

Exam

Name _____

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

1) Accounting is an information system that measures business activities.

Answer: True False

2) Bookkeeping is a mechanical part of accounting.

Answer: True False

3) Accounting is often called the language of business.

Answer: True False

4) Accounting produces financial statements, which report information about a business.

Answer: True False

5) The accounting process begins and ends with people making decisions.

Answer: True False

6) Accounting information is used by investors and creditors, but not by regulatory bodies.

Answer: True False

7) Since Habitat for Humanity is not concerned about making a profit, the entity does not need to use accounting information.

Answer: True False

8) The business records of a sole proprietorship should include the proprietor's personal finances.

Answer: True False

9) A partnership is a taxpaying entity.

Answer: True False

10) Stockholders have no personal obligation for the corporation's debts.

Answer: True False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

11) Accounting:

A) is often called the language of business.

B) processes data into reports and communicates the data to decision makers.

C) measures business activities.

D) is all of the above.

Answer: D

- 12) A disadvantage of general partnerships is:
- A) double taxation of distributed profits.
 - B) only individuals can be partners.
 - C) each partner may conduct business in the name of the entity and make agreements that legally bind all partners.
 - D) the partnership's assets are commingled with each partner's personal assets.

Answer: C

- 13) Which of the following statements is TRUE for a limited liability company?
- A) Members have limited liability for debts only up to the extent of their investment in the LLC.
 - B) Members are not taxed like members of a partnership.
 - C) Members have unlimited liability for the debts of the business.
 - D) Only the limited partners have limited liability for the debts of the business.

Answer: A

- 14) Which of the following statements is TRUE for a limited liability partnership?
- A) The general partner has unlimited liability for the debts of the partnership.
 - B) All partners have limited liability for the debts of the partnership.
 - C) The limited partners have unlimited liability for the debts of the partnership.
 - D) All partners have limited liability for the acts of the other partners.

Answer: A

- 15) Which of the following statements is TRUE for a proprietorship?
- A) The business records include the proprietor's personal finances.
 - B) Legally, a proprietorship is separate from the proprietor.
 - C) For accounting purposes, a proprietorship is separate from the proprietor.
 - D) All statements are correct.

Answer: C

- 16) Federal income taxes are paid by _____ in a limited liability company.
- A) limited partners only
 - B) the company
 - C) general partners only
 - D) members

Answer: D

- 17) Which of the following statements is TRUE for a limited liability partnership?
- A) The partnership pays no federal income taxes.
 - B) Only the general partner pays federal income taxes on his or her share of the partnership's profits.
 - C) Only the limited partners pay federal income taxes on their shares of the partnership's profits.
 - D) Only the members pay federal income taxes on their shares of the partnership's profits.

Answer: A

- 18) Which statement is TRUE about partnerships?
- A) A written partnership contract must exist.
 - B) Individuals, corporations, partnerships, or other types of entities can be partners.
 - C) General partnerships have mutual agency and limited liability.
 - D) A partnership is a taxpaying entity.

Answer: B

19) Which of the following have unlimited liability for a company's debts?

- A) members of a limited liability company
- B) limited partners in a limited liability partnership
- C) general partner in a limited liability partnership
- D) owners of a corporation

Answer: C

20) Which of the following entities pay federal income taxes?

- A) corporation
- B) limited liability partnership
- C) limited liability company
- D) general partnership

Answer: A

21) The two types of accounting are:

- A) profit and nonprofit.
- B) bookkeeping and decision-oriented.
- C) financial and managerial.
- D) internal and external.

Answer: C

22) Decision makers who use accounting information include:

- A) the Internal Revenue Service.
- B) the Securities and Exchange Commission.
- C) creditors.
- D) all of the above.

Answer: D

23) Which type of business organization transacts much more business and is larger in terms of assets, income, and number of employees?

- A) limited-liability company
- B) proprietorship
- C) corporation
- D) partnership

Answer: C

24) The owner of a _____ is personally liable for all the business's debts.

- A) corporation
- B) proprietorship
- C) limited-liability company
- D) All of the above are correct.

Answer: B

25) Which of the following is a TRUE statement about the characteristics of partnerships?

- A) Income and losses of the partnership "flow through" to the partners.
- B) The partnership agreement must be in writing.
- C) General partners in a general partnership have mutual agency and limited liability for the partnership's debts.
- D) In a limited liability partnership, all partners have limited liability for the partnership's debts.

Answer: A

26) Owners of an LLC are called:

- A) proprietors.
- B) members.
- C) stockholders.
- D) partners.

Answer: B

- 27) Advantages of a corporation include:
- A) limited liability of the stockholders for the corporation's debts.
 - B) difficulty in raising large sums of capital.
 - C) each stockholder can conduct business in the name of the corporation.
 - D) double taxation of distributed profits.

Answer: A

- 28) Shareholders of a corporation:
- A) can only be individuals.
 - B) receive dividends from the corporation without having to pay tax on the distribution.
 - C) have a personal obligation for the corporation's debts.
 - D) have limited liability for the corporation's debts.

Answer: D

- 29) An important factor to consider when determining how to organize a business is that:
- A) for accounting purposes, a proprietorship is a distinct entity, separate from the proprietor.
 - B) a corporation is not legally distinct from its owners.
 - C) members of an LLC have unlimited liability and are taxed like members of a partnership.
 - D) partnerships are subject to double taxation.

Answer: A

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 30) Accounting can be defined as:

Answer: Accounting is the information system that measures business activities, processes that information into reports and financial statements, and communicates the results to decision makers.

- 31) Four ways a business can be organized include:

Answer: Proprietorship, Partnership, Limited-liability company, and Corporation

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 32) Generally accepted accounting principles (GAAP) are the accounting guidelines formulated by the Securities and Exchange Commission.

Answer: True False

- 33) The SEC establishes International Financial Reporting Standards.

