Chapter 01

A Framework for Financial Accounting

**True / False Questions**

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| 1. | Accounting is a system of maintaining records of a company's operations and communicating that information to decision makers.    True    False |

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| 2. | Accounting information is used by investors to decide whether to invest in a company's stock.    True    False |

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| 3. | Accounting information is used by creditors to decide whether to invest in a company's stock.    True    False |

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| 4. | The primary functions of financial accounting are to measure business activities of a company and to communicate those measurements to internal parties for decision-making purposes.    True    False |

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| 5. | Financing activities are transactions involving externals sources of funding.    True    False |

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| 6. | Investing activities include the purchase and sale of long-term resources.    True    False |

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| 7. | Operating activities include transactions that relate to the primary operations of the company.    True    False |

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| 8. | A corporation is an entity that is legally separate from its owners.    True    False |

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| 9. | Cash, inventory, supplies, and buildings are examples of liabilities.    True    False |

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| 10. | Amounts owed to suppliers, employees, the government in the form of taxes, and utility companies are examples of liabilities.     True    False |

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| 11. | If total assets of a company equal $12,000 and total stockholders' equity equals $4,000, then total liabilities equal $8,000.     True    False |

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| 12. | If total liabilities of a company equal $16,000 and total stockholders' equity equals $9,000, then total assets equal $7,000.    True    False |

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| 13. | The accounting equation shows that a company's resources equal creditors' and owners' claims to those resources.    True    False |

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| 14. | The costs related to rent, utilities, and salaries in the current reporting period are examples of liabilities.    True    False |

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| 15. | The difference between revenues and expenses is referred to as net income or net loss.    True    False |

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| 16. | If a company reports revenues of $17,000 and expenses of $12,000, then net income equals $5,000.    True    False |

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| 17. | Expenses are regular cash payments by a corporation to its stockholders.    True    False |

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| 18. | Dividends represent a return of the company's profits to its owners, the stockholders.    True    False |

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| 19. | One of the differences between a partnership and a corporation is that owners of a partnership have limited liability.    True    False |

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| 20. | Limited liability means the stockholders are not held personally responsible for the financial obligations of the corporation.    True    False |

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| 21. | One advantage of the corporate form of business is double taxation.    True    False |

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| 22. | Double taxation refers to a corporation's income being taxed twice—first when the company pays corporate income taxes on income it earns, and then again when stockholders pay personal income taxes when the company distributes that income as dividends to them.    True    False |

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| 23. | Financial statements are periodic reports published by the company for the purpose of providing information to managers.    True    False |

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| 24. | The balance sheet is a financial statement that reports the company's revenues and expenses over an interval of time.    True    False |

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| 25. | The statement of stockholders' equity is a financial statement that summarizes the changes in stockholders' equity over an interval of time.    True    False |

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| 26. | The two primary components of stockholders' equity include common stock and revenue.    True    False |

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| 27. | Common stock represents an external source of stockholders' equity, whereas retained earnings represents an internal source.    True    False |

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| 28. | Retained earnings represents the cumulative amount of net income, over the life of the company, that has not been distributed to stockholders as dividends.    True    False |

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| 29. | Dividends are considered an expense in running the business and reported in the income statement.    True    False |

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| 30. | All cash transactions reported in the statement of cash flows are classified as (1) operating activities, (2) investing activities, or (3) financing activities.    True    False |

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| 31. | Investing cash flows generally include cash receipts and cash payments for transactions involving revenue and expense activities during the period.    True    False |

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| 32. | Operating cash flows generally include cash transactions for the purchase and sale of investments and long-term assets.    True    False |

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| 33. | Financing cash flows include cash transactions with lenders, such as borrowing money and repaying debt, and with stockholders, such as issuing stock and paying dividends.    True    False |

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| 34. | Any transaction that affects the income statement ultimately affects the balance sheet through the balance of retained earnings.    True    False |

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| 35. | Financial accounting has an impact on everyday business decisions as well as wide-ranging economic consequences.    True    False |

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| 36. | Investors and creditors rely heavily on financial accounting information in making investment and lending decisions.    True    False |

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| 37. | In general, if a company's net income is increasing, so will its stock price.    True    False |

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| 38. | The rules of financial accounting are called Generally Accepted Accounting Principles (GAAP).    True    False |

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| 39. | Financial accounting and reporting standards in the United States are established primarily by the Financial Accounting Standards Board (FASB).    True    False |

