***Survey of Accounting, 5e* (Edmonds)**

**Chapter 1 An Introduction to Accounting**

Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. You do not need to enter amounts.

Increase = I Decrease = D No Effect = N

1) Walker Co. issued common stock for $150,000 cash.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Assets | Liabilities | Equity | Revenues | Expenses | Net Income | Cash  Flow |
|  |  |  |  |  |  |  |

2) Nguyen Co. borrowed $50,000 cash from Metropolitan Bank.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Assets | Liabilities | Equity | Revenues | Expenses | Net Income | Cash  Flow |
|  |  |  |  |  |  |  |

3) Bell Co. provided consulting services for $20,000 cash.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Assets | Liabilities | Equity | Revenues | Expenses | Net Income | Cash  Flow |
|  |  |  |  |  |  |  |

4) Pierce Co. paid $40,000 cash to purchase land.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Assets | Liabilities | Equity | Revenues | Expenses | Net Income | Cash  Flow |
|  |  |  |  |  |  |  |

5) Perez Co. paid $220,000 cash in salaries to its employees.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Assets | Liabilities | Equity | Revenues | Expenses | Net Income | Cash  Flow |
|  |  |  |  |  |  |  |

6) Epstein Co. paid a $20,000 cash dividend to its owners.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Assets | Liabilities | Equity | Revenues | Expenses | Net Income | Cash  Flow |
|  |  |  |  |  |  |  |

7) North Co. issued a note to purchase a building.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Assets | Liabilities | Equity | Revenues | Expenses | Net Income | Cash  Flow |
|  |  |  |  |  |  |  |

8) Name the group that has the primary authority for establishing U.S. GAAP.

9) Who are the three distinct types of participants in a market? Briefly describe the role of each group of participants.

10) What is meant by the term "stakeholders?"

11) What is meant by the term "global GAAP"? How does it impact U.S. companies? What body is responsible for setting global standards?

12) Briefly distinguish between financial accounting and managerial accounting.

13) Explain some of the accounting similarities and differences between not-for-profit organizations and for-profit businesses.

14) What financial statement elements are reported on a balance sheet?

15) From what three sources does a business obtain its assets?

16) How does providing services for cash affect the accounting equation? Is it considered an asset source, asset use, or asset exchange transaction?

17) How does the payment of cash dividends to stockholders affect the accounting equation? Is it considered an asset source, asset use, or asset exchange transaction?

18) If the total equity claimed by owners of Vargas Construction is $150,000 and liabilities are $75,000, what are total assets?

19) What is meant by the term double-entry bookkeeping?

20) Give three examples of asset use transactions.

21) What does a company's statement of cash flows tell you about the company?

22) If a corporation issues common stock for $50,000 cash, in which section of the statement of cash flows will this transaction be reported?

23) Which types of accounts are closed out to retained earnings at the end of an accounting period?

24) Name and briefly describe each of the four financial statements.

25) Define the term "accounting period." How does this term relate to the "matching concept" as it pertains to the income statement?

26) Which of the following groups has the primary responsibility for establishing generally accepted accounting principles for business entities in the United States?

A) Securities and Exchange Commission.

B) U.S. Congress.

C) International Accounting Standards Board.

D) Financial Accounting Standards Board.

27) The Heritage Company is a manufacturer of office furniture. Which term best describes Heritage's role in society?

A) Conversion agent

B) Regulatory agency

C) Consumer

D) Resource owner

28) Which resource providers lend financial resources to a business with the expectation of repayment with interest?

A) Consumers

B) Creditors

C) Investors

D) Owners

29) Which type of accounting information is intended to satisfy the needs of external users of accounting information?

A) Cost accounting

B) Managerial accounting

C) Tax accounting

D) Financial accounting

30) Which of the following is false regarding managerial accounting information?

A) It is often used by investors.

B) It is more detailed than financial accounting information.

C) It can include nonfinancial information.

D) It focuses on divisional rather than overall profitability.

31) Financial accounting standards are known collectively as GAAP. What does that acronym stand for?

A) Generally Accepted Accounting Principles

B) Generally Applied Accounting Procedures

C) Governmentally Approved Accounting Practices

D) Generally Authorized Auditing Principles

32) International accounting standards are formulated by the IASB. What does that acronym stand for?

A) Internationally Accepted Standards Board

B) International Accounting Standards Board

C) International Accountability Standards Bureau

D) International Accounting and Sustainability Board

33) Which of the following items is an example of revenue?

A) Cash received from a bank loan

B) Cash received from investors from the sale of common stock

C) Cash received from customers at the time services were provided

D) Cash received from the sale of land for its original selling price

34) Which of the following is not an element of the financial statements?

A) Net income

B) Revenue

C) Assets

D) Cash

35) The balance sheet of the Algonquin Company reported assets of $50,000, liabilities of $22,000 and common stock of $15,000. Based on this information only, the amount or balance for retained earnings must be:

A) $7,000

B) $57,000

C) $13,000

D) $87,000

36) Stosch Company's balance sheet reported assets of $40,000, liabilities of $15,000 and common stock of $12,000 as of December 31, Year 1. If Retained Earnings on the balance sheet as of December 31, Year 2, amount to $18,000 and Stosch paid a $14,000 dividend during Year 2, then the amount of net income for Year 2 was which of the following?

A) $17,000

B) $19,000

C) $13,000

D) $21,000

37) Hazeltine Company issued common stock for $200,000 cash. As a result of this event:

A) assets increased.

B) equity increased.

C) claims increased.

D) assets, claims, and equity all increased.

38) If Ballard Company reported assets of $500 and liabilities of $200, Ballard's stockholders' equity equals:

A) $300.

B) $500.

C) $700.

D) Cannot be determined.

39) If a company's total assets increased while liabilities and common stock were unchanged, then:

A) revenues were greater than expenses.

B) retained earnings were less than net income during the period.

C) no dividends were paid during the period.

D) the company must have purchased assets with cash.

40) Li Company paid cash to purchase land. As a result of this accounting event:

A) total assets decreased.

B) total assets were unaffected.

C) total equity decreased.

D) both assets and total equity decreased.

41) Turner Company reported assets of $20,000 (including cash of $9,000), liabilities of $8,000, common stock of $7,000, and retained earnings of $5,000. Based on this information, what can be concluded?

A) 25% of Turner's assets are the result of prior earnings.

B) $5,000 is the maximum dividend that can be paid to shareholders.

C) 40% of Turner's assets are the result of borrowing from creditors.

D) 25% of Turner's assets are from prior earnings, $5,000 is the maximum possible dividend, and 40% of assets are the result of borrowed resources.

42) At the time of liquidation, Fairchild Company reported assets of $200,000, liabilities of $120,000, common stock of $90,000 and retained earnings of ($10,000). What amount of Fairchild's assets are the shareholders entitled to receive?

A) $200,000

B) $80,000

C) $90,000

D) $100,000

43) As of December 31, Year 2, Bristol Company had $100,000 of assets, $40,000 of liabilities and $25,000 of retained earnings. What percentage of Bristol's assets were obtained through investors?

A) 60%

B) 25%

C) 40%

D) 35%

44) On January 1, Year 2, Chavez Company had beginning balances as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Assets | = | $ | 12,500 |  |
| Liabilities | = | $ | 4,500 |  |
| Common Stock | = | $ | 3,000 |  |

During Year 2, Chavez paid dividends to its stockholders of $2,000. Given that ending retained earnings was $6,000, what was Chavez's net income for the Year 2?

A) $3,000

B) $5,000

C) $7,000

D) $2,000

45) The transaction, "provided services for cash," affects which two accounts?

