholders' equity at the end of the year?

*ANSWER:* (a) $75,000 **−** $38,000 = $37,000 beginning of year liabilities

($75,000 + $18,000) **−** ($37,000 + $4,000) = $52,000 end-of-year   
 stockholders' equity

(b) $44,000 + $66,000 = $110,000 beginning of year assets ($110,000 + $10,000) **−** ($44,000 **−** $5,000) = $81,000 end-of-year stockholders' equity

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. On July 1 of the current year, the assets and liabilities of John Wong, DVM, are as follows: Cash, $27,000; Accounts Receivable, $12,300; Supplies, $3,100; Land, $35,000; Accounts Payable, $13,900. What is the amount of stockholders' equity as of July 1 of the current year?

*ANSWER:* $63,500

($27,000 Cash + $12,300 Accounts Receivable + $3,100 Supplies + $35,000 Land **−** $13,900 Accounts Payable = $63,500)

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. At the end of its accounting period, December 31, of Year 1, Hsu’s Financial Services has assets of $575,000 and stockholders' equity of $335,000. Using the accounting equation and considering each case independently, determine the following amounts.
2. Hsu’s liabilities as of December 31, of Year 1.
3. Hsu’s liabilities as of December 31, of Year 2, assuming that assets increased by $56,000 and shareholders' equity decreased by $32,000.

(c) Net income or net loss during Year 2, assuming that as of December 31, Year 2, assets were $592,000, liabilities were $450,000, and there were no additional investments or dividends.

*ANSWER:* (a) $575,000 **−** $335,000 = $240,000

(b) ($575,000 + $56,000) **−** ($335,000 **−** $32,000) = $328,000

(c) $592,000 **−** $450,000 = $142,000 shareholders' equity Year 2

$335,000 **−** $142,000 = $193,000 net loss

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Indicate whether each of the following accounts represents an asset, liability, or stockholders' equity:
2. Accounts Payable
3. Wages Expense
4. Common Stock
5. Accounts Receivable
6. Dividends
7. Land

*ANSWER:* (a) liability

* 1. stockholders' equity
  2. stockholders' equity
  3. asset
  4. stockholders' equity
  5. asset

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. At December 31 of the current year, Martin Consultants has assets of $430,000 and liabilities of $205,000. Using the accounting equation and considering each case independently, determine the following:
2. Stockholders' equity, as of December 31.
3. Stockholders' equity, as of December 31 of the next year, assuming that assets increased by $12,000 and liabilities increased by $15,000.
4. Stockholders' equity, as of December 31 of the next year, assuming that assets decreased by $8,000 and liabilities increased by $14,000.

*ANSWER:* (a) $430,000 **−** $205,000 = $225,000

(b) ($430,000 + $12,000) **−** ($205,000 + $15,000) = $222,000

(c) ($430,000 **−** $8,000) **−** ($205,000 + $14,000) = $203,000

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

The accountant for Scott Industries prepared the following list of account balances from the company’s records for the year ended December 31:

|  |  |  |  |
| --- | --- | --- | --- |
| Fees earned | $165,000 | Cash | $30,000 |
| Accounts receivable | 14,000 | Selling expenses | 44,000 |
| Equipment | 64,000 | Common stock | 27,000 |
| Accounts payable | 12,000 | Interest income | 3,000 |
| Salaries & wages expense | 40,000 | Prepaid rent | 2,000 |
| Income taxes payable | 5,000 | Income taxes expense | 18,000 |
| Notes payable | 20,000 | Rent expense | 20,000 |

1. Determine the total assets at the end of the current year for Scott Industries.

*ANSWER:* $110,000

($30,000 Cash + $14,000 Accounts receivable + $64,000 Equipment + $2,000 Prepaid rent = $110,000)

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Determine the total liabilities at the end of the current year for Scott Industries.

*ANSWER:* $37,000

($12,000 Accounts payable + $5,000 Income taxes payable + $20,000 Notes payable = $37,000)

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* ACCT.WARD.16.01-03 - 01-03

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Daniels Company made the following selected transactions during May:
2. Received cash from sale of stock, $55,000
3. Paid creditors on account, $7,000
4. Billed customers for services on account, $2,565
5. Received cash from customers on account, $8,450
6. Paid dividends to stockholders, $2,500
7. Received the utility bill, $160, to be paid next month

Indicate the effect of each transaction on the accounting equation by:

a) Account type - (A)assets, (L)liabilities, (SE)stockholders' equity, (R)revenue, and (E)expense

1. Name of account
2. The amount by of the transaction
3. The direction of change (increase or decrease) in the account affected Note: Each transaction has two entries.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Entry | | | | | Entry | | | |
|  | Account Type (a) | Name of Account  (b) | Amount  (c) | Increase or Decrease  (d) | Account Type (a) | Name of Account (b) | Amount  (c) | Increase or Decrease  (d) |
| 1 |  |  |  |  |  |  |  |  |
| 2 |  |  |  |  |  |  |  |  |
| 3 |  |  |  |  |  |  |  |  |
| 4 |  |  |  |  |  |  |  |  |
| 5 |  |  |  |  |  |  |  |  |
| 6 |  |  |  |  |  |  |  |  |