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| 40. | The 1933 Securities Act and the 1934 Securities Exchange Act were designed to restore investor confidence in financial accounting following the stock market crash in 1929.    True    False |

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| 41. | The 1934 Securities Exchange Act gives the Securities and Exchange Commission (SEC) the power to require companies that publicly trade their stock to prepare periodic financial statements for distribution to investors and creditors.    True    False |

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| 42. | The role of independent auditors is to help ensure that management has in fact appropriately applied Generally Accepted Accounting Principles (GAAP) in preparing the company's financial statements.    True    False |

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| 43. | Auditors are trained individuals hired by a company as an independent party to express a professional opinion of the fairness of that company's financial statements.    True    False |

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| 44. | The primary objective of financial accounting is to provide useful information to managers in making decisions.    True    False |

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| 45. | Public accounting firms are professional service firms that traditionally have focused on three areas: auditing, tax preparation/planning, and business consulting.    True    False |

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| 46. | The Financial Accounting Standards Board's conceptual framework does not prescribe Generally Accepted Accounting Principles. It provides an underlying foundation for the development of accounting standards and interpretation of accounting information.    True    False |

**Multiple Choice Questions**

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| 47. | What is the primary purpose of financial accounting?      |  |  | | --- | --- | | A. | Determine the amount of tax liability owed to the government. |  |  |  | | --- | --- | | B. | Communicate business activities to internal management. |  |  |  | | --- | --- | | C. | Measure business activities and communicate those measures to external users to make decisions. |  |  |  | | --- | --- | | D. | Measure the profitability of the company in order to assist employees with making decisions. | |

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| 48. | The primary purpose(s) of financial accounting is(are) to:      |  |  | | --- | --- | | A. | Measure and record business transactions. |  |  |  | | --- | --- | | B. | Prepare federal and state tax returns. |  |  |  | | --- | --- | | C. | Communicate financial results to investors and creditors. |  |  |  | | --- | --- | | D. | Both measure and communicate financial information to external parties. | |

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| 49. | Which definition below best describes financial accounting?      |  |  | | --- | --- | | A. | Process of measuring income taxes owed to the government. |  |  |  | | --- | --- | | B. | System of maintaining communication with a company's customers and suppliers. |  |  |  | | --- | --- | | C. | Procedures designed to enhance the company's image to potential investors. |  |  |  | | --- | --- | | D. | Measuring business activities and communicating them to external parties. | |

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| 50. | Financial accounting does not deal with which of the following?      |  |  | | --- | --- | | A. | Measuring a company's economic activity. |  |  |  | | --- | --- | | B. | Providing information to internal users. |  |  |  | | --- | --- | | C. | Preparing financial reports. |  |  |  | | --- | --- | | D. | Communicating financial results to investors. | |

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| 51. | Financial accounting:      |  |  | | --- | --- | | A. | Provides information primarily for external decision makers. |  |  |  | | --- | --- | | B. | Provides information primarily for a company's employees. |  |  |  | | --- | --- | | C. | Provides information primarily for the use of managers of the company. |  |  |  | | --- | --- | | D. | Is primarily used to compute a company's tax obligation. | |

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| 52. | The primary focus for financial accounting information is to provide information useful for:   |  |  |  | | --- | --- | --- | |  | **Investing decisions** | **Credit decisions** | | a. | Yes | Yes | | b. | Yes | No | | c. | No | Yes | | d. | No | No |       |  |  | | --- | --- | | A. | Investment decisions and credit decisions. |  |  |  | | --- | --- | | B. | Investment decisions but not credit decisions. |  |  |  | | --- | --- | | C. | Credit decisions but not investment decisions. |  |  |  | | --- | --- | | D. | Neither investment decisions nor credit decisions | |

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| 53. | Which of the following groups is not among the external users for whom financial statements are prepared?       |  |  | | --- | --- | | A. | Creditors. |  |  |  | | --- | --- | | B. | Regulators. |  |  |  | | --- | --- | | C. | Investors. |  |  |  | | --- | --- | | D. | Managers. | |

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| 54. | The form of business organization that is legally separate from its owners is a:      |  |  | | --- | --- | | A. | Partnership. |  |  |  | | --- | --- | | B. | Sole proprietorship. |  |  |  | | --- | --- | | C. | Corporation. |  |  |  | | --- | --- | | D. | Separation entity. | |