Answer: True False

- 34) The fundamental qualitative characteristics of accounting information are relevance and reliability.

Answer: True False

- 35) Another name for the continuity assumption is the going-concern assumption.

Answer: True False

- 36) The historical cost principle is not used widely in the United States to value assets.

Answer: True False

- 37) Accounting is moving in the direction of reporting more and more assets and liabilities at their fair values.

Answer: True False

38) Relevance is one of the four enhancing qualitative characteristics.

Answer: True False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

39) Which of the following characteristics does NOT apply to verifiability?

- A) faithful representation
- B) accuracy
- C) reliability
- D) completeness

Answer: A

40) Enhancing qualitative characteristics of accounting information do NOT include:

- A) materiality.
- B) verifiability.
- C) comparability.
- D) timeliness.

Answer: A

41) The conceptual foundation of accounting does NOT include:

- A) decision making.
- B) fundamental qualitative characteristics.
- C) enhancing qualitative characteristics.
- D) accounting objectives.

Answer: A

42) Information must be sufficiently transparent so that it makes sense to reasonably informed users of the financial statements, such as creditors. This qualitative characteristic of information is called:

- A) relevant.
- B) verifiability.
- C) faithful representative.
- D) understandability.

Answer: D

43) The fair value of a plant asset is equal to:

- A) the amount of cash paid plus the loan taken out to finance the purchase of the plant asset.
- B) the amount the business could sell the asset for.
- C) the amount a company can receive for the asset when sold in order to go out of business.
- D) the amount of cash paid plus the dollar value of noncash consideration given in exchange for the plant asset at acquisition.

Answer: B

44) In 1990, Johnson Company purchased a building for \$170,000. In 2020, a real estate professional says the building has a fair value of \$1,000,000. In 2020, a similar building down the street recently sold for \$900,000. What value, before consideration of accumulated depreciation, is reported for the building on the balance sheet at December 31, 2020?

- A) \$1,000,000
- B) \$900,000
- C) \$170,000
- D) \$585,000

Answer: C

45) Which statement is FALSE?

- A) International Financial Reporting Standards are used by most countries around the world.
- B) The most commonly used accounting practices are essentially the same under both U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards.
- C) For many years, U.S. Generally Accepted Accounting Principles were considered to be the strongest single set of accounting standards in the world.
- D) U.S. Generally Accepted Accounting Principles are used by many countries around the world.

Answer: D

- 46) In order to compare the financial statements of Toyota Corporation to the financial statements of General Motors, it would be preferable to use:
- A) U.S. Generally Accepted Accounting Principles for General Motors and International Financial Reporting Standards for Toyota.
 - B) International Financial Reporting Standards for both companies.
 - C) U.S. Generally Accepted Accounting Principles for Toyota Corporation and International Financial Reporting Standards for General Motors.
 - D) U.S. Generally Accepted Accounting Principles for both companies.

Answer: B

- 47) The International Accounting Standards Board is responsible for establishing:
- A) the code of professional conduct for accountants.
 - B) U. S. Generally Accepted Accounting Principles.
 - C) an international Securities and Exchange Commission.
 - D) International Financial Reporting Standards.

Answer: D

- 48) Which of the following statements is FALSE?
- A) In the long run, a uniform set of global accounting standards should significantly reduce the costs of doing business globally.
 - B) The application of U.S. GAAP for public companies in the United States has been overseen by SEC.
 - C) IFRS has been adapted in the United States.
 - D) The advantage of a uniform set of global accounting standards is that financial statements from a U.S. company will be comparable to those of a foreign company.

Answer: C

- 49) To be useful, accounting information must have the fundamental qualitative characteristics of:
- A) faithful representation and timeliness.
 - B) relevance and faithful representation.
 - C) comparability and relevance.
 - D) materiality and understandability.

Answer: B

- 50) All of the following are true statements about the entity assumption EXCEPT for:
- A) the transactions of the business cannot be combined with the transactions of the owner.
 - B) the entity is any organization that stands apart as a separate economic unit.
 - C) business operations cannot be divided into segments.
 - D) a sharp boundary is drawn around each entity.

Answer: C

- 51) Verifiability means that the accounting information:
- A) must be capable of being checked for accuracy, completeness and reliability.
 - B) is timely and understandable.
 - C) is understandable.
 - D) is material and relevant.

Answer: A

- 52) The accounting assumption that states that the business, rather than its owners, is the reporting unit is the:
- A) entity assumption.
 - B) going concern assumption.
 - C) historical cost assumption.
 - D) stable-monetary-unit assumption.

Answer: A

- 53) The stable-monetary-unit assumption:
- A) enables accountants to ignore the effect of inflation on the accounting records.
 - B) ensures that accounting records and statements are based on the most reliable data available.
 - C) maintains that each organization or section of an organization stands apart from other organizations and individuals.
 - D) requires all countries to record transactions in U.S. dollars.

Answer: A

- 54) Historical cost:
- A) is a verifiable measure that is relatively free from bias.
 - B) is the amount that the business could sell an asset for.
 - C) is used in the U.S. to value all business assets.
 - D) is equal to the amount of cash paid minus the dollar value of all noncash considerations also given in the exchange.

Answer: A

- 55) The principle stating that assets acquired by the business should be recorded at their actual cost on the date of purchase is:
- A) stable-monetary-unit.
 - B) historical cost.
 - C) reliability.
 - D) objectivity.

Answer: B

- 56) The relevant measure of the value of the assets of a company that is going out of business is the:
- A) liquidating value.
 - B) historical cost.
 - C) inflation-adjusted book value.
 - D) carrying value.