*ANSWER:*

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Entry | | | | | Entry | | | |
|  | Account Type  (a) | Name of  Account  (b) | Amount  (c) | Increase or Decrease (d) | Account Type  (a) | Name of Account  (b) | Amount  (c) | Increase or Decrease (d) |
| 1 | A | Cash | $55,000 | Increase | SE | Common Stock | $55,000 | Increase |
| 2 | A | Cash | $7,000 | Decrease | L | Accounts payable | $7,000 | Decrease |
| 3 | A | Accounts receivable | $2,565 | Increase | R | Fees earned | $2,565 | Increase |
| 4 | A | Cash | $8,450 | Increase | A | Accounts receivable | $8,450 | Decrease |
| 5 | A | Cash | $2,500 | Decrease | SE | Dividends | $2,500 | Increase |
| 6 | L | Accounts payable | $160 | Increase | E | Utilities expense | $160 | Increase |

*DIFFICULTY:* Challenging

Bloom's: Understanding

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* Increase assets (Supplies) and increase liabilities (Accounts Payable)

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

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

*ANSWER:*

|  |  |  |  |
| --- | --- | --- | --- |
|  | Assets | Liabilities | Stockholders' Equity |
| (a) | **−**$500 | NC | **−**$500 |
| (b) | **+**$55,000 | NC | **+**$55,000 |
| (c) | **−**$40,000 | NC | **−**$40,000 |
| (d) | NC | NC | NC |
| (e) | **−**$450 | NC | **−**$450 |
| (f) | **+**$150 | **+**$150 | NC |

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Ramierez Company received its first electric bill in the amount of $60 which will be paid next month. How will this transaction affect the accounting equation?

*ANSWER:* Increase liabilities (Accounts Payable) and decrease shareholders’ equity

(Utilities Expense)

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Simpson Auto Body Repair purchased $20,000 of machinery. The company paid $8,000 in cash at the time of the purchase and signed a promissory note for the remainder to be paid in four monthly installments.
2. How will the purchase affect the accounting equation?
3. How will the payment of the first monthly installment affect the accounting equation (ignore interest)?

*ANSWER:* (a) Increase total assets by a net amount of $12,000 (increase Machinery,

$20,000 and decrease Cash, $8,000) and increase liabilities by $12,000 (Notes Payable, $12,000)

(b) Decrease assets by $3,000 (decrease Cash, $3,000) and decrease liabilities by $3,000 (Notes Payable, $3,000)

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Indicate how the following transactions affect the accounting equation.
2. The purchase of supplies on account
3. The purchase of supplies for cash
4. Payment of cash dividends to stockholders
5. Revenues received in cash
6. Sale made on account

*ANSWER:* (a) Assets increase; liabilities increase

* 1. No effect
  2. Assets decrease; stockholders' equity decreases
  3. Assets increase; stockholders' equity increases
  4. Assets increase; stockholders' equity increases

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:* (a) (1) Total assets increased $44,000

* + 1. No change in liabilities
    2. Stockholders' equity increased $44,000

(b) (1) Total assets decreased $52,000

1. Total liabilities decreased $52,000
2. No change in stockholders' equity

*DIFFICULTY:* Easy

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

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

Total liabilities decrease $40,000 (Note payoff to Regions Bank) Stockholders' equity increases $20,000 (Sales price **−** Cost of the land)

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.13 - Long-term Assets Reporting ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. There are four transactions that affect stockholders' equity.
2. What are the two types of transactions that increase stockholders' equity?
3. What are the two types of transactions that decrease stockholders' equity?

*ANSWER:* (a) Purchase of additional common stock by stockholders and increase in revenues

(b) Payment of dividends to stockholders and increase in expenses

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Identify each of the following as an (1) increase to stockholders' equity, or a (2) decrease to stockholders' equity.
2. Fees earned
3. Wages expense
4. Dividends
5. Lawn care revenue
6. Investment
7. Supplies expense

*ANSWER:* (a) 1

* 1. 2
  2. 2
  3. 1
  4. 1
  5. 2

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Given the following:

Beginning stockholders' equity $58,000 Ending stockholders' equity $30,000

Stockholder dividends $25,000

Calculate net income or net loss.

*ANSWER:*

|  |  |
| --- | --- |
| Ending stockholders' equity | $30,000 |
| Beginning stockholders' equity | 58,000 |
| Decrease in stockholders' equity | $28,000 |
| Less dividends | 25,000 |
| Net loss | $  3,000 |

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | A | L | SE |
| (a) | Received cash from sale of common stock | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (b) | Purchased supplies on account | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (c) | Paid rent for the current month | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (d) | Received cash for services sold to customers | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (e) | Returned some defective supplies purchased in (b) | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (f) | Paid insurance premiums in advance | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (g) | Paid cash to creditor for purchases in (b) | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (h) | Charged customers for services sold on account | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (i) | Paid cash to a customer as a refund for an overcharge | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (j) | Received cash on account from customers | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (k) | Payment of dividends | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (l) | Recorded the cost of supplies used during the year | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (m) | Received invoice for electricity used | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (n) | Paid wages | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (o) | Purchased a truck for cash | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |

*ANSWER:*

|  |  |  |  |
| --- | --- | --- | --- |
|  | A | L | SE |
| (a) | + |  | + |
| (b) | + | + |  |
| (c) | − |  | − |
| (d) | + |  | + |
| (e) | − | − |  |
| (f) | +,− |  |  |
| (g) | − | − |  |
| (h) | + |  | + |
| (i) | − |  | − |
| (j) | +,− |  |  |
| (k) | − |  | − |
| (l) | − |  | − |
| (m) |  | + | − |
| (n) | − |  | − |
| (o) | +,− |  |  |

*DIFFICULTY:* Moderate  
Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The accountant for Flagger Company prepared the following list of account balances from the company’s records for the year ended December 31:

|  |  |  |  |
| --- | --- | --- | --- |
| Fees earned | $165,000 | Cash | $30,000 |
| Accounts receivable | 14,000 | Selling expenses | 44,000 |
| Equipment | 42,000 | Common stock | 36,000 |
| Accounts payable | 12,000 | Interest income | 3,000 |
| Salaries & wages expense | 40,000 | Rent expense | 51,000 |
| Income taxes payable | 5,000 | Prepaid rent | 2,000 |
| Notes payable | 20,000 | Income taxes expense | 18,000 |

Prepare an income statement for Flagger Company in good form.