A) Revenue and Expense

B) Cash and Revenue

C) Cash and Expense

D) Cash and Dividends

46) During the year, Millstone Company earned $6,500 of cash revenue, paid cash dividends of $1,000 to owners and paid $4,000 for cash expenses. Liabilities were unchanged. Which of the following accurately describes the effect of these events on the elements of the company's financial statements?

A) Assets increased by $6,500.

B) Assets increased by $1,500.

C) Equity increased by $2,500.

D) Assets increased by $5,500.

47) At the end of Year 2, retained earnings for the Baker Company was $3,500. Revenue earned by the company in Year 2 was $1,500, expenses paid during the period were $800, and dividends paid during the period were $500. Based on this information alone, retained earnings at the beginning of Year 2 was:

A) $3,300.

B) $3,700.

C) $2,800.

D) $3,800.

48) Which of the following is not an asset use transaction?

A) Paying cash dividends

B) Paying cash expenses

C) Paying off the principal of a loan

D) Paying cash to purchase land

49) Borrowing cash from the bank is an example of which type of transaction?

A) Asset source

B) Claims exchange

C) Asset use

D) Asset exchange

50) Which of the following could describe the effects of an asset exchange transaction on a company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | **=** | **Liab.** | **+** | **Equity** | **Rev.** | **−** | **Exp.** | **=** | **Net Inc.** | **Cash Flow** |
| A. | NA | = | NA | + | NA | NA | − | NA | = | NA | +OA |
| B. | + | = | NA | + | + | NA | − | NA | = | NA | +FA |
| C. | − | = | NA | + | − | NA | − | NA | = | NA | NA |
| D. | + | = | + | + | NA | NA | − | NA | = | NA | +FA |

A) Option A

B) Option B

C) Option C

D) Option D

51) Which of the following does not describe the effects of an asset use transaction on a company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | **=** | **Liab.** | **+** | **Equity** | **Rev.** | **−** | **Exp.** | **=** | **Net Inc.** | **Cash Flow** |
| A. | − | = | − | + | NA | NA | − | NA | = | NA | −OA |
| B. | − | = | − | + | NA | NA | − | NA | = | NA | −FA |
| C. | − | = | NA | + | − | NA | − | + | = | − | −OA |
| D. | NA | = | + | + | NA | + | − | + | = | − | NA |

A) Option A

B) Option B

C) Option C

D) Option D

52) Which of the following cash transactions results in no net change in assets?

A) Borrowing cash from a bank

B) Issuing common stock for cash

C) Purchasing land for cash

D) Providing services for cash

53) Which of the following items appears in the investing activities section of the statement of cash flows?

A) Cash inflow from interest revenue.

B) Cash inflow from the issuance of common stock.

C) Cash outflow for the payment of dividends.

D) Cash outflow for the purchase of land.

54) Jackson Company had a net increase in cash from operating activities of $10,000 and a net decrease in cash from financing activities of $2,000. If the beginning and ending cash balances for the company were $4,000 and $11,000, then net cash change from investing activities was:

A) an outflow or decrease of $1,000.

B) an inflow or increase of $2,000.

C) an inflow or increase of $1,000.

D) zero.

55) The year-end financial statements of Calloway Company contained the following elements and corresponding amounts: Assets = $50,000; Liabilities = ?; Common Stock = $15,000; Revenue = $22,000; Dividends = $1,500; Beginning Retained Earnings = $3,500; Ending Retained Earnings = $7,500.

Based on this information, the amount of expenses on Calloway's income statement was:

A) $18,500.

B) $13,000.

C) $16,500.

D) $10,000.

56) The year-end financial statements of Calloway Company contained the following elements and corresponding amounts: Assets = $50,000; Liabilities = ?; Common Stock = $15,000; Revenue = $22,000; Dividends = $1,500; Beginning Retained Earnings = $3,500; Ending Retained Earnings = $7,500.

The amount of liabilities reported on the end-of-period balance sheet was:

A) $27,500.

B) $31,500.

C) $35,000.

D) $42,500.

57) Which of the following financial statements provides information about a company as of a specific point in time?

A) Income statement

B) Balance sheet

C) Statement of cash flows

D) Statement of changes in stockholders' equity

58) Which of the following accounts are permanent?

A) Retained earnings.

B) All income statement accounts.

C) Dividends.

D) All balance sheet accounts including dividends.

59) In which section of a statement of cash flows would the payment of cash dividends be reported?

A) Investing activities.

B) Operating activities.

C) Financing activities.

D) Dividends are not reported on the statement of cash flows.

60) Which financial statement matches asset increases from operating a business with asset decreases from operating the business?

A) Balance sheet.

B) Statement of changes in equity.

C) Income statement.

D) Statement of cash flows.

61) Chow Company earned $1,500 of cash revenue, paid $1,200 for cash expenses, and paid a $200 cash dividend to its owners. Which of the following statements is true?

A) The net cash inflow from operating activities was $100.

B) The net cash outflow for investing activities was $200.

C) The net cash inflow from operating activities was $300.

D) The net cash outflow for investing activities was $100.

62) Yi Company provided services to a customer for $5,500 cash. As a result of this event:

A) total assets increased and total equity decreased.

B) total assets were unchanged and cash flows from operating activities increased.

C) liabilities decreased and net income increased.

D) total assets increased and net income increased.

63) During Year 2, Chico Company earned $1,950 of cash revenue, paid $1,600 of cash expenses, and paid a $150 cash dividend to its owners. Based on this information alone, which of the following is **not** correct?

A) Net income amounted to $350.

B) Total assets increased by $200.

C) Cash inflow from operating activities was $350.

D) Cash inflow from operating activities was $200.

64) Glavine Company repaid a bank loan with cash. The cash flow from this event should be shown on the horizontal statements model as:

A) an operating activity that decreases cash, decreases equity, and decreases net income.

B) a financing activity that decreases cash and decreases liabilities.

C) a financing activity that decreases cash, decreases equity, and decreases net income.

D) an investing activity that decreases cash and decreases liabilities.

65) Retained Earnings at the beginning and ending of the accounting period was $300 and $800, respectively. If revenues were $1,100 and dividends paid to stockholders were $200, expenses for the period must have been:

A) $500.

B) $400.

C) $900.

D) $700.

66) Yowell Company began operations on January 1, Year 1. During Year 1, the company engaged in the following cash transactions:

1) issued stock for $40,000

2) borrowed $25,000 from its bank

3) provided consulting services for $39,000 cash

4) paid back $15,000 of the bank loan

5) paid rent expense for $9,000

6) purchased equipment for $12,000 cash

7) paid $3,000 dividends to stockholders

8) paid employees' salaries of $21,000

What is Yowell's net cash flow from operating activities?

A) Inflow of $6,000

B) Inflow of $9,000

C) Inflow of $18,000

D) Inflow of $30,000

67) Yowell Company began operations on January 1, Year 1. During Year 1, the company engaged in the following cash transactions:

1) issued stock for $40,000

2) borrowed $25,000 from its bank

3) provided consulting services for $39,000 cash

4) paid back $15,000 of the bank loan

5) paid rent expense for $9,000

6) purchased equipment for $12,000 cash

7) paid $3,000 dividends to stockholders

8) paid employees' salaries of $21,000

What is Yowell's notes payable balance at the end of Year 1?

A) $0

B) $25,000

C) ($15,000)

D) $10,000

68) Yowell Company began operations on January 1, Year 1. During Year 1, the company engaged in the following cash transactions:

1) issued stock for $40,000

2) borrowed $25,000 from its bank

3) provided consulting services for $39,000 cash

4) paid back $15,000 of the bank loan

5) paid rent expense for $9,000

6) purchased equipment for $12,000 cash

7) paid $3,000 dividends to stockholders

8) paid employees' salaries of $21,000

What is Yowell's net income for Year 1?