Answer: A

- 57) The CEO of Clarkson Company owns a vacation home in Hawaii. Clarkson Company owns a factory in Detroit where it is headquartered. Which of these properties is considered to be asset(s) of the business?
- A) only the factory in Detroit
 - B) only the vacation home in Hawaii
 - C) both the vacation home in Hawaii and the factory in Detroit
 - D) neither the vacation home in Hawaii nor the factory in Detroit

Answer: A

- 58) A construction company paid \$82,000 cash for land used in the business. At the time of purchase, the land had a list price of \$90,000. When the balance sheet was prepared, the fair value of the land was \$85,000. At what amount should the land be reported on the balance sheet of the company?
- A) \$82,000
 - B) \$85,000
 - C) \$90,000
 - D) \$86,000

Answer: A

- 59) If a company prepares its financial statements three years after the end of its accounting period, it has violated the qualitative characteristic of:
- A) verifiability.
 - B) materiality.
 - C) timeliness.
 - D) understandability.

Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 60) Below is a list of qualitative characteristics of accounting. Following the list is a series of descriptive phrases. Required: Match each characteristic with the appropriate phrase.

- A) faithful representation
- B) timeliness
- C) relevance
- D) comparability
- E) verifiability
- F) understandability

- _____ 1. Information must be sufficiently transparent, so it makes sense to reasonably informed users.
- _____ 2. Accounting information must be complete, neutral, and accurate.
- _____ 3. The information must be capable of being checked for accuracy, reliability and completeness.
- _____ 4. Information must be made available early enough to users to help them make decisions.
- _____ 5. Accounting information must be prepared in such a way that it can be compared with information of other companies in the same period.
- _____ 6. Information must be capable of making a difference in a decision.

Answer: 1. F, 2. A, 3. E, 4. B, 5. D, 6. C

- 61) Provide an explanation of each of the following:

- Entity Assumption
- Historical Cost Principle
- Continuity Assumption
- Stable-Monetary-Unit Assumption

Answer: Entity Assumption — The entity is any organization or person that stands apart as a separate economic unit. Sharp boundaries are drawn around each entity so as not to confuse its affairs with those of others.
Historical Cost Principle — For accounting purposes, assets are recorded at their actual cost. This amount is relevant and faithfully represents a reliable figure for the price the company paid.
Continuity Assumption — For accounting purposes, accountants assume that the entity will continue to operate long enough to sell its inventories, convert any receivables to cash, use other existing assets for their intended purposes, and settle its obligations in the normal course of business.
Stable-Monetary-Unit Assumption — Accountants assume that the dollar's purchasing power is stable over time.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 62) The word "payable" always signifies a liability.

Answer: True False

- 63) The accounting equation must always be in balance.

Answer: True False

- 64) Owners' equity is called stockholders' equity for a corporation.

Answer: True False

- 65) Stockholders' equity is the stockholders' interest in the assets of the corporation.

Answer: True False

66) The accounting equation shows the relationship among assets, liabilities and net income.

Answer: True False

67) Revenues are cash distributions to the stockholders.

Answer: True False

68) Expenses are decreases in retained earnings that result from operations.

Answer: True False

69) The basic component of paid-in capital is common stock.

Answer: True False

70) The calculation of ending retained earnings considers the beginning retained earnings, current period net income or net loss, and stockholders' equity.

Answer: True False

71) The two main components of stockholders' equity are paid-in capital and dividends.

Answer: True False

72) Long-term debt is a liability that is payable beyond one year from the date of the financial statements.

Answer: True False

73) David Company has total assets of \$500,000 and total liabilities of \$180,000. David Company's stockholders' equity must therefore be \$680,000.

Answer: True False

74) The Clarke Company had beginning retained earnings of \$20,000 and net income of \$5,000. Clarke declared and paid dividends of \$1,000. Therefore, the ending retained earnings is \$25,000.

Answer: True False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

75) All of the following are expenses EXCEPT for:

- A) Depreciation Expense.
- C) Cost of products and services.

- B) Dividends.
- D) Salary Expense.

Answer: B

76) Which of the following statements is TRUE?

- A) Dividends are expenses of a business.
- C) Dividends reduce retained earnings.

- B) Dividends reduce net income.
- D) Dividends increase retained earnings.

Answer: C

77) The accounting equation can be stated as:

- A) $\text{Assets} - \text{Stockholders' Equity} + \text{Liabilities} = \text{Zero}$.
- B) $\text{Assets} = \text{Liabilities} - \text{Stockholders' Equity}$.
- C) $\text{Assets} + \text{Stockholders' Equity} = \text{Liabilities}$.
- D) $\text{Assets} - \text{Liabilities} = \text{Stockholders' Equity}$.

Answer: D

- 78) The accounting equation can be stated as:
- A) $\text{Assets} = \text{Liabilities} + \text{Paid-in Capital} + \text{Retained Earnings}$.
 - B) $\text{Assets} = \text{Liabilities} - \text{Paid-in Capital} - \text{Dividends}$.
 - C) $\text{Assets} + \text{Liabilities} = \text{Stockholders' Equity}$.
 - D) $\text{Assets} = \text{Liabilities} + \text{Paid-in Capital} - \text{Common Stock}$.

Answer: A

- 79) Liabilities are:
- A) future economic benefits to which a company is entitled.
 - B) the outflow of resources that decrease common stock.
 - C) debts payable to outsiders called creditors.
 - D) a form of paid-in capital.

Answer: C

- 80) Examples of liabilities include:
- A) investments and note payable.
 - B) accounts payable and long-term debt.
 - C) accounts payable and common stock.
 - D) accounts payable and dividends.

Answer: B

- 81) What is an account payable?
- A) It is a liability for goods or services purchased on credit and supported by the credit standing of the purchaser.
 - B) It is a liability for goods or services purchased on credit and supported by a written agreement.
 - C) It is an amount of money to be received from a supplier.
 - D) It is an asset arising from the sale of goods or services on credit.

Answer: A

- 82) The assets of a company:
- A) represent economic resources that are expected to produce a future benefit.
 - B) include short-term investments and notes payable.
 - C) must equal the liabilities of the company.
 - D) include property, plant, and equipment and accounts payable.