*ANSWER:*

|  |  |  |  |
| --- | --- | --- | --- |
| Flagger Company | | | |
| Income Statement | | | |
| For the Year Ended December 31 | | | |
| Revenues: |  |  |  |
| Fees earned | | $165,000 |  |
| Interest income | | 3,000 | $168,000 |
| Expenses: | |  |  |
| Rent expense | | $  51,000 |  |
| Selling expenses | | 44,000 |  |
| Salary & wages expense | | 40,000 |  |
| Income taxes expense | | 18,000 |  |
| Total expenses | |  | 153,000 |
| Net income |  |  | $  15,000 |

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

The accountant for Scott Industries prepared the following list of account balances from the company’s records for the year ended December 31:

|  |  |  |  |
| --- | --- | --- | --- |
| Fees earned | $165,000 | Cash | $30,000 |
| Accounts receivable | 14,000 | Selling expenses | 44,000 |
| Equipment | 64,000 | Common stock | 27,000 |
| Accounts payable | 12,000 | Interest income | 3,000 |
| Salaries & wages expense | 40,000 | Prepaid rent | 2,000 |
| Income taxes payable | 5,000 | Income taxes expense | 18,000 |
| Notes payable | 20,000 | Rent expense | 20,000 |

1. Based on this information, is Scott Industries profitable? Explain your answer.

*ANSWER:* ($165,000 Fees earned + $3,000 Interest income) **−** ($40,000 Salaries & wages expense + $44,000 Selling expenses + $18,000 Income taxes expense + $20,000 Rent expense) = $46,000 Net income

Scott Industries had net income for the period of $46,000. Since revenues exceeded expenses for the period, the company would be considered profitable.

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

The assets and liabilities of Thompson Computer Services at March 31, the end of the current year, and its revenue and expenses for the year are listed below. The common stock was $120,000 and the retained earnings were $60,000 at April 1, the beginning of the current year. During the year, shareholders purchased an additional $25,000 in stock.

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $ 2,000 | Miscellaneous expense | $ 1,030 |
| Accounts receivable | 10,340 | Office expense | 1,240 |
| Cash | 21,420 | Supplies | 1,670 |
| Fees earned | 73,450 | Wages expense | 23,550 |
| Land | 47,000 | Dividends | 16,570 |
| Building | 157,630 |  |  |

1. Prepare an income statement for the current year ended March 31.

*ANSWER:*

|  |  |  |  |
| --- | --- | --- | --- |
| Thompson's Computer Services Income Statement For the Year Ended March 31 | | | |
| Fees earned |  |  | $73,450 |
| Expenses: |  |  |  |
|  | Wages expense | $23,550 |  |
|  | Office expense | 1,240 |  |
|  | Miscellaneous expense | 1,030 |  |
|  | Total expenses |  | 25,820 |
| Net income |  |  | $47,630 |

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

166. Prepare a statement of retained earnings for the current year ended March 31.

*ANSWER:*

|  |  |  |
| --- | --- | --- |
| Thompson's Computer Services Statement of Retained Earnings For the Year Ended March 31 | | |
| Thompson's retained earnings, April 1 |  | $60,000 |
| Net income for the year | $47,630 |  |
| Less dividends | 16,570 |  |
| Increase in stockholders' equity | ​ | 31,060 |
| Thompson's retained earnings, March 31 |  | $91,060 |

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

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

*ANSWER:*

|  |  |  |  |
| --- | --- | --- | --- |
| Thompson's Computer Services Balance Sheet March 31 | | | |
| **Assets** |  | **Liabilities** |  |
| Cash | $ 21,420 | Accounts payable | $   2,000 |
| Accounts receivable | 10,340 |  |  |
| Supplies | 1,670 |  |  |
| Land | 47,000 | **Stockholders' Equity** |  |
| Building | 157,630 | Common stock | 145,000 |
|  |  | Retained earnings | 91,060 |
| ​  Total assets | ​  $238,060 | Total liabilities and      stockholders' equity | ​  $238,060 |

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. A summary of cash flows for Linda's Design Services for the year ended December 31 is shown below.

Cash receipts:

Cash received from customers $83,990

Cash received from sale of stock 25,000

Cash payments:

|  |  |
| --- | --- |
| Cash paid for expenses | $27,000 |
| Cash paid for land | 47,000 |
| Cash paid for supplies | 410 |
| Dividends | 5,000 |

The cash balance as of January 1 $40,600

Prepare a statement of cash flows for Linda's Design Services for the year ended December 31.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | ​   |  |  | | --- | --- | | Linda's Design Services  Statement of Cash Flows  For the Year Ended December 31 | | | Cash flows from operating activities: | | | Cash received from customers | $83,990 | | Deduct cash payments for expenses and supplies | (27,410) | | Net cash flows from operating expenses | $ 56,580 | | Cash flows from investing activities: |  | | Cash paid for land | (47,000) | | Cash from financing activities: |  | | Cash investment received from sale of stock | $25,000 | | Deduct dividends | (5,000) | | Net cash flows from financing activities | 20,000 | | Net increase in cash during year | $ 29,580 | | Cash as of January 1 | 40,600 | | Cash as of December 31 | $ 70,180 | |
| *DIFFICULTY:* | Challenging Bloom's: Applying |
| *LEARNING OBJECTIVES:* | FNMN.WARD.16.01-05 - LO: 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial Statements ACCT.ACBSP.APC.24 - Statement of Cash Flows ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic |

1. What information does the income statement give to business users?

*ANSWER:* The income statement reports the revenues and expenses for a period of time. The result is either a net income or a net loss.