A) $9,000

B) $30,000

C) $18,000

D) $6,000

69) Packard Company engaged in the following transactions during Year 1, its first year of operations. (Assume all transactions are cash transactions.)

1) Acquired $950 cash from the issue of common stock.

2) Borrowed $420 from a bank.

3) Earned $650 of revenues cash.

4) Paid expenses of $250.

5) Paid a $50 dividend.

During Year 2, Packard engaged in the following transactions. (Assume all transactions are cash transactions.)

1) Issued an additional $325 of common stock.

2) Repaid $220 of its debt to the bank.

3) Earned revenues of $750 cash.

4) Incurred expenses of $360.

5) Paid dividends of $100.

Packard Company's net cash flow from financing activities for Year 2 is:

A) $220 outflow

B) $320 outflow

C) $5 inflow

D) $225 inflow

70) Packard Company engaged in the following transactions during Year 1, its first year of operations. (Assume all transactions are cash transactions.)

1) Acquired $950 cash from the issue of common stock.

2) Borrowed $420 from a bank.

3) Earned $650 of revenues cash.

4) Paid expenses of $250.

5) Paid a $50 dividend.

During Year 2, Packard engaged in the following transactions. (Assume all transactions are cash transactions.)

1) Issued an additional $325 of common stock.

2) Repaid $220 of its debt to the bank.

3) Earned revenues of $750 cash.

4) Incurred expenses of $360.

5) Paid dividends of $100.

What is Packard's retained earnings account balance at the end of Year 1 before the process of closing the accounts has been undertaken?

A) $400

B) $0

C) $350

D) $450

71) Packard Company engaged in the following transactions during Year 1, its first year of operations. (Assume all transactions are cash transactions.)

1) Acquired $950 cash from the issue of common stock.

2) Borrowed $420 from a bank.

3) Earned $650 of revenues cash.

4) Paid expenses of $250.

5) Paid a $50 dividend.

During Year 2, Packard engaged in the following transactions. (Assume all transactions are cash transactions.)

1) Issued an additional $325 of common stock.

2) Repaid $220 of its debt to the bank.

3) Earned revenues of $750 cash.

4) Incurred expenses of $360.

5) Paid dividends of $100.

The amount of total equity on Packard's balance sheet at the end of Year 1 is:

A) $1,350.

B) $900.

C) $250.

D) $1,300.

72) Packard Company engaged in the following transactions during Year 1, its first year of operations. (Assume all transactions are cash transactions.)

1) Acquired $950 cash from the issue of common stock.

2) Borrowed $420 from a bank.

3) Earned $650 of revenues cash.

4) Paid expenses of $250.

5) Paid a $50 dividend.

During Year 2, Packard engaged in the following transactions. (Assume all transactions are cash transactions.)

1) Issued an additional $325 of common stock.

2) Repaid $220 of its debt to the bank.

3) Earned revenues of $750 cash.

4) Incurred expenses of $360.

5) Paid dividends of $100.

The amount of retained earnings on Packard's Year 2 balance sheet is:

A) $640.

B) $800.

C) $290.

D) $740.

73) Packard Company engaged in the following transactions during Year 1, its first year of operations. (Assume all transactions are cash transactions.)

1) Acquired $950 cash from the issue of common stock.

2) Borrowed $420 from a bank.

3) Earned $650 of revenues cash.

4) Paid expenses of $250.

5) Paid a $50 dividend.

During Year 2, Packard engaged in the following transactions. (Assume all transactions are cash transactions.)

1) Issued an additional $325 of common stock.

2) Repaid $220 of its debt to the bank.

3) Earned revenues of $750 cash.

4) Incurred expenses of $360.

5) Paid dividends of $100.

Total assets on Packard's balance sheet at the end of Year 2 will equal:

A) $2,115.

B) $440.

C) $2,215.

D) $395.

74) Packard Company engaged in the following transactions during Year 1, its first year of operations. (Assume all transactions are cash transactions.)

1) Acquired $950 cash from the issue of common stock.

2) Borrowed $420 from a bank.

3) Earned $650 of revenues cash.

4) Paid expenses of $250.

5) Paid a $50 dividend.

During Year 2, Packard engaged in the following transactions. (Assume all transactions are cash transactions.)

1) Issued an additional $325 of common stock.

2) Repaid $220 of its debt to the bank.

3) Earned revenues of $750 cash.

4) Incurred expenses of $360.

5) Paid dividends of $100.

The net cash inflow from operating activities on Packard's statement of cash flows for Year 2 is:

A) $390.

B) $650.

C) $350.

D) $820.

75) Which of the following items would appear in the cash flow from financing activities section of a statement of cash flows?

A) Paid cash for dividends.

B) Received cash for common stock.

C) Sold land for cash.

D) paying cash for dividends and receiving cash from common stock would both appear in the cash flow from financing activities section.

76) Santa Fe Company was started on January 1, Year 1, when it acquired $9,000 cash by issuing common stock. During Year 1, the company earned cash revenues of $4,500, paid cash expenses of $3,750, and paid a cash dividend of $250. Based on this information,

A) The balance sheet at December 31, Year 1 would show total equity of $8,750.

B) The Year 1 income statement would show net income of $500.

C) The Year 1 statement of cash flows would show net cash inflow from operating activities of $4,500.

D) The Year 1 statement of cash flows would show a net cash flow from financing activities of $8,750.

77) Robertson Company paid $1,850 cash for rent expense. As a result of this business event:

A) Total equity decreased.

B) Liabilities decreased.

C) The net cash flow from operating activities decreased.

D) Both total equity and net cash flow for operating activities decreased.

78) Mayberry Company paid $30,000 cash to purchase land. As a result of this business event:

A) Total equity was not affected.

B) The net cash flow from investing activities decreased.

C) Total assets were not affected.

D) Total assets and total equity were not affected, and net cash flow from investing activities decreased.

79) Lexington Company engaged in the following transactions during Year 1, its first year of operations. (Assume all transactions are cash transactions.)

1. Acquired $6,000 cash from issuing common stock.

2. Borrowed $4,400 from a bank.

3. Earned $6,200 of revenues.

4. Incurred $4,800 in expenses.

5. Paid dividends of $800.

Lexington Company engaged in the following transactions during Year 2:

1. Acquired an additional $1,000 cash from the issue of common stock.

2. Repaid $2,600 of its debt to the bank.

3. Earned revenues, $9,000.

4. Incurred expenses of $5,500.

5. Paid dividends of $1,280.

The net cash flow from financing activities on Lexington's Year 2 statement of cash flows was

A) $2,880 outflow

B) $2,880 inflow

C) $1,000 outflow

D) $1,000 inflow

80) Lexington Company engaged in the following transactions during Year 1, its first year of operations. (Assume all transactions are cash transactions.)

1. Acquired $6,000 cash from issuing common stock.

2. Borrowed $4,400 from a bank.

3. Earned $6,200 of revenues.

4. Incurred $4,800 in expenses.

5. Paid dividends of $800.

Lexington Company engaged in the following transactions during Year 2:

1. Acquired an additional $1,000 cash from the issue of common stock.

2. Repaid $2,600 of its debt to the bank.

3. Earned revenues, $9,000.

4. Incurred expenses of $5,500.

5. Paid dividends of $1,280.

The amount of total assets on Lexington's balance sheet at the end of Year 1 was:

A) $11,000.

B) $12,000.

C) $1,600.