Answer: A

- 83) The owners' equity of a business is equal to:
- A) paid-in capital plus assets.
 - B) assets plus liabilities.
 - C) revenues minus expenses.
 - D) assets minus liabilities.

Answer: D

- 84) The major types of transactions that affect retained earnings are:
- A) assets and liabilities.
 - B) paid-in capital and common stock.
 - C) revenues, expenses, and dividends.
 - D) revenues and liabilities.

Answer: C

- 85) Which of the following increases retained earnings?
- A) net income
 - B) net loss
 - C) expenses
 - D) dividends

Answer: A

86) Receivables are classified as:

- A) decreases in earnings.
- B) increases in earnings.
- C) liabilities.
- D) assets.

Answer: D

87) Net income:

- A) decreases total stockholders' equity.
- B) is calculated by subtracting total expenses and total dividends from total revenues.
- C) occurs when total revenues are less than total expenses.
- D) is often referred to as the "bottom line" on an income statement.

Answer: D

88) Revenues are:

- A) increases in liabilities resulting from delivering goods or services to customers.
- B) increases in retained earnings resulting from delivering goods or services to customers.
- C) decreases in retained earnings resulting from delivering goods or services to customers.
- D) decreases in assets resulting from delivering goods or services to customers.

Answer: B

89) Expenses of a business include:

- A) retained earnings and utilities expense.
- B) sales and cash equivalents.
- C) cost of products and services sold and salaries expense.
- D) common stock and rent expense.

Answer: C

90) Net income is computed as:

- A) revenues + expenses.
- B) revenues - expenses + dividends.
- C) revenues - expenses - dividends.
- D) revenues - expenses.

Answer: D

91) When total expenses exceed total revenues, the result is:

- A) a dividend.
- B) a net profit.
- C) a net loss.
- D) an increase to retained earnings.

Answer: C

92) Owners' equity consists of two accounts, Amy Jones, Capital, and Mindy Lenz, Capital. This indicates the entity is a:

- A) proprietorship.
- B) corporation.
- C) partnership.
- D) not-for-profit.

Answer: C

93) Which of the following must be added to beginning Retained Earnings to compute ending Retained Earnings?

- A) expenses
- B) dividends
- C) net income
- D) all of the above

Answer: C

94) At the end of the current accounting period, account balances were as follows: Cash, \$29,000; Accounts Receivable, \$44,000; Common Stock, \$18,000; Retained Earnings, \$14,000. Liabilities for the period were:

- A) \$55,000.
- B) \$41,000.
- C) \$73,000.
- D) \$59,000.

Answer: B

- 95) On January 1, 2019, total assets for Winger Technologies were \$136,000; on December 31, 2019, total assets were \$157,000. On January 1, 2019, total liabilities were \$110,000; on December 31, 2019, total liabilities were \$118,000. What is the amount of the change and the direction of the change in Winger Technologies' stockholders' equity for 2019?
- A) increase of \$13,000
 B) decrease of \$13,000
 C) decrease of \$29,000
 D) increase of \$29,000

Answer: A

- 96) Revenues were \$150,000, expenses were \$144,000, and cash dividends declared and paid were \$3,000. What were the net income and the change in retained earnings for the period?
- A) Net income was \$6,000; the change in retained earnings was \$6,000.
 B) Net income was \$150,000; the change in retained earnings was \$147,000.
 C) Net income was \$6,000; the change in retained earnings was \$3,000.
 D) Net income was \$150,000; the change in retained earnings was \$9,000.

Answer: C

- 97) Golden Company had the following accounts and balances at the end of the year. What are total assets at the end year?

Cash	\$79,000
Accounts Payable	\$20,000
Common Stock	\$21,000
Dividends	\$12,000
Operating Expenses	\$12,000
Accounts Receivable	\$54,000
Inventory	\$44,000
Long-term Notes Payable	\$33,000
Revenues	\$110,000
Salaries Payable	\$30,000

- A) \$79,000
 B) \$133,000
 C) \$177,000
 D) \$123,000

Answer: C

- 98) Census Company had the following accounts and balances at the end of the year. What are total liabilities at the end of the year?

Cash	\$78,000
Accounts Payable	\$13,000
Common Stock	\$21,000
Dividends	\$12,000
Operating Expenses	\$12,000
Accounts Receivable	\$54,000
Inventory	\$46,000
Long-term Notes Payable	\$35,000
Revenues	\$115,000
Salaries Payable	\$27,000

- A) \$40,000
 B) \$13,000
 C) \$75,000
 D) \$48,000

Answer: C

99) Beck Company had the following accounts and balances at the end of the year. What is net income or net loss for year?

Cash	\$79,000
Accounts Payable	\$12,000
Common Stock	\$21,000
Dividends	\$12,000
Operating Expenses	\$15,000
Accounts Receivable	\$50,000
Inventory	\$45,000
Long-term Notes Payable	\$33,000
Revenues	\$94,000
Salaries Payable	\$28,000

- A) net income of \$94,000
- C) net income of \$79,000

- B) net income of \$5,000
- D) net loss of \$10,000

Answer: C

100) Seidner Company had the following account balances at the end of the first year of operations:

Revenues	\$103,000
Salaries Expense	\$16,000
Dividends	\$11,000
Utilities Expense	\$15,000
Advertising Expense	\$9,000
Short-term Investments	\$20,000
Cash	\$37,000
Land	\$50,000
Common Stock	\$50,000

What is the amount of net income or net loss for the year?

- A) \$72,000

- B) \$63,000

- C) \$31,000

- D) \$22,000

Answer: B

101) Lorna Company is a new company with a beginning retained earnings balance of zero. It has the following account balances at the end of the first year of operations:

Accounts Payable	\$37,000
Revenues	\$106,000
Salaries Expense	\$14,000
Dividends	\$8,000
Utilities Expense	\$12,000
Advertising Expense	\$10,000
Short-term Investments	\$20,000
Cash	\$33,000
Land	\$50,000
Common Stock	\$53,000

What is the ending balance in Retained Earnings?