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. What are the three sections of the statement of cash flows?

*ANSWER:* Operating Activities, Investing Activities, and Financing Activities

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.ACBSP.APC.24 - Statement of Cash Flows ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. *Match the following items to the financial statement where they can be found. (Hint: Some of the items can be found on more than one financial statement.)*
   1. Balance sheet
   2. Income statement
   3. Statement of cash flows
   4. Retained earnings statement

|  |  |
| --- | --- |
| **#** | **Item** |
| 1. | Dividends |
| 2. | Revenues |
| 3. | Supplies |
| 4. | Land |
| 5. | Accounts payable |
| 6. | Accounts receivable |
| 7. | Operating activities |
| 8. | Wages expense |
| 9. | Net income |
| 10. | Cash |

|  |  |  |
| --- | --- | --- |
| **#** | **Answer** | **Item** |
| 1. | D (If Cash, also C.) | Dividends |
| 2. | B | Revenues |
| 3. | A | Supplies |
| 4. | A | Land |
| 5. | A | Accounts payable |
| 6. | A | Accounts receivable |
| 7. | C | Operating activities |
| 8. | B | Wages expense |
| 9. | D & B (If using the indirect method, also C) | Net income |
| 10. | A & C | Cash |

*ANSWER:*

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Name and describe the four primary financial statements for a corporation.

*ANSWER:* 1. Income statement: A summary of the revenue and expenses *for a specific period of time*, such as a month or a year.

2. Retained earnings statement: A summary of the changes in retained earnings that have occurred *during a specific period of time* such as a month or a year.

3. Balance sheet: A list of the assets, liabilities, and owner’s equity *as of a specific date*, usually at the close of the last day of a month or a year.

4. Statement of cash flows: A summary of the cash receipts and cash payments for a *specific period of time*, such as a month or a year.

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. A summary of cash flows for Evelyn's Event Planning for the year ended December 31 is shown below.

Cash receipts:

Cash received from customers $57,360

Cash received from bank loan 15,000

Cash payments:

|  |  |
| --- | --- |
| Cash paid for operating expenses | $12,120 |
| Cash paid for equipment | 18,070 |
| Cash paid for party supplies | 9,480 |
| Dividends | 12,000 |

The cash balance as of January 1 $15,580

Prepare a statement of cash flows for Evelyn's Event Planning for the year ended December 31.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | ​   |  |  | | --- | --- | | Evelyn's Event Planning Statement of Cash Flows For the Year Ended December 31 | | | Cash flows from operating activities: | | | Cash received from customers | $57,360 | | Deduct cash payments for expenses and supplies | (21,600) | | Net cash flows from operating activities | $ 35,760 | |  |  | | Cash flows from investing activities: |  | | Cash paid for equipment | (18,070) | |  |  | | Cash from financing activities: | | | Cash received from bank loan | $15,000 | | Deduct dividends | (12,000) | | Net cash flows from financing activities | 3,000 | | Net increase in cash during year | $ 20,690 | | Cash as of January 1 | 15,580 | | Cash as of December 31 | $ 36,270 | |
| *DIFFICULTY:* | Challenging Bloom's: Applying |
| *LEARNING OBJECTIVES:* | FNMN.WARD.16.01-05 - LO: 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.24 - Statement of Cash Flows ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic |

1. The assets and liabilities of Rocky's Day Spa at December 31 and expenses for the year are listed below. The stockholders' equity was $68,000 ($48,000 in Common Stock and $20,000 in Retained Earnings) at January 1. The shareholders invested in an additional $10,000 of common stock during the year. Net income for the year is $45,625.

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $ 4,375 | Spa operating expense | $23,760 |
| Accounts receivable | 8,490 | Office expense | 2,470 |
| Cash | 13,980 | Spa supplies | 9,230 |
| Fees earned | ??? | Wages expense | 26,580 |
| Spa furniture & equipment | 56,000 | Dividends | 38,170 |
| Computers | 2,130 |  |  |

Prepare an income statement for Rocky's Day Spa for the current year ended December 31.

*ANSWER:*

|  |  |  |  |
| --- | --- | --- | --- |
| Rocky's Day Spa Income Statement For the Year Ended December 31 | | | |
| Fees earned |  |  | $98,435 |
| Expenses: |  |  |  |
|  | Wages expense | $26,580 |  |
|  | Spa operating expense | 23,760 |  |
|  | Office expense | 2,470 |  |
|  | Total expenses |  | 52,810 |
| Net income |  |  | $45,625 |

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The assets and liabilities of Rocky's Day Spa at December 31 and expenses for the year are listed below. The stockholders' equity was $68,000 ($48,000 in Common Stock and $20,000 in Retained Earnings) at January 1. The shareholders invested in an additional $10,000 of common stock during the year. Net income for the year is $45,625.