D) $7,600.

81) Lexington Company engaged in the following transactions during Year 1, its first year of operations. (Assume all transactions are cash transactions.)

1. Acquired $6,000 cash from issuing common stock.

2. Borrowed $4,400 from a bank.

3. Earned $6,200 of revenues.

4. Incurred $4,800 in expenses.

5. Paid dividends of $800.

Lexington Company engaged in the following transactions during Year 2:

1. Acquired an additional $1,000 cash from the issue of common stock.

2. Repaid $2,600 of its debt to the bank.

3. Earned revenues, $9,000.

4. Incurred expenses of $5,500.

5. Paid dividends of $1,280.

The amount of retained earnings on Lexington's balance sheet at the end of Year 1 was:

A) $6,200.

B) $5,400.

C) $1,400.

D) $600.

82) Lexington Company engaged in the following transactions during Year 1, its first year of operations. (Assume all transactions are cash transactions.)

1. Acquired $6,000 cash from issuing common stock.

2. Borrowed $4,400 from a bank.

3. Earned $6,200 of revenues.

4. Incurred $4,800 in expenses.

5. Paid dividends of $800.

Lexington Company engaged in the following transactions during Year 2:

1. Acquired an additional $1,000 cash from the issue of common stock.

2. Repaid $2,600 of its debt to the bank.

3. Earned revenues, $9,000.

4. Incurred expenses of $5,500.

5. Paid dividends of $1,280.

Total liabilities on Lexington's balance sheet at the end of Year 1 equal:

A) $1,000.

B) $4,400.

C) ($2,600).

D) $480.

83) As of December 31, Year 1, Mason Company had $500 cash. During Year 2, Mason earned $1,200 of cash revenue and paid $800 of cash expenses. The amount of cash shown on the balance sheet at the end of Year 2 would be:

A) $900.

B) $400.

C) $1,700.

D) $2,500.

84) Expenses are shown on the:

A) income statement.

B) balance sheet.

C) statement of changes in stockholders' equity.

D) the income statement and the statement of changes in stockholders' equity.

85) Dividends paid by a company are shown on the:

A) income statement.

B) statement of changes in stockholders' equity.

C) statement of cash flows.

D) the statement of changes in stockholders' equity and the statement of cash flows.

86) Liabilities are shown on the:

A) income statement.

B) balance sheet.

C) statement of cash flows.

D) statement of changes in stockholders' equity.

87) Frank Company earned $15,000 of cash revenue. Which of the following choices accurately reflects how this event affects the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liab. | + | Equity | Rev. | − | Exp. | = | Net Inc. | Cash Flow |
| A. | 15,000 | = | NA | + | 15,000 | NA | − | NA | = | NA | 15,000 OA |
| B. | 15,000 | = | NA | + | 15,000 | 15,000 | − | NA | = | 15,000 | NA |
| C. | 15,000 | = | NA | + | 15,000 | 15,000 | − | NA | = | 15,000 | 15,000 OA |
| D. | 15,000 | = | 15,000 | + | NA | 15,000 | − | NA | = | 15,000 | 15,000 OA |

A) Option A

B) Option B

C) Option C

D) Option D

88) Jackson Company paid $500 cash for salary expenses. Which of the following choices accurately reflects how this event affects the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liab. | + | Equity | Rev. | − | Exp. | = | Net Inc. | Cash Flow |
| A. | NA | = | 500 | + | (500) | NA | − | 500 | = | (500) | NA |
| B. | (500) | = | NA | + | (500) | NA | − | 500 | = | (500) | (500) OA |
| C. | (500) | = | NA | + | (500) | NA | − | NA | = | NA | (500) OA |
| D. | (500) | = | NA | + | (500) | NA | − | 500 | = | (500) | (500) IA |

A) Option A

B) Option B

C) Option C

D) Option D

89) Perez Company paid a $300 cash dividend. Which of the following choices accurately reflects how this event affects the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liab. | + | Equity | Rev. | − | Exp. | = | Net Inc. | Cash Flow |
| A. | NA | = | 300 | + | (300) | NA | − | 300 | = | (300) | NA |
| B. | (300) | = | NA | + | (300) | NA | − | 300 | = | (300) | (300) FA |
| C. | (300) | = | NA | + | (300) | NA | − | NA | = | NA | (300) FA |
| D. | (300) | = | NA | + | (300) | NA | − | NA | = | NA | (300) OA |

A) Option A

B) Option B

C) Option C

D) Option D

90) Garrison Company acquired $23,000 by issuing common stock. Which of the following choices accurately reflects how this event affects the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liab. | + | Equity | Rev. | − | Exp. | = | Net Inc. | Cash Flow |
| A. | 23,000 | = | NA | + | 23,000 | NA | − | NA | = | NA | 23,000 FA |
| B. | 23,000 | = | NA | + | 23,000 | 23,000 | − | NA | = | 23,000 | 23,000 FA |
| C. | 23,000 | = | 23,000 | + | NA | 23,000 | − | NA | = | NA | 23,000 FA |
| D. | 23,000 | = | 23,000 | + | NA | 23,000 | − | NA | = | 23,000 | 23,000 OA |

A) Option A

B) Option B

C) Option C

D) Option D

91) Tandem Company borrowed $32,000 of cash from a local bank. Which of the following choices accurately reflects how this event affects the company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liab. | + | Equity | Rev. | − | Exp. | = | Net Inc. | Cash Flow |
| A. | 32,000 | = | 32,000 | + | NA | 32,000 | − | NA | = | 32,000 | 32,000 FA |
| B. | 32,000 | = | NA | + | 32,000 | NA | − | NA | = | NA | 32,000 FA |
| C. | 32,000 | = | NA | + | 32,000 | 32,000 | − | NA | = | 32,000 | 32,000 FA |
| D. | 32,000 | = | 32,000 | + | NA | NA | − | NA | = | NA | 32,000 FA |

A) Option A

B) Option B

C) Option C

D) Option D

92) Zimmerman Company sold land for $25,000 cash. The original cost of the land was $25,000. Select the answer that indicates how this event affects the company's financial statements.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liab. | + | Equity | Rev. | − | Exp. | = | Net Inc. | Cash Flow |
| A. | NA | = | NA | + | NA | NA | − | NA | = | NA | 25,000 IA |
| B. | (25,000) | = | NA | + | (25,000) | NA | − | NA | = | NA | (25,000) IA |
| C. | 25,000 | = | 25,000 | + | NA | NA | − | NA | = | NA | 25,000 FA |
| D. | None of these. | | | | | | | | | | |

A) Option A

B) Option B

C) Option C

D) Option D

93) Which of the following could represent the effects of an asset source transaction on a company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | **=** | **Liab.** | **+** | **Equity** | **Rev.** | **−** | **Exp.** | **=** | **Net Inc.** | **Cash Flow** |
| A. | + | = | NA | + | + | NA | − | NA | = | NA | +OA |
| B. | + | = | + | + | NA | NA | − | + | = | + | +IA |
| C. | + | = | NA | + | + | + | − | NA | = | + | +OA |
| D. | None of these could represent the effects of an asset source transaction. | | | | | | | | | | |

A) Option A

B) Option B

C) Option C

D) Option D

94) Which of the following could represent the effects of an asset exchange transaction on a company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liab. | + | Equity | Rev. | − | Exp. | = | Net Inc. | Cash Flow |
| A. | +− | = | NA | + | NA | NA | − | NA | = | NA | −IA |
| B. | +− | = | + | + | NA | NA | − | + | = | + | NA |
| C. | − | = | NA | + | − | NA | − | NA | = | NA | −OA |
| D. | None of these could represent the effects of an asset exchange transaction. | | | | | | | | | | | |

A) Option A

B) Option B

C) Option C

D) Option D

95) Which of the following represents effects of an asset use transaction on a company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liab. | + | Equity | Rev. | − | Exp. | = | Net Inc. | Cash Flow |
| A. |  |  |  |  |  |  |  |  |  |  |  |
| B. | − | = | − | + | NA | NA | − | − | = | − | −IA |
| C. | − | = | NA | + | − | − | − | NA | = | − | −OA |
| D. | None of these could represent the effects of an asset source transaction. | | | | | | | | | | | |

A) Option A

B) Option B

C) Option C

D) Option D

96) Reynolds Company experienced an accounting event that affected its financial statements as indicated below:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Assets + | = | Liab. NA | + | Equity + | Rev. + | − | Exp. NA | = | Net Inc. + | Cash Flow +OA |

Which of the following accounting events could have caused these effects on Reynolds' statements?