A) \$30,000

B) \$40,000

C) \$22,000

D) \$32,000

Answer: C

102) Gerald Company has the following account balances at the end of the first year of operations:

Revenues	\$100,000
Salaries Expense	\$13,000
Dividends	\$9,000
Utilities Expense	\$11,000
Advertising Expense	\$9,000
Cash	\$38,000
Land	\$53,000
Common Stock	\$56,000

What are total assets at the end of the first year?

A) \$38,000

B) \$114,000

C) \$91,000

D) \$214,000

Answer: C

103) Michael Company reports Total Assets of \$254,000, Common Stock of \$50,000, and Retained Earnings of \$94,000. What are total liabilities at the end of the first year?

A) \$210,000

B) \$204,000

C) \$110,000

D) \$160,000

Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

104) At the end of the current fiscal year, ABC Corporation had the following balances:

Assets	\$50,000
Common Stock	\$30,000
Dividends	\$ 5,000
Expenses	\$75,000
Liabilities	\$20,000
Revenues	\$90,000

What is the increase (or decrease) to Retained Earnings? Support your answer with well labeled computations.

Answer: The following accounts affect Retained Earnings:

Revenues	\$90,000
Expenses	(75,000)
Dividends	<u>(5,000)</u>
Increase in Retained Earnings	<u>\$10,000</u>

105) At the end of the current fiscal year, Smith Corporation had the following balances:

Assets	\$ 100,000
Common Stock	\$ 25,000
Dividends	\$ 10,000
Expenses	\$ 80,000
Liabilities	\$ 30,000
Revenues	\$120,000

The beginning balance of Retained Earnings was \$15,000.

a. What is the ending balance of Retained Earnings? Support your answer with well labeled computations.

b. Prepare an accounting equation that shows assets, liabilities, and components of stockholders' equity.

Answer: a. Computation of the ending balance of Retained Earnings

Beginning Retained Earnings Balance:		\$15,000
Add:		
Revenues	120,000	
Expenses	<u>(80,000)</u>	
Net Income		40,000
Less: Dividends	<u>(10,000)</u>	
Ending Retained Earnings Balance		<u>\$45,000</u>

b. Accounting Equation:

Assets = Liabilities + Stockholders' Equity

Assets = Liabilities + (Common Stock + Retained Earnings)

\$100,000 = \$30,000 + (\$25,000 + \$45,000)

\$100,000 = \$100,000

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

106) Net income is the profit left over after subtracting expenses and dividends from revenues and gains.

Answer: True False

107) The balance sheet is also called the statement of financial position.

Answer: True False

108) Every corporation must pay dividends every year.

Answer: True False

109) The balance sheet is organized in terms of the organization's operating, investing, and financing activities.

Answer: True False

110) The amount of cash received on the sale of the company's stock in excess of par value is called retained earnings.

Answer: True False

111) The statement of cash flows measures operating performance.

Answer: True False

112) A balance sheet reports the company's financial position over a period of time.

Answer: True False

113) Revenues and expenses are reported on both the income statement and the statement of retained earnings.

Answer: True False

114) The statement of retained earnings shows both the beginning and ending balances of retained earnings.

Answer: True False

115) Each category of activities on the statement of cash flows results in net cash provided or net cash used.

Answer: True False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

116) Which financial statement answers the following question: What is the company's financial position at fiscal year end?

- A) statement of retained earnings
- C) income statement

- B) balance sheet
- D) statement of cash flows

Answer: B

117) Which financial statement answers the following question: How well did the company perform during the year?

- A) statement of cash flows
- C) balance sheet

- B) statement of retained earnings
- D) income statement

Answer: D

- 118) Which financial statement reports cash payments and cash receipts over a period of time?
 A) income statement
 B) statement of cash flows
 C) balance sheet
 D) statement of retained earnings
 Answer: B
- 119) A company reports the purchase of equipment for \$1,000,000 in cash. On a statement of cash flows, this is a(n) example of:
 A) cash outflow from financing activity.
 B) noncash activity.
 C) cash outflow from investing activity.
 D) cash outflow from operating activity.
 Answer: C
- 120) All of the following will appear on the income statement EXCEPT for:
 A) revenues.
 B) expenses.
 C) gains.
 D) assets.
 Answer: D
- 121) The cost of products sold:
 A) is the same as total revenues.
 B) is considered a selling expense.
 C) is classified as revenue on the income statement.
 D) is the direct cost of the products sold.
 Answer: D
- 122) A company issues common stock for \$100,000. On a statement of cash flows, this will be reported as a(n):
 A) noncash activity.
 B) operating cash flow.
 C) investing cash flow.
 D) financing cash flow.
 Answer: D
- 123) A company's interest expense for the period is reported on the:
 A) statement of cash flows.
 B) statement of retained earnings.
 C) balance sheet.
 D) income statement.
 Answer: D
- 124) The CORRECT data flow from one financial statement to the next is:
 A) statement of retained earnings, income statement, statement of cash flows, balance sheet.
 B) balance sheet, statement of retained earnings, income statement, statement of cash flows.
 C) income statement, statement of retained earnings, balance sheet, statement of cash flows.
 D) statement of retained earnings, income statement, balance sheet, statement of cash flows.
 Answer: C
- 125) If an investor wants to know a company's cash balance at the end of the year, this balance is reported on the:
 A) balance sheet.
 B) statement of cash flows.
 C) income statement.
 D) A and B.
 Answer: D
- 126) Cash dividends declared:
 A) increase expenses on the income statement.
 B) decrease revenue on the income statement.
 C) decrease retained earnings on the statement of retained earnings.
 D) decrease operating activities on the statement of cash flows.
 Answer: C

- 127) When analyzing a company's income statement, a fact to remember is that:
- A) all expenses will have the word expense after their titles.
 - B) the cost of products sold is another term for gross profit.
 - C) companies are not allowed to offset items such as interest income and interest expense against each other.
 - D) operating expenses are the costs of everyday operations such as selling expenses.