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $ 4,375 | Spa operating expense | $23,760 |
| Accounts receivable | 8,490 | Office expense | 2,470 |
| Cash | ??? | Spa supplies | 9,230 |
| Fees earned | 98,435 | Wages expense | 26,580 |
| Spa furniture & equipment | 56,000 | Dividends | 38,170 |
| Computers | 2,130 |  |  |

Prepare a balance sheet for Rocky's Day Spa for the year ended December 31.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | ​   |  |  |  |  | | --- | --- | --- | --- | | Rocky's Day Spa Balance Sheet December 31 | | | | | **Assets** |  | **Liabilities** |  | | Cash | $13,980 | Accounts payable | $ 4,375 | | Accounts receivable | 8,490 |  |  | | Spa supplies | 9,230 |  |  | | Computers | 2,130 | **Stockholders' Equity** |  | | Spa furniture & equipment | 56,000 | Stockholders' equity | 85,455 | | Total assets | $89,830 | Total liabilities and        stockholders' equity | $89,830 | |
| *DIFFICULTY:* | Challenging Bloom's: Applying |
| *LEARNING OBJECTIVES:* | FNMN.WARD.16.01-05 - LO: 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic |

1. The assets and liabilities of Rocky's Day Spa at December 31 and expenses for the year are listed below. The stockholders' equity was $68,000 ($48,000 in Common Stock and $20,000 in Retained Earnings) at January 1. The shareholders invested in an additional $10,000 of common stock during the year. Net income for the year is $45,625.

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $ 4,375 | Spa operating expense | $23,760 |
| Accounts receivable | 8,490 | Office expense | 2,470 |
| Cash | 13,980 | Spa supplies | 9,230 |
| Fees earned | 98,435 | Wages expense | 26,580 |
| Spa furniture & equipment | 56,000 | Dividends | 38,170 |
| Computers | 2,130 |  |  |

Prepare a statement of retained earnings for Rocky's Day Spa for the current year ended December 31.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | ​   |  |  |  | | --- | --- | --- | | Rocky's Day Spa Statement of Retained Earnings For the Year Ended December 31 | | | | Retained earnings, January 1 |  | $20,000 | | Net income for the year | $45,625 |  | | Less dividends | 38,170 |  | | Increase in retained earnings | ​ | 7,455 | | Retained earnings, December 31 |  | $27,455 |   ​ |
| *DIFFICULTY:* | Challenging Bloom's: Applying |
| *LEARNING OBJECTIVES:* | FNMN.WARD.16.01-05 - LO: 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic |

1. Explain the interrelationship between the balance sheet and the statement of cash flows.

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

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. From the following list of items taken from Lamar’s accounting records, identify those that would appear on the income statement.
2. Rent expense
3. Land
4. Common stock
5. Fees earned
6. Dividends
7. Wages expense
8. Investment

*ANSWER:* (a), (d), (f)

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Identify which of the following accounts would appear on a balance sheet.
2. Cash
3. Fees earned
4. Common stock
5. Wages payable
6. Rent expense
7. Prepaid advertising
8. Land

*ANSWER:* (a), (c), (d), (f), (g)

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Indicate whether each of the following activities would be reported on the statement of cash flows as an operating activity, an investing activity, a financing activity, or does not appear on the cash flow statement.
2. Cash paid for building
3. Cash paid to suppliers
4. Cash paid for dividends
5. Cash received from customers
6. Cash received from the sale of common stock
7. Cash received from the sale of a building
8. Borrowed cash from a bank

*ANSWER:* (a) Investing

* 1. Operating
  2. Financing
  3. Operating
  4. Financing
  5. Investing
  6. Financing

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.ACBSP.APC.24 - Statement of Cash Flows ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. For each of the following, determine the amount of net income or net loss for the year.
2. Revenues for the year totaled $71,300 and expenses totaled $35,500. The shareholders purchased $15,000 of common stock during the year.
3. Revenues for the year totaled $220,500 and expenses totaled $175,000. The shareholders were paid $40,000 dividends during the year.
4. Revenues for the year totaled $149,000 and expenses totaled $172,000. The shareholders purchased $12,000 of common stock and were paid $16,000 in dividends during the year.
5. Revenues for the year totaled $198,150 and expenses totaled $174,200. The shareholders were paid $35,000 dividends during the year.

*ANSWER:*

|  |  |
| --- | --- |
| (a) | $35,800 net income ($71,300 − $35,500) |
| (b) | $45,500 net income ($220,500 − $175,000) |
| (c) | $23,000 net loss ($149,000 − $172,000) |
| (d) | $23,950 net income ($198,150 − $174,200) |

*DIFFICULTY:* Moderate

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The total assets and total liabilities of Paul’s Pools and Palaces at the beginning and at the end of the current fiscal year are as follows:

|  |  |  |
| --- | --- | --- |
|  | Jan. 1 | Dec. 31 |
| Total assets | $280,000 | $475,000 |
| Total liabilities | 205,000 | 130,000 |

|  |  |
| --- | --- |
| (a) | Determine the amount of net income earned during the year.  The owner did not invest any additional assets in the business during the year and made no withdrawals. |
| (b) | Determine the amount of net income during the year.  The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above.  However, the shareholders were paid $53,000 in cash dividends during the year (no additional purchase of common stock). |
| (c) | Determine the amount of net income earned during the year.  The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above.  However, the shareholders paid for $35,000 of common stock in June of the current fiscal year (no dividends). |
| (d) | Determine the amount of net income earned during the year.  The assets and liabilities at the beginning and at the end of the year are unchanged from the amounts presented above.  However, the shareholders paid for $12,000 of common stock in August of the current fiscal year and were paid twelve monthly cash dividends of $1,500 each during the year. |
| ANSWER: | |  |  |  | | --- | --- | --- | | (a) | Stockholders' equity at end of year ($475,000 − $130,000) | $345,000 | |  | Stockholders' equity at beginning of year ($280,000 − $205,000) | ​      75,000 | |  | Net income | $270,000 |   ​   |  |  |  | | --- | --- | --- | | (b) | Increase in stockholders' equity as in (a) | $270,000 | |  | Add dividends | 53,000 | |  | Net income | $323,000 |   ​   |  |  |  | | --- | --- | --- | | (c) | Increase in stockholders' equity as in (a) | $270,000 | |  | Deduct sale of common stock | 35,000 | |  | Net income | $235,000 |  |  |  |  | | --- | --- | --- | | (d) | Increase in stockholders' equity as in (a) | $270,000 | |  | Add dividends ($1,500 × 12) | 18,000 | |  |  | $288,000 | |  | Deduct sale of common stock | 12,000 | |  | Net income | $276,000 | |
| DIFFICULTY: | Challenging Bloom's: Applying |
| LEARNING OBJECTIVES: | FNMN.WARD.16.01-05 - LO: 01-05 |
| ACCREDITING STANDARDS: | ACCT.ACBSP.APC.06 - Recording Transactions ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic |

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

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

*ANSWER:*

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

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. On March 1, the amount of retained earnings in Richard’s Catering Company was $150,000. During March, stockholders were paid $31,000 in dividends from the business. The amounts of the various assets, liabilities, revenues, and expenses are as follows:

|  |  |
| --- | --- |
| Accounts payable | $10,250 |
| Accounts receivable | 45,950 |
| Cash | 23,840 |
| Fees earned | 64,950 |
| Insurance expense | 1,275 |
| Land | 85,400 |
| Miscellaneous expense | 1,210 |
| Prepaid insurance | 3,000 |
| Rent expense | 9,000 |
| Salary expense | 20,300 |
| Supplies | 900 |
| Supplies expense | 525 |
| Utilities expense | 2,800 |

Present, in good form, (a) an income statement for March, (b) a statement of retained earnings for March, and (c) a balance sheet as of March 31.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | |  |  |  | | --- | --- | --- | | (a) | |  | | Richard’s Catering Company Income Statement  For the Month Ended March 31 | | | | Fees earned | ​ | $64,950 | | Operating expenses: |  |  | | Salary expense | $20,300 |  | | Rent expense | 9,000 |  | | Utilities expense | 2,800 |  | | Insurance expense | 1,275 |  | | Supplies expense | 525 |  | | Miscellaneous expense | 1,210 |  | | Total expenses |  | 35,110 | | Net income |  | $29,840 |   ​   |  |  |  | | --- | --- | --- | | (b) | | | | Richard’s Catering Company Statement of Retained Earnings  For the Month Ended March 31 | | | | Retained earnings, March 1 |  | $150,000 | | Net income for the month | $29,840 | ​ | | Less dividends | 31,000 |  | | Decrease in retained earnings |  | 1,160 | | Retained earnings, March 31 |  | $148,840 |   ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | (c) | | | | | | Richard’s Catering Company Balance Sheet  March 31 | | | | | | Assets |  |  | Liabilities |  | | Cash | $  23,840 |  | Accounts payable | $ 10,250 | | Accounts receivable | 45,950 |  |  |  | | Prepaid insurance | 3,000 |  | Stockholders' Equity |  | | Supplies | 900 |  | Retained earnings | 148,840 | | Land | 85,400 |  | Total liabilities and |  | | Total assets | $159,090 |  | stockholders' equity | $159,090 | |
| *DIFFICULTY:* | Challenging Bloom's: Applying |
| *LEARNING OBJECTIVES:* | FNMN.WARD.16.01-05 - LO: 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic |

1. Using the following accounts and their amounts, prepare in good format an income statement for Heavenly Futures Company for the month ended August 31.

|  |  |  |
| --- | --- | --- |
| Telephone expense | $ 1,150 |  |
| Cash | 3,000 |
| Accounts payable | 1,540 |
| Dividends | 800 |
| Fees earned | 15,700 |
| Rent expense | 1,400 |
| Supplies | 140 |
| Accounts receivable | 1,500 |
| Computer equipment | 20,000 |
| Stockholders' equity (August 1) | 14,320 |
| Wages expense | 4,800 |
| Utilities expense | 750 |
| Notes payable | 2,400 |
| Office expense | 420 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | ​   |  |  |  | | --- | --- | --- | | Heavenly Futures Company Income Statement For Month Ended August 31 | | | | Fees earned | $15,700 | | | Expenses: |  | | | Wages expense | $4,800 |  | | Rent expense | 1,400 |  | | Telephone expense | 1,150 |  | | Utilities expense | 750 |  | | Office expense | 420 |  | | Total expenses | 8,520 | | | Net income | $ 7,180 | | |
| *DIFFICULTY:* | Moderate Bloom's: Applying |
| *LEARNING OBJECTIVES:* | FNMN.WARD.16.01-05 - LO: 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic |

1. Using the following accounts and their amounts, prepare in good format a statement of retained earnings for Bright Futures Company for the month ended August 31.

|  |  |  |
| --- | --- | --- |
| Telephone expense | $ 1,150 |  |
| Cash | 3,000 |
| Accounts payable | 1,540 |
| Dividends | 800 |
| Fees earned | 15,700 |
| Rent expense | 1,400 |
| Supplies | 140 |
| Accounts receivable | 1,500 |
| Computer equipment | 20,000 |
| Retained earnings (August 1) | 14,320 |
| Wages expense | 4,800 |
| Utilities expense | 750 |
| Notes payable | 2,400 |
| Office expense | 420 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | ​   |  |  | | --- | --- | | Bright Futures Company Statement of Retained Earnings For Month Ended August 31 | | | Retained earnings, August 1 | $14,320 | | Net income | 7,180 | | Subtotal | $21,500 | | Less dividends | 800 | | Retained earnings, August 31 | $20,700 | |
| *DIFFICULTY:* | Moderate Bloom's: Applying |
| *LEARNING OBJECTIVES:* | FNMN.WARD.16.01-05 - LO: 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic |

1. Using the following accounts and their amounts, prepare in good format a balance sheet for Bright Futures Company for the month ended August 31.