A) Paid a cash dividend.

B) Earned cash revenue.

C) Borrowed money from a bank.

D) The information provided does not represent a completed event.

97) Chico Company experienced an accounting event that affected its financial statements as indicated below:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Assets + | = | Liab. NA | + | Equity + | Rev NA | − | Exp NA | = | Net Inc. NA | Cash Flow +FA |

Which of the following accounting events could have caused these effects on Chico's statements?

A) Issued common stock.

B) Earned cash revenue.

C) Borrowed money from a bank.

D) Paid a cash dividend.

98) Delta Company experienced an accounting event that affected its financial statements as indicated below:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Assets − | = | Liab. NA | + | Equity − | Rev NA | − | Exp + | = | Net Inc. − | Cash Flow −OA |

Which of the following accounting events could have caused these effects on Delta's statements?

A) Paid a cash dividend.

B) Incurred a cash expense.

C) Borrowed money from a bank.

D) Earned cash revenue.

99) Northern Corporation invested $800 cash in South Company stock.

Which of the following describes the effects of this transaction on Northern Corporation's books?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | = | Liab. | + | Equity | Rev. | − | Exp. | = | Net Inc. | Cash Flow |
| A. | − | = | + | + | NA | NA | − | − | = | − | −IA |
| B. | + | = | NA | + | + | NA | − | NA | = | NA | +FA |
| C. | NA | = | NA | + | NA | + | − | NA | = | + | −FA |
| D. | +/− | = | NA | + | NA | NA | − | NA | = | NA | −IA |

A) Option A

B) Option B

C) Option C

D) Option D

100) Northern Corporation invested $800 cash in South Company stock.

As a result of this transaction:

A) The balance in the Cash account on Northern's books would decrease, while the balance in the Cash account on South Company's books would increase.

B) South Company would have a cash inflow from investing activities.

C) Northern Corporation would have a cash outflow from financing activities.

D) All of these statements are true.

101) Which of the following would **not** describe the effects of an asset source transaction on a company's financial statements?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | **=** | **Liab.** | **+** | **Equity** | **Rev.** | – | **Exp.** | **=** | **Net Inc.** | **Cash Flow** |
| A. | + | = | + | + | NA | NA | – | NA | = | NA | + FA |
| B. | + | = | NA | + | + | NA | – | NA | = | NA | + FA |
| C. | + | = | NA | + | + | + | – | NA | = | + | + OA |
| D. | NA | = | NA | + | NA | NA | – | NA | = | NA | – IA |

A) Option A

B) Option B

C) Option C

D) Option D

102) Indicate whether each of the following statements about markets is true or false.

\_\_\_\_\_\_\_ a) Financial resources can be provided to a business by conversion agents.

\_\_\_\_\_\_\_ b) Resource owners are the businesses that transform resources into products that satisfy consumer desires.

\_\_\_\_\_\_\_ c) Labor resources include the both the physical and intellectual labor of a business's employees.

\_\_\_\_\_\_\_ d) Conversion agents purchase their resources from resource owners.

\_\_\_\_\_\_\_ e) Consumers are the main providers of resources in any market.

103) Indicate whether each of the following statements about accounting information is true or false.

\_\_\_\_\_\_\_ a) Financial accounting is primarily intended to satisfy the information needs of internal stakeholders.

\_\_\_\_\_\_\_ b) Managerial accounting information includes financial and nonfinancial information.

\_\_\_\_\_\_\_ c) The accounting information intended to satisfy the needs of a company's employees is managerial accounting information.

\_\_\_\_\_\_\_ d) GAAP requires that companies adhere to financial accounting standards.

\_\_\_\_\_\_\_ e) Managerial accounting information is usually less detailed than financial accounting information.

104) Indicate whether each of the following statements about liabilities is true or false.

\_\_\_\_\_\_\_ a) A net loss on the income statement decreases liabilities.

\_\_\_\_\_\_\_ b) The acquisition of a bank loan increases both assets and liabilities.

\_\_\_\_\_\_\_ c) The accounting equation requires that liabilities be equal to equity.

\_\_\_\_\_\_\_ d) The amount of a company's liabilities is equal to (assets — equity).

\_\_\_\_\_\_\_ e) Liabilities are reported on the statement of cash flows of a business.

105) Indicate whether each of the following statements about retained earnings is true or false.

\_\_\_\_\_\_\_ a) A dividend paid to stockholders decreases retained earnings.

\_\_\_\_\_\_\_ b) Issuing common stock for cash increases retained earnings.

\_\_\_\_\_\_\_ c) The amount of net income for a period must equal retained earnings.

\_\_\_\_\_\_\_ d) The purchase of a truck decreases retained earnings.

\_\_\_\_\_\_\_ e) The amount of net income for a period increases retained earnings.

106) Indicate whether each of the following statements about the types of transactions is true or false.

\_\_\_\_\_\_\_ a) An asset source transaction increases total assets and increases claims to assets.

\_\_\_\_\_\_\_ b) The issuance of stock to owners for cash would be an example of an asset exchange transaction.

\_\_\_\_\_\_\_ c) Purchasing equipment for cash is an example of an asset use transaction.

\_\_\_\_\_\_\_ d) Paying a dividend to stockholders is an example of an asset use transaction.

\_\_\_\_\_\_\_ e) Making a payment on a bank loan is an example of an asset exchange transaction.

107) Indicate whether each of the following statements about financial statements is true or false.

\_\_\_\_\_\_\_ a) A cash dividend paid to stockholders is shown in the investing activities section of the statement of cash flows.

\_\_\_\_\_\_\_ b) A cash dividend paid to stockholders is shown on the statement of changes in stockholders' equity.

\_\_\_\_\_\_\_ c) A cash dividend paid to stockholders is shown on the income statement.

\_\_\_\_\_\_\_ d) The balance sheet shows ending balances of permanent accounts as of the last day of the accounting period.

\_\_\_\_\_\_\_ e) Changes in retained earnings for the accounting period are shown on the income statement.

108) Indicate whether each of the following statements about equity is true or false.

\_\_\_\_\_\_\_ a) Operating expenses reported on the income statement decrease retained earnings.

\_\_\_\_\_\_\_ b) Owners' equity and liabilities can be viewed either as sources of assets or claims to assets of the business.

\_\_\_\_\_\_\_ c) Retained earnings is increased by loans received from a bank.

\_\_\_\_\_\_\_ d) Dividends paid to stockholders decrease common stock.

\_\_\_\_\_\_\_ e) Owners' equity is the residual interest in the company resulting from the difference between assets and liabilities.

109) In a market, creditors are resource providers.

110) In a market, a company that manufactures cars would be referred to as a conversion agent.