Answer: D

- 128) An investor, wishing to assess the reasons for a change in retained earnings over a period of a year, would probably examine the:
- A) income statement only.
 - B) balance sheet.
 - C) statement of retained earnings.
 - D) statement of cash flows and the income statement.

Answer: C

- 129) A potential investor, interested in predicting the earnings of a company in the future, should examine the:
- A) Statement of Retained Earnings.
 - B) Statement of Retained Earnings and Balance Sheet.
 - C) Balance Sheet only.
 - D) Income Statement only.

Answer: D

- 130) Which statement(s) reports the revenues, gains, expenses, and losses of an entity?
- A) Income Statement
 - B) Statement of Retained Earnings and Statement of Operations
 - C) Balance Sheet
 - D) Statement of Cash Flows and Income Statement

Answer: A

- 131) Which financial statement is dated at the moment in time when the accounting period ends?
- A) Balance Sheet
 - B) Statement of Retained Earnings and Income Statement
 - C) Statement of Cash Flows
 - D) Income Statement

Answer: A

- 132) The income statement:
- A) covers a defined period of time.
 - B) reports the results of operations since the inception of the business.
 - C) is not dated.
 - D) must cover only a month in time.

Answer: A

- 133) An example of an operating expense is:
- A) interest expense.
 - B) sales returns.
 - C) cost of products sold.
 - D) sales commissions paid to employees.

Answer: D

134) Which is the CORRECT order for items to appear on the income statement?

- A) interest expense, revenues, income from operations
- B) revenues, net income, operating expenses
- C) cost of goods sold, revenues, net income
- D) revenues, operating expenses, net income

Answer: D

135) The portion of net income that the company has kept over a period of years and not used for dividends is called:

- A) revenue.
- B) retained earnings.
- C) gross profit.
- D) common stock.

Answer: B

136) A company sells travel mugs online for \$10. They purchase the mugs for \$6 and charge the customers \$2 for shipping and handling. The cost of product sold per mug is:

- A) \$6.
- B) \$4.
- C) \$2.
- D) \$8.

Answer: A

137) A net loss occurs when:

- A) total expenses and losses exceed total revenues and gains.
- B) not enough cash exists.
- C) total revenues exceed total expenses.
- D) total revenues and dividends exceed total expenses and losses.

Answer: A

138) The balance sheet is also known as the:

- A) statement of profit and loss.
- B) operating statement.
- C) statement of financial position.
- D) assets statement.

Answer: C

139) The balance sheet reports information about:

- A) liabilities, equity, and expenses.
- B) revenues, expenses, and equity.
- C) assets, revenues, and liabilities.
- D) assets, liabilities, and equity.

Answer: D

140) On the statement of retained earnings:

- A) net income decreases retained earnings.
- B) a deficit ending balance in retained earnings is not allowed.
- C) a net loss decreases retained earnings.
- D) dividends declared increase retained earnings.

Answer: C

141) The net income shown on the income statement also appears on the:

- A) balance sheet and statement of operations.
- B) statement of cash flows, if the indirect method is used.
- C) statement of retained earnings.
- D) B and C.

Answer: D

- 142) The balance sheet includes the:
- A) ending balance in retained earnings.
 - B) beginning balance in retained earnings.
 - C) amount of cash dividends paid to stockholders.
 - D) amount of net income or net loss.
- Answer: A
- 143) With regard to cash dividends:
- A) they must be paid on a yearly basis.
 - B) a corporation must have enough additional paid-in capital and cash to pay dividends.
 - C) developmental-stage companies will pay large dividends to their shareholders.
 - D) the Board of Directors of the corporation determines if a dividend will be paid.
- Answer: D
- 144) Which financial statement must be prepared before the others?
- A) balance sheet
 - B) statement of retained earnings
 - C) statement of cash flows
 - D) income statement
- Answer: D
- 145) A company's balance sheet:
- A) has two main categories of liabilities.
 - B) has three main categories of assets.
 - C) is dated for a period of time.
 - D) lists liabilities before assets.
- Answer: A
- 146) Current assets are assets expected to be converted to cash, sold, or consumed during the next:
- A) 24 months.
 - B) 12 months or within the business's operating cycle if less than a year.
 - C) 6 months.
 - D) 12 months or within the business's operating cycle if longer than a year.
- Answer: D
- 147) Equipment would appear on the:
- A) balance sheet with current assets.
 - B) income statement with revenues.
 - C) balance sheet with long-term assets.
 - D) income statement with operating expenses.
- Answer: C
- 148) Accumulated depreciation is normally associated with which asset on the Balance Sheet?
- A) fixed assets
 - B) inventory
 - C) accounts receivable
 - D) intangible assets
- Answer: A
- 149) The order in which current assets are typically listed is:
- A) cash and cash equivalents, accounts receivable, prepaid expenses, inventory.
 - B) cash and cash equivalents, accounts receivable, inventory, prepaid expenses.
 - C) prepaid expenses, cash and cash equivalents, accounts receivable, inventory.
 - D) accounts receivable, inventory, cash and cash equivalents, prepaid expenses.
- Answer: B
- 150) Notes payable (due in 60 days) would appear on the balance sheet as a:
- A) long-term asset.
 - B) current liability.
 - C) current asset.
 - D) long-term liability.
- Answer: B

151) Which statement below is FALSE?

- A) Accrued liabilities can include liabilities for salaries.
- B) Prepaid expenses include accrued interest payable.
- C) Income taxes payable is an accrued liability.
- D) Assets are divided into current and long-term categories.

Answer: B

152) The current portion of a long-term note payable is classified on the balance sheet as a:

- A) long-term liability.
- B) long-term asset.
- C) current liability.
- D) current asset.