Telephone expense $ 1,150

Cash 3,000

Accounts payable 1,540

Dividends 800

Fees earned 15,700

Rent expense 1,400

Supplies 140

Accounts receivable 1,500

Computer equipment 20,000

Stockholders' equity (August 1) 14,320

Wages expense 4,800

Utilities expense 750

Notes payable 2,400

Office expense 420

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | ​   |  |  | | --- | --- | | Bright Futures Company Balance Sheet August 31 | | | Assets |  | | Cash | $  3,000 | | Accounts receivable | 1,500 | | Supplies | 140 | | Computer equipment | 20,000 | | Total assets | $24,640 | |  |  | | Liabilities |  | | Accounts payable | $  1,540 | | Notes payable | 2,400 | | Total liabilities | $  3,940 | | Stockholders' Equity |  | | Stockholders' equity | 20,700 | | Total liabilities and stockholders' equity | $24,640 | |
| *DIFFICULTY:* | Moderate Bloom's: Applying |
| *LEARNING OBJECTIVES:* | FNMN.WARD.16.01-05 - LO: 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic |

1. The account balances of Awesome Travel Services at December 31 are listed below. There were no additional investments or withdrawals by J. Trendsetter during the year.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Accounts payable | $12,000 | Retained earnings (Jan. 1) | $10,000 | |
| Accounts receivable | 14,000 | Supplies | 1,000 | |
| Cash | 18,000 | Income taxes expense | | 1,300 |
| Computer equipment | 21,000 | Utilities expense | | 8,000 |
| Fees earned | 78,000 | Wages expense | | 25,000 |
| Rent expense | 10,000 | Supplies expense | | 1,700 |

Prepare an income statement, retained earnings statement, and a balance sheet as of December 31.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | Awesome Travel Services Income Statement For the Year Ended December 31 | | | | | | |  | Fees earned |  |  |  | $78,000 | |  | Operating expenses: | |  |  |  | |  |  | Wages expense |  | $25,000 |  | |  |  | Rent expense |  | 10,000 |  | |  |  | Utilities expense |  | 8,000 |  | |  |  | Supplies expense |  | 1,700 |  | |  |  | Income taxes expense |  | 1,300 |  | |  |  | Total expenses | | | 46,000 | |  | Net income |  |  |  | $32,000 |   ​   |  |  |  | | --- | --- | --- | | Awesome Travel Services Retained Earnings Statement For the Year Ended December 31 | | | | Retained earnings, Jan. 1 |  | $10,000 | | Net income for the year |  | 32,000 | | Retained earnings, Dec. 31 |  | $42,000 |   ​   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Awesome Travel Services Balance Sheet December 31 | | | | | | Assets |  |  | Liabilities |  | | Cash | $18,000 |  | Accounts payable | $12,000 | | Accounts receivable | ​  14,000 |  |  | ​ | | Supplies | 1,000 |  | Stockholders' Equity |  | | Computer equipment | ​    21,000 |  | Retained earnings | ​   42,000 | |  |  |  |  |  | | ​  Total assets | ​  $54,000 |  | Total liabilities and    stockholders' equity | ​  $54,000 | |  |  |  |  | ​ | |
| *DIFFICULTY:* | Challenging  Bloom's: Applying |
| *LEARNING OBJECTIVES:* | FNMN.WARD.16.01-05 - LO: 01-05 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.09 - Financial Statements ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic |

1. Given the following data:

Dec. 31, Year 2 Dec. 31, Year 1

|  |  |  |
| --- | --- | --- |
| Total liabilities | $128,250 | $120,000 |
| Total stockholders' equity | 95,000 | 80,000 |

Compute the ratio of liabilities to stockholders' equity for each year. Round to two decimal places.

a. 1.50 and 1.07, respectively b. 1.35 and 1.50, respectively

c. 1.07 and 1.19, respectively d. 1.19 and 1.35, respectively

*ANSWER:* b

*DIFFICULTY:* Challenging

Bloom's: Applying

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-06 - LO: 01-06

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.23 - Financial Statement Analysis

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Schultz Tax Services, a tax preparation business, had the following transactions during the month of June:
2. Received cash for providing accounting services, $3,000
3. Billed customers on account for providing services, $7,000
4. Paid advertising expense, $800
5. Received cash from customers on account, $3,800
6. Paid shareholder dividends, $1,500
7. Received telephone bill, $220
8. Paid telephone bill, $220

Based on the information given above, calculate the balance of cash at June 30. Use the following reconciliation.

|  |  |  |
| --- | --- | --- |
| Cash, June 1 | $25,000 |  |
| Plus cash receipts for June | \_\_\_\_\_\_\_\_\_\_\_\_ |
| Minus cash payments for June |  |
| Cash, June 30 | \_\_\_\_\_\_\_\_\_\_\_\_ |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | ​   |  |  | | --- | --- | | Cash, June 1 | $25,000 | | Plus cash receipts for June | 6,800 | | Minus cash payments for June | 2,520 | | Cash, June 30 | $29,280 | |
| *DIFFICULTY:* | Challenging Bloom's: Applying |
| *LEARNING OBJECTIVES:* | FNMN.WARD.16.01-06 - LO: 01-06 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.24 - Statement of Cash Flows ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic |

1. Given the following data:

Dec. 31, Year 2 Dec. 31, Year 1

Total liabilities $128,250 $120,000 Total stockholders' equity 95,000 80,000

(a) Compute the ratio of liabilities to stockholders' equity for each year.