111) The value created by a business may be called assets.

112) The stockholders of a business have a priority claim to its assets in the event of liquidation.

113) The types of resources needed by a business are financial, physical, and labor resources.

114) Financial accounting information is usually less detailed than managerial accounting information.

115) The Financial Accounting Standards Board is a privately funded organization with authority for establishing accounting standards for businesses in the US.

116) A business and the person who owns the business are separate reporting entities.

117) Detailed information about accounts is maintained in the various elements of the financial statements.

118) Liabilities represent the future obligations of a business entity.

119) Equity is a source of a business's assets, but liabilities are not.

120) Retained earnings reduces a company's commitment to use its assets for the benefit of its stockholders.

121) The historical cost concept requires that most assets be recorded at the amount paid for them, regardless of increases in market value.

122) An asset source transaction increases a business's assets and the claims to assets.

123) Borrowing money from the bank is an example of an asset source transaction.

124) An asset use transaction does not affect the total amount of claims to a company's assets.

125) The four financial statements prepared by a business bear no relationship to each other.

126) All of a business's temporary accounts appear on the income statement.

127) Jessup Company was founded in Year 1. It acquired $45,000 cash by issuing stock to investors and an additional $15,000 cash by borrowing from creditors. During Year 1, it received $25,000 cash revenues and paid $32,000 in cash expenses. The company then went out of business.

Required:

a) Explain the term, "business liquidation."

b) What amount of cash should Jessup Company have had on hand immediately before going out of business?

c) What amount of cash will Jessup's creditors receive?

d) What amount of cash will Jessup's stockholders receive?

128) The transactions listed below apply to Bates Company for its first year in business. Assume that all transactions involve the receipt or payment of cash.

Transactions for Year 1:

1) Issued common stock to investors for $25,000 cash.

2) Borrowed $18,000 from the local bank.

3) Provided services to customers for $28,000 cash.

4) Paid expenses amounting to $21,400.

5) Purchased a plot of land for $22,000 cash.

6) Paid a dividend of $15,000 to its stockholders.

7) Repaid $12,000 of the loan listed in item 2.

Required:

(a) Fill in the headings to the accounting equation shown below.

(b) Show the effects of the above transactions on the accounting equation. Precede the amount with a minus sign if the transaction reduces that section of the equation.

(a) \_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_\_ + \_\_\_\_\_\_\_\_

(b)

Event

No.

1)

2)

3)

4)

5)

6)

7

Totals

129) Each of the following requirements is independent of the others.

a) Valdez Corporation has liabilities of $95,000 and equity of $115,000. What is the amount of Valdez's assets?

b) Global Company has assets of $320,000 and liabilities of $95,000. What is the amount of Global's equity?

c) Brown Company has assets of $90,000 and liabilities of $25,000. What is the amount of Brown's claims?

130) The following events occurred for Ringgold Company during Year 1, its first year of operations:

1. Issued stock to investors for $45,000 cash

2. Borrowed $25,000 cash from the local bank

3. Provided services to its customers and received $32,000 cash

4. Paid expenses of $28,000

5. Paid $22,000 cash for land

6. Paid dividend of $12,000 to stockholders

7. Repaid $10,000 of the loan listed in item 2

Required:

Show the effects of the above transactions on the accounting equation, below. Include dollar amounts of increases and decreases. Precede the amount with a minus sign if the event reduces that section of the equation. Enter NA for items not affected. If one section is affected by an increase and also a decrease, enter each part on a separate line.

The first event is done for you. After entering all the events, calculate the total amounts of assets, liabilities, and equity at the end of the year.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Event number | Assets | = | Liabilities | + | Equity |
| 1. | 45,000 |  | NA |  | 45,000 |
| 2. |  |  |  |  |  |
| 3. |  |  |  |  |  |
| 4. |  |  |  |  |  |
| 5. |  |  |  |  |  |
| 6. |  |  |  |  |  |
| 7. |  |  |  |  |  |
| Total |  |  |  |  |  |

131) Ramirez Company experienced the following events during Year 1:

1. Acquired $50,000 cash by issuing common stock

2. Borrowed $25,000 cash from a creditor

3. Provided services to customers for $38,000 cash

4. Paid $32,000 cash for operating expenses

5. Paid a cash dividend of $2,500 to stockholders

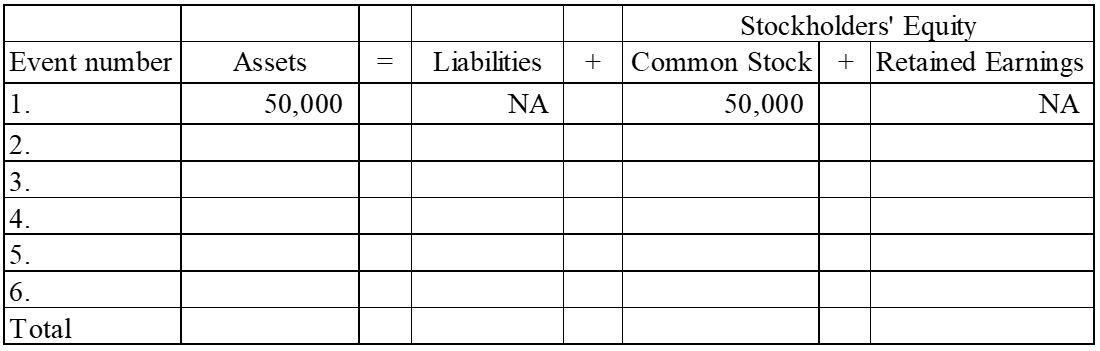
6. Purchased land with cash, $30,000

Required:

a) Show how each of these events affects the accounting equation. Precede the amount with a minus sign if the event reduces that section of the equation. Enter NA for items not affected.

The first event is done as an example.

b) Calculate the total amount of assets, liabilities, common stock, and retained earnings at the end of the period.



132) At the beginning of Year 2, Grace Company's accounting records had the general ledger accounts and balances shown in the table below. During Year 2, the following transactions occurred:

1. Received $95,000 cash for providing services to customers

2. Paid salaries expense, $50,000

3. Purchased land for $12,000 cash

4. Paid $4,000 on note payable

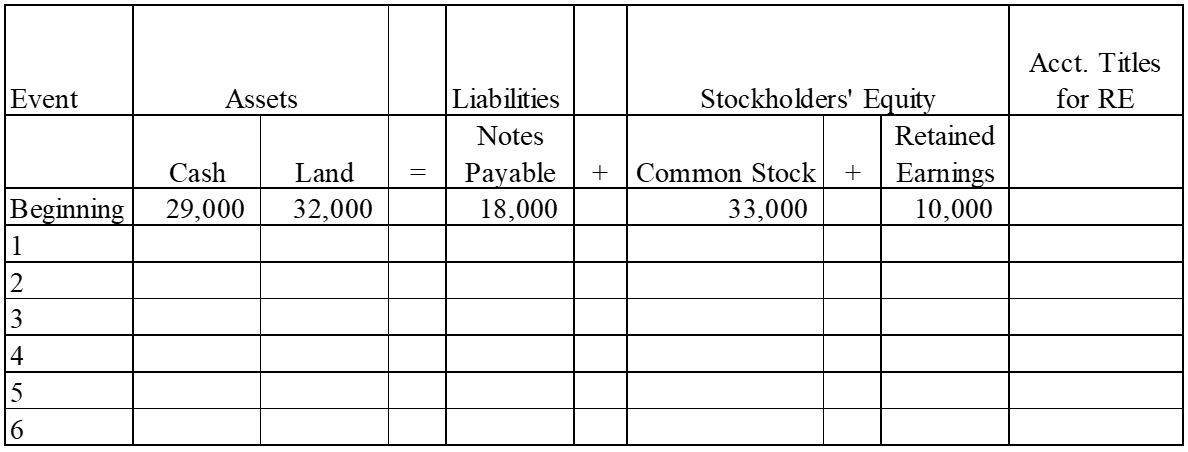
5. Paid operating expenses, $22,000

6. Paid cash dividend, $2,500

Required:

a) Record the transactions in the appropriate general ledger accounts. Record the amounts of revenue, expense, and dividends in the retained earnings column. Precede the amount with a minus sign if the transaction reduces that section of the equation. Enter 0 for items not affected.