Answer: C

153) Which of the following is a CORRECT statement about long-term assets?

- A) Long-term investments can never be sold by the company.
- B) Other long-term assets include supplies.
- C) Accumulated depreciation increases the cost of fixed assets on the balance sheet.
- D) Intangible assets are long-term assets with no physical substance.

Answer: D

154) Which statement about the statement of cash flows is FALSE?

- A) Purchases and sales of long-term assets are financing cash flows.
- B) The payment of a dividend is a financing cash flow.
- C) The payment of a note payable is a financing activity.
- D) Operating activities should be the company's main source of cash.

Answer: A

155) What is the proper order for the different categories of cash flows reported on the statement of cash flows?

- A) investing activities, financing activities, and operating activities
- B) operating activities, investing activities, and financing activities
- C) operating activities, financing activities, and investing activities
- D) financing activities, investing activities, and operating activities

Answer: B

156) All of the following would be considered investing activities on the statement of cash flows EXCEPT for:

- A) the payment of cash dividends.
- B) the sale of equipment for cash.
- C) the purchase of equipment for cash.
- D) purchase of land for cash.

Answer: A

157) Examples of financing activities on the statement of cash flows do NOT include:

- A) payment of dividends.
- B) repurchase of company's own stock.
- C) sale of a piece of equipment for cash.
- D) payment of note payable.

Answer: C

158) Which of the following would be considered a financing activity that decreases cash on the statement of cash flows?

- A) The company pays a long-term loan.
- B) The company sells common stock.
- C) The company pays its monthly utility bill.
- D) The company purchases a building.

Answer: A

- 159) A company's main source of cash should be:
 A) operating activities. B) investing activities.
 C) financing activities. D) all of the above.
 Answer: A
- 160) On a statement of cash flows, cash receipts are reported as:
 A) in parenthesis. B) positive amounts.
 C) operating activities only. D) negative amounts.
 Answer: B
- 161) All of the following line items are found on the income statement EXCEPT for:
 A) interest expense. B) cost of product sold.
 C) operating expense. D) dividends declared.
 Answer: D
- 162) All of the following line items are found on the balance sheet EXCEPT for:
 A) dividends declared. B) current portion of long-term borrowings.
 C) treasury stock. D) accounts payable.
 Answer: A
- 163) All of the following line items are found on the statement of cash flows EXCEPT for:
 A) net cash used in investing activities. B) net cash provided in operating activities.
 C) total stockholders' equity. D) net cash used in financing activities.
 Answer: C
- 164) Current assets as reported on the balance sheet do NOT include:
 A) long-term investments. B) prepaid insurance.
 C) inventory. D) cash equivalents.
 Answer: A
- 165) Current liabilities as reported on the balance sheet do NOT include:
 A) salaries payable. B) current maturities of long-term debt.
 C) income taxes payable. D) treasury stock.
 Answer: D
- 166) Stockholders' equity as reported on the balance sheet does NOT include:
 A) short-term investments. B) common stock.
 C) additional paid-in capital. D) retained earnings.
 Answer: A
- 167) The ending balance of Retained Earnings is reported on the:
 A) Statement of Retained Earnings. B) Balance Sheet.
 C) Income Statement. D) A and B.
 Answer: D
- 168) The ending balance of Cash and Cash Equivalents is reported on the:
 A) Statement of Cash Flows. B) Statement of Retained Earnings.
 C) Balance Sheet. D) A and C.
 Answer: D

169) The Income Statement is used to prepare the:

- A) Statement of Retained Earnings only.
- B) Statement of Retained Earnings and Statement of Cash Flows.
- C) Balance Sheet only.
- D) Statement of Cash Flows only.

Answer: B

170) The Statement of Retained Earnings is used to prepare the:

- A) Statement of Assets.
- B) Income Statement.
- C) Balance Sheet.
- D) Statement of Cash Flows.

Answer: C

171) The ending balance of cash and cash equivalents is found on the Statement of Cash Flows and the:

- A) Statement of Retained Earnings.
- B) Income Statement.
- C) Balance Sheet.
- D) Statement of Stockholders' Equity.

Answer: C

172) The Statement of Retained Earnings is used to prepare the:

- A) Balance Sheet.
- B) Statement of Cash Flows.
- C) Income Statement.
- D) Statement of Earnings and Distributions.

Answer: A

173) The Balance Sheet is used to prepare the:

- A) Statement of Cash Flows.
- B) Income Statement.
- C) Statement of Stockholders' Equity.
- D) Statement of Retained Earnings.

Answer: A

174) Dividends declared are reported on the:

- A) Statement of Assets.
- B) Balance Sheet.
- C) Income Statement.
- D) Statement of Retained Earnings.

Answer: D

175) The net loss for a company is reported on the:

- A) Statement of Cash Flows.
- B) Income Statement.
- C) Statement of Retained Earnings.
- D) all of the above.

Answer: D

176) Potter Company reports the following line items:

Long-Term Notes Payable	\$50,000
Accounts Receivable	\$28,000
Accounts Payable	\$37,000
Building	\$55,000
Cash and Cash Equivalents	\$80,000
Salaries Expense	\$21,500
Common Stock	\$27,000
Interest Payable	\$1,500
Land	\$40,000
Short-term Investments	\$5,000
Income Taxes Payable	\$10,000
Equipment	\$59,500
Supplies	\$5,000
Service Revenue	\$106,000
Supplies Expense	\$18,000
Utilities Expense	\$8,500
Income Tax Expense	\$12,000

What is net income?