(b) Has the creditors’ risk increased or decreased from December 31, Year 1, to December 31, Year 2?

|  |  |
| --- | --- |
| *ANSWER:* | (a)      Dec. 31, Year 2                  Dec. 31, Year 1  Total liabilities                                          $128,250                             $120,000 Total stockholders' equity                             95,000                                 80,000 Ratio of liabilities to stockholders' equity        1.35                                     1.50             ($128,250/$95,000)         ($120,000/$80,000)  ​  (b) Decreased |
| *DIFFICULTY:* | Moderate Bloom's: Applying |
| *LEARNING OBJECTIVES:* | FNMN.WARD.16.01-06 - LO: 01-06 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.23 - Financial Statement Analysis ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic |

1. Company G has a ratio of liabilities to stockholders’ equity of 0.12 and 0.28 for Year 1 and Year 2, respectively. In contrast, Company M has a ratio of liabilities to stockholders’ equity of 1.13 and 1.29 for the same period.

REQUIRED:

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

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

*DIFFICULTY:* Moderate

Bloom's: Analyzing

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-06 - LO: 01-06

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.23 - Financial Statement Analysis

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. The following data were taken from Miller Company’s balance sheet:

|  |  |  |
| --- | --- | --- |
|  | Dec. 31, Year 2 | Dec. 31, Year 1 |
| Total liabilities | $150,000 | $105,000 |
| Total stockholders' equity | 75,000 | 60,000 |

(a) Compute the ratio of liabilities to stockholders' equity. Round your answer to one decimal place.

(b) Has the creditors’ risk increased or decreased from December 31, Year 1, to December 31, Year 2?

|  |  |
| --- | --- |
| *ANSWER:* | (a) 12/31/Year 2: $150,000/$75,000 = 2.0      12/31/Year 1: $105,000/$60,000 = 1.8  ​  (b) Increased |
| *DIFFICULTY:* | Moderate Bloom's: Analyzing |
| *LEARNING OBJECTIVES:* | FNMN.WARD.16.01-06 - LO: 01-06 |
| *ACCREDITING STANDARDS:* | ACCT.ACBSP.APC.23 - Financial Statement Analysis ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic |

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

1. Service firm
2. Manufacturing firm
3. Merchandising firm

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-01 - LO: 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. A tax preparation firm

*ANSWER:* a

1. A law firm

*ANSWER:* a

1. A health club and spa

*ANSWER:* a

1. An automobile dealer

*ANSWER:* c

1. A book publisher

*ANSWER:* b

1. A hospital

*ANSWER:* a

1. A supermarket

*ANSWER:* c

1. A modular homebuilder

*ANSWER:* b

1. A men’s clothing store

*ANSWER:* c

1. A dressmaking company

*ANSWER:* b

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

1. Proprietorship
2. Partnership
3. Corporation
4. Limited liability company (LLC)

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-02 - LO: 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Comprises 70% of business entities in the United States

*ANSWER:* a

1. Generates 90% of business revenues

*ANSWER:* c

1. Owned by two or more individuals

*ANSWER:* b

1. Organized as a separate legal taxable entity

*ANSWER:* c

1. Easy and cheap to organize

*ANSWER:* a

1. Often used as an alternative to a partnership

*ANSWER:* d

1. Used by large business

*ANSWER:* c

1. Has the ability to obtain large amounts of resources

*ANSWER:* c

1. Offers tax and legal liability advantages for owners

*ANSWER:* d

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

1. Increase assets, increase liabilities
2. Increase liabilities, decrease stockholders' equity
3. Increase assets, increase stockholders' equity
4. No effect
5. Decrease assets, decrease liabilities
6. Decrease assets, decrease stockholders' equity

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-04 - LO: 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement BUSPROG: Analytic

1. Received cash for services provided

*ANSWER:* c

1. Received utility bill to be paid next month

*ANSWER:* b

1. Contribution of land by stockholder

*ANSWER:* c

1. Paid part of an amount owed to a creditor

*ANSWER:* e

1. Paid cash for the purchase of a one-year insurance policy

*ANSWER:* d

1. Received payment from a customer on account

*ANSWER:* d

1. Payment of dividends

*ANSWER:* f

1. Provided a service to a customer on account

*ANSWER:* c

1. Purchased supplies on credit

*ANSWER:* a

1. Paid wages

*ANSWER:* f

1. Payment for common stock by stockholder

*ANSWER:* c

1. Borrowed money from a bank

*ANSWER:* a

1. Purchased equipment for cash

*ANSWER:* d

1. Received cash for providing services to customers

*ANSWER:* c

1. Used up supplies that were already on hand

*ANSWER:* f

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

1. Income statement
2. Balance sheet
3. Statement of retained earnings
4. Statement of cash flows

*DIFFICULTY:* Bloom's: Remembering Easy

*LEARNING OBJECTIVES:* FNMN.WARD.16.01-05 - LO: 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.09 - Financial Statements ACCT.ACBSP.APC.24 - Statement of Cash Flows ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

1. Reports as of a specific date

*ANSWER:* b

1. The first statement prepared

*ANSWER:* a

1. Has three sections: operating, investing and financing

*ANSWER:* d

1. Reports only revenues and expenses

*ANSWER:* a

1. The second statement prepared

*ANSWER:* c

1. A formal presentation of the accounting equation

*ANSWER:* b

1. The connecting link between the income statement and balance sheet

*ANSWER:* c