Provide appropriate titles for these accounts in the last column of the table.



b) What is the amount of total assets as of December 31, Year 2?

c) What is the amount of total stockholders' equity as of December 31, Year 2?

133) Montgomery Company experienced the following events during Year 1 (all were cash events):

1. Issued a note

2. Paid operating expenses

3. Issued common stock

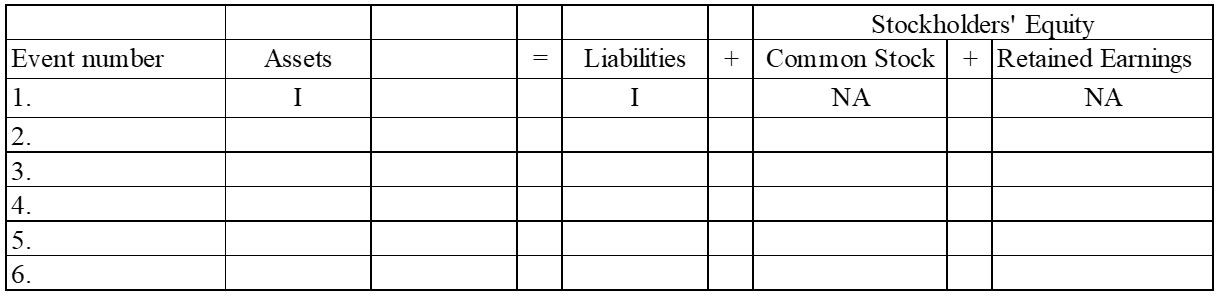
4. Provided services to customers

5. Repaid part of the note in event 1

6. Paid dividends to stockholders

Required:

Indicate how each of these events affects the accounting equation by writing the letter I for increase, the letter D for decrease, and NA for no effect under each of the components of the accounting equation. Use only one item of entry in each column. The first event is done for you as an example.



134) Indicate how each of the following transactions affect assets by entering + for increase, - for decrease, or NA if total assets are not affected. Enter only one item for each answer.

\_\_\_\_\_\_\_ 1) Issued stock to investors.

\_\_\_\_\_\_\_ 2) Borrowed cash from the bank.

\_\_\_\_\_\_\_ 3) Provided services for cash.

\_\_\_\_\_\_\_ 4) Paid operating expenses.

\_\_\_\_\_\_\_ 5) Purchased land for cash.

\_\_\_\_\_\_\_ 6) Paid cash dividend to the stockholders.

\_\_\_\_\_\_\_ 7) Repaid the bank loan.

135) Classify each of the following events as an asset source (AS), asset use (AU), asset exchange (AX), or not applicable (NA).

\_\_\_\_\_\_\_ 1) Borrowed cash from the bank.

\_\_\_\_\_\_\_ 2) Issued stock for cash.

\_\_\_\_\_\_\_ 3) Invested cash in the common stock of another company.

\_\_\_\_\_\_\_ 4) Performed services and collected cash.

\_\_\_\_\_\_\_ 5) P aid cash for operating expense.

\_\_\_\_\_\_\_ 6) Purchased equipment for cash.

\_\_\_\_\_\_\_ 7) Paid dividends to stockholders.

\_\_\_\_\_\_\_ 8) Repaid the bank loan with cash.

136) Grimes Corporation reports the following cash transactions for the year ending December 31, Year 1, its first year of operation:

1) Issued common stock for $35,000 cash

2) Borrowed $25,000 from a local bank

3) Purchased land for $40,000 cash

4) Provided services to clients for $38,000 cash

5) Paid operating expenses of $30,500

6) Paid $2,000 cash dividends to stockholders

Required:

a) What are the total assets for Grimes Corporation at December 31, Year 1?

b) Prepare an income statement for Year 1.Precede the amount with a minus sign if the transaction reduces that section of the income statement.

137) Young Company reported the following balance sheet for the end of Year 1:

|  |  |
| --- | --- |
| Young Company | |
| Balance Sheet | |
| For the Year Ended December 31, Year 1 | |
|  |  |
| Assets |  |
| Cash | $ 58,800 |
| Land | 25,500 |
| Total assets | $ 84,300 |
|  |  |
| Liabilities |  |
| Notes payable | $ 18,000 |
|  |  |
| Stockholders' equity |  |
| Common stock | 50,000 |
| Retained earnings | 16,300 |
| Total stockholders' equity | 66,300 |
| Total liabilities and stockholders' equity | $ 84,300 |
|  |  |

During Year 2, Young reported the following transactions:

• Repaid $9,000 to a local bank on a note payable

• Provided services to clients for $27,400 cash

• Paid operating expenses of $20,200

• Paid $4,500 cash dividends to stockholders

Required:

Prepare Young Company's balance sheet as of December 31, Year 2.

138) Use the following information to prepare an income statement for Penelope Company for the period ending December 31, Year 1. All transactions were for cash.

A) Received revenue from services provided to customers, $30,500.

B) Paid $19,000 cash for land.

C) Issued $16,000 of common stock.

D) Paid dividends to stockholders, $3,000.

E) Paid operating expenses, $25,400.

Required:

Prepare the income statement at the end of Year 1.

139) The following events are for Holiday Travel Services for Year 1, the first year of operations. Assume that all transactions involve the receipt or payment of cash.

1) The business acquired $50,000 from stock issued to owners.

2) Creditors loaned the company $27,500.

3) The company provided services to its customers and received $75,400.

4) The company paid expenses amounting to $63,250.

5) The company purchased land for $25,000.

6) The company paid a dividend of $5,500 to its owners.

Required:

a) Show the effects of the above transactions on the accounting equation (use appropriate element and account headings). For those events that affect retained earnings, indicate in a separate column the appropriate temporary account. Precede the amount with a minus sign if the transaction reduces that section of the equation. Enter 0 for items not affected.

|  |
| --- |
| Accounting Equation: |
| Event |
| No. |
| 1) |
| 2) |
| 3) |
| 4) |
| 5) |
| 6) |
| Totals |

b) Prepare an income statement and balance sheet for and at the end of Year 1.

140) The following transactions apply to Wilson Fitness Center for Year 2.

1) Started the business by issuing $48,000 of common stock for cash.

2) Provided services to clients and received $65,500 cash.

3) Borrowed $10,500 from the bank.

4) Paid $8,500 for rent of equipment.

5) Purchased land for $15,000.

5) Paid $46,600 of salary expense.

6) Cash dividends of $4,000 were paid to the stockholders.

Required:

a) What are the total assets of the business at the end of Year 2?

b) Prepare a Statement of Cash Flows for Year 2.Precede the amount with a minus sign if the transaction reduces that section of the statement.

141) Fill in the missing information by determining the amounts represented by letters a - d.