A) \$27,000

B) \$67,500

C) \$106,000

D) \$46,000

Answer: D

177) Connar Company reports the following accounts and balances at year end:

Long-Term Notes Payable	\$150,000
Accounts Receivable	\$28,000
Accounts Payable	\$37,000
Building	\$55,000
Cash and Cash Equivalents	\$83,000
Salaries Expense	\$20,500
Common Stock	\$22,000
Interest Payable	\$1,500
Land	\$40,000
Short-term Investments	\$9,000
Income Taxes Payable	\$12,000
Equipment	\$59,500
Supplies	\$9,000
Service Revenue	\$99,000
Supplies Expense	\$18,000
Utilities Expense	\$8,500
Income Tax Expense	\$10,000

What is the total amount of current assets at the end of the year?

A) \$111,000

B) \$83,000

C) \$129,000

D) \$141,000

Answer: C

178) Wetzel Company has the following accounts and balances at the end of the fiscal year:

Long-Term Notes Payable	\$150,000
Accounts Receivable	\$30,000
Accounts Payable	\$41,000
Building	\$55,000
Cash and Cash Equivalents	\$38,000
Salaries Expense	\$20,500
Common Stock	\$22,000
Interest Payable	\$4,500
Land	\$43,000
Short-term Investments	\$30,000
Income Taxes Payable	\$10,000
Equipment	\$59,500
Supplies	\$25,000
Service Revenue	\$99,000
Supplies Expense	\$38,000
Utilities Expense	\$28,500
Income Tax Expense	\$25,000

What is the total amount of liabilities at the end of the year?

- A) \$110,500 B) \$205,500 C) \$176,000 D) \$55,500

Answer: B

179) Kolander Company has the following accounts and balances at the end of the year:

Long-Term Notes Payable	\$59,000
Accounts Receivable	\$28,000
Accounts Payable	\$42,000
Building	\$59,000
Cash and Cash Equivalents	\$85,000
Common Stock	\$126,000
Interest Payable	\$5,500
Land	\$41,000
Short-term Investments	\$8,000
Income Taxes Payable	\$11,000
Equipment	\$61,500
Supplies	\$6,000

What is the amount of Retained Earnings at the end of the year?

- A) \$117,500 B) \$171,000 C) \$162,500 D) \$45,000

Answer: D

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

180) Baker Corporation operates retail stores and has decided to expand its operations. The company must decide where to locate and how to finance the expansion. Identify the financial statement where the decision makers can find the following information about Baker.

Information requested	Financial statement
Current liabilities	
Repayments of borrowed funds	
Receivables	
Cost of goods sold	
Prepaid expenses	
Net increase (decrease) in cash	

Answer:

Information requested	Financial statement
Current liabilities	Balance sheet
Repayments of borrowed funds	Statement of cash flows
Receivables	Balance sheet
Cost of goods sold	Income statement
Prepaid expenses	Balance sheet
Net increase (decrease) in cash	Statement of cash flows

181) List the required financial statements and state what each measures.

Answer: Income Statement measures operating performance.
 Statement of Retained Earnings measures what was done with net income.
 Balance Sheet measures financial position.
 Statement of Cash Flows measures cash receipts and cash payments.

182) Wetzel Company has the following accounts and balances at the end of the fiscal year:

Retained Earnings (Beginning Balance)	\$54,000
Cash	\$10,000
Receivables	\$12,000
Dividends Declared	\$10,000
Accounts Payable	\$15,000
Common Stock	\$60,000
Long-term Investments	\$108,500
Service Revenue	\$99,000
Supplies Expense	\$38,000

Prepare the Income Statement, Statement of Retained Earnings, and Balance Sheet.

Income Statement

Answer:	Current Liabilities	
	Accounts Payable	\$15,000
	STOCKHOLDERS' EQUITY	
	Common Stock	\$60,000
	Retained Earnings	55,500
	Total Stockholders' Equity	\$115,500
	Total Liabilities and Stockholders' Equity	\$130,500

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

183) The three factors that influence business and accounting decisions are economic, legal, and financial.

Answer: True False

184) The decision framework for making ethical judgments provides general guidance for everyone, regardless of profession or industry.

Answer: True False

185) The American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct contains basic principles that can only be applied to CPAs.

Answer: True False

186) The American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct contains basic principles that provide guidance to all of its members in the performance of their professional duties.

Answer: True False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

187) The three factors that influence business and accounting decisions are:

- A) judgment, cost/benefit analysis, and cultural backgrounds.
- B) economic, legal, and ethical.
- C) legal implications, socioeconomic backgrounds, profit maximization.
- D) minimizing costs, maximizing profits and cost/benefit tradeoff.

Answer: B

188) The _____ factor recognizes that while certain actions might be both economically profitable and legal, they still may not be right.

- A) ethical
- B) economic
- C) profitability
- D) legal

Answer: A

189) Complicating factors for a global business include:

- A) a foreign government threatening to take over the company's plant.
- B) what is ethical in one country may not be ethical in another country.
- C) what is legal in one country may not be legal in another country.
- D) all of the above.

Answer: D

- 190) The economic factor in decision making requires the decision maker to:
- A) maximize the economic benefit to the corporation or nonprofit entity.
 - B) maximize the economic benefit to the decision maker.
 - C) maximize the corporation's profits.
 - D) minimize the corporation's costs.

Answer: B

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 191) Regarding the decision framework for making ethical accounting judgments, state the guidelines for each of the following decisions.

1. What is the issue?
2. Who are the stakeholders, and what are the consequences of the decision to each?

Answer: 1. What is the issue?

The issue will usually deal with making a judgment about an accounting measurement or disclosure that has significant economic consequences, often to numerous parties.

2. Who are the stakeholders, and what are the consequences of the decision to each?

Stakeholders are anyone who might be impacted by the decision — you, your company, and potential user of the information (investors, creditors, and regulatory agencies). Consequences can be economic, legal, or ethical in nature.

- 192) The American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct contains basic principles that provide guidance to all members in the performance of their professional duties. List three of these principles. Briefly discuss how each of these three principles affects AICPA members.

Answer: Responsibilities principle — In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.

Public interest principle — Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism.

Integrity principle — To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.

Objectivity and independence principle — A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities.

Due care principle — A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.