Income Statement

Revenue $ a

Expense 6,200

Net income $ b

Statement of Changes in

Stockholders' Equity

Beginning common stock $ -0-

Plus issuance of common stock 11,000

Ending common stock 11,000

Beginning Retained Earnings $ -0-

Add: Net Income 3,500

Ending Retained Earnings $ c

Total stockholders' equity $ d

142) Fill in the blanks indicated by the alphabetic letters in the following financial statements. These financial statements were prepared for the company's first year of operations, and all transactions were for cash.

|  |  |
| --- | --- |
| Income Statement | |
|  |  |
| Service revenue | $ 44,000 |
| Operating expenses | a |
| Net income | $ b |
|  |  |

|  |  |
| --- | --- |
| Statement of Changes in Stockholders' Equity | |
| Beginning common stock | $ 80,000 |
| Add: Common stock issued | - |
| Ending Common stock | $ 80,000 |
| Beginning retained earnings | $ - |
| Add: Net income | c |
| Less: Dividends | d |
| Ending retained earnings | 16,000 |
| Total stockholders' Equity | $ e |

|  |  |
| --- | --- |
| Balance Sheet | |
| Assets |  |
| Cash | $ f |
| Land | 20,000 |
| Total assets | $ 120,000 |
|  |  |
| Liabilities |  |
|  |  |
| Stockholders' equity |  |
| Common stock | 80,000 |
| Retained earnings | h |
| Total stockholders' equity | i |
| Total liabilities and stockholders' equity | $ 120,000 |

143) The following transactions apply to the Garber Corporation for Year 1, its first year in business.

1) Issued stock to investors, $48,000.

2) The company borrowed $42,000 cash from the bank.

3) Services were provided to customers and $50,000 cash was received.

4) The company acquired land for $44,000.

5) The company paid $34,000 rent for the building where it does its business.

6) The company paid $3,200 for supplies that were used during the period.

7) The company sold the land acquired in item 5 for $44,000.

8) A dividend of $1,000 was paid to the owners.

9) Repaid $20,000 of the loan described in item 2.

Required:

a. Prepare an income statement, statement of changes in equity, and balance sheet for Year 1. Precede the amount with a minus sign if the transaction reduces that section of the financial statement.

b. Prepare a statement of cash flows for Year 1.

144) Rosemont Company began operations on January 1, Year 1, and on that date issued stock for $60,000 cash. In addition, Rosemont borrowed $50,000 cash from the local bank. The company provided services to its customers during Year 1 and received $35,000. It purchased land for $70,000. During the year, it paid $10,000 cash for salaries and $9,000 cash for supplies that were used up in its operations. Stockholders were paid cash dividends of $8,000 during the year.

Required:

a) List the transactions from the information above (for example, issued common stock for $60,000) and indicate in which section of the statement of cash flows each transaction would be reported.

b) What would the amount be for net cash flows from operating activities?

c) What would be the end-of-year balance for the cash account?

d) What would be the amount of the total assets for the Rosemont Company at the end of Year 1?

e) What would be the end-of-year balance for the retained earnings account?

145) The Campbell Company began operations on January 1, Year 1 and on that date issued $60,000 of common stock for cash. In addition, the company borrowed $40,000 from the bank. It provided services to its customers during Year 1 and received $72,000 cash. During the year, it paid $80,000 cash for land, $50,000 for salaries, and $10,000 in cash dividends to the owners.

Required:

1) Write an accounting equation and record the effects of each transaction under the appropriate heading. (Use specific accounting titles below the statement elements.) Precede the amount with a minus sign if the transaction reduces that section of the equation.

Enter 0 for items not affected.

2) Prepare an income statement and a balance sheet for the Year 1 accounting period.Precede the amount with a minus sign if the transaction reduces that section of the income statement.

146) Pinehurst Company was formed in Year 1 and experienced the following accounting events during the year:

1. Issued common stock for $15,000 cash

2. Earned cash revenue of $28,000

3. Paid cash expenses of $20,500.

These were the only events that affected the company during the year.

Required:

a) Write the accounting equation and record the effects of each accounting event under the appropriate general ledger account heading. Precede the amount with a minus sign if the transaction reduces that section of the equation.

Enter 0 for items not affected.

b) Prepare an income statement for Year 1 and a balance sheet as of December 31, Year 1.Precede the amount with a minus sign if the transaction reduces that section of the income statement.

147) Fieldstone Company was founded on January 1, Year 1. During Year 1, the company experienced the following events:

1. Received cash revenue of $25,500

2. Paid cash expenses of $20,000

3. Issued common stock for $30,000 cash

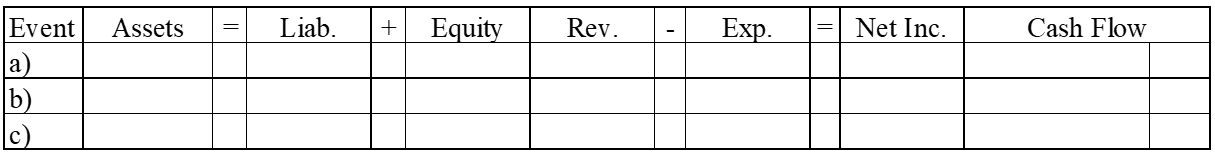
4. Paid cash dividend of $2,000 to owners.

Required:

a) Write an accounting equation and record effects of each accounting event under appropriate general ledger account headings, showing dollar amounts of increases and decreases and totals at the end of the year. Precede the amount with a minus sign if the transaction reduces that section of the equation. Enter 0 for items not affected.

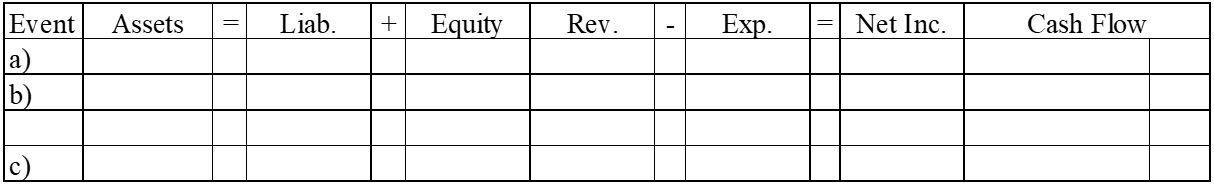
b) Prepare the Year 1 income statement and balance sheet for Fieldstone Company.

148) During Year 1, Sawyer Company earned $42,000 of cash revenue and paid $28,200 of cash expenses and $1,600 in dividends to the company's owners. Enter each of these three events into the horizontal financial statements model, below. Indicate dollar amounts of increases and decreases. For cash flows, show whether they are operating activities (OA), investing activities (IA), or financing activities (FA). Precede the amount with a minus sign if the transaction reduces that section of the equation or cash flow. Enter 0 if there would be no entry in a column.



149) During Year 1, Pace Company issued common stock to stockholders for $12,000, purchased land for $3,200 cash, and paid cash dividends of $1,000 to the company's owners. Enter each of these three events into the horizontal financial statements model, below. Indicate dollar amounts of increases and decreases. For cash flows, show whether they are operating activities (OA), investing activities (IA), or financing activities (FA). Precede the amount with a minus sign if the transaction reduces that section of the equation or cash flow.

Enter 0 if there would be no entry in a column.



150) During Year 1, Morsch Company issued common stock to stockholders for $10,000; purchased land for $2,000 cash; provided services to customers for $8,000; paid cash operating expenses of $6,200; and paid cash dividends of $1,000 to the company's owners. Enter each of these events into the horizontal financial statements model, below. Indicate dollar amounts of increases and decreases. For cash flows, show whether they are operating activities (OA), investing activities (IA), or financing activities (FA). Precede the amount with a minus sign if the transaction reduces that section of the equation or cash flow.

Enter 0 if there would be no entry in a column.