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| 55. | Which business form has the advantage of limited liability?      |  |  | | --- | --- | | A. | Corporation. |  |  |  | | --- | --- | | B. | Sole proprietorship. |  |  |  | | --- | --- | | C. | Partnership. |  |  |  | | --- | --- | | D. | All business forms share equal limited liability. | |

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| 56. | Limited liability means:      |  |  | | --- | --- | | A. | Stockholders of a corporation are not obligated to pay the corporation's debts out of their own pocket. |  |  |  | | --- | --- | | B. | Liabilities of a company cannot exceed its assets. |  |  |  | | --- | --- | | C. | Companies are not allowed to borrow unless they are profitable. |  |  |  | | --- | --- | | D. | Companies are less likely to be sued if they are formed as a corporation. | |

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| 57. | One disadvantage of the corporate form of business is:      |  |  | | --- | --- | | A. | Limited liability. |  |  |  | | --- | --- | | B. | Access to more capital. |  |  |  | | --- | --- | | C. | Smaller in size. |  |  |  | | --- | --- | | D. | Double taxation. | |

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| 58. | Which of the following is an operating activity?      |  |  | | --- | --- | | A. | Issuing common stock. |  |  |  | | --- | --- | | B. | Paying dividends. |  |  |  | | --- | --- | | C. | Borrowing cash from a bank to acquire a factory. |  |  |  | | --- | --- | | D. | Paying electricity bills for the month. | |

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| 59. | How many of the following transactions are operating activities?  Borrowed $50,000 from the bank Purchased $12,000 in supplies Provide services to customers for $27,000 Paid the utility bill of $750 Purchased a delivery truck for $12,000 Received $25,000 from issuing common stock      |  |  | | --- | --- | | A. | One. |  |  |  | | --- | --- | | B. | Two. |  |  |  | | --- | --- | | C. | Three. |  |  |  | | --- | --- | | D. | Four. | |

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| 60. | Transactions related to the primary business activities of the company, such as selling goods and services to customers, are referred to as:      |  |  | | --- | --- | | A. | Investing activities. |  |  |  | | --- | --- | | B. | Operating activities. |  |  |  | | --- | --- | | C. | Management activities. |  |  |  | | --- | --- | | D. | Financing activities. | |

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| 61. | Stimpleton Company engages in the following cash payments:   |  |  | | --- | --- | | Purchase equipment | $2,000 | | Pay rent | 500 | | Repay loan to the bank | 5,000 | | Pay worker's salaries | 1,000 |   What is the total amount of cash paid for operating activities?       |  |  | | --- | --- | | A. | $6,000. |  |  |  | | --- | --- | | B. | $2,000. |  |  |  | | --- | --- | | C. | $7,000. |  |  |  | | --- | --- | | D. | $1,500. | |

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| 62. | Accountants are responsible for measuring various operating, investing and financing activities. Which of the following correctly matches the activity with its type?      |  |  | | --- | --- | | A. | Investing - paying utilities for the month. |  |  |  | | --- | --- | | B. | Investing - purchasing land. |  |  |  | | --- | --- | | C. | Operating - paying dividends to stockholders. |  |  |  | | --- | --- | | D. | Financing - selling equipment for cash. | |

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| 63. | Transactions of a company that include the purchase and sale of long-term assets are referred to as:      |  |  | | --- | --- | | A. | Investing activities. |  |  |  | | --- | --- | | B. | Financing activities. |  |  |  | | --- | --- | | C. | Expenditure activities. |  |  |  | | --- | --- | | D. | Operating activities. | |

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| 64. | McGill purchases additional office equipment to better serves its customers. This purchase is classified as what type of activity?      |  |  | | --- | --- | | A. | Company activity. |  |  |  | | --- | --- | | B. | Financing activity. |  |  |  | | --- | --- | | C. | Investing activity. |  |  |  | | --- | --- | | D. | Operating activity. | |

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| 65. | Transactions of a company involving external sources of funding are referred to as:      |  |  | | --- | --- | | A. | Investing activities. |  |  |  | | --- | --- | | B. | Financing activities. |  |  |  | | --- | --- | | C. | External activities. |  |  |  | | --- | --- | | D. | Operating activities. | |

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| 66. | Financing activities include:      |  |  | | --- | --- | | A. | Primary operations such as selling goods to customers. |  |  |  | | --- | --- | | B. | Transactions with company employees. |  |  |  | | --- | --- | | C. | Transactions involving external sources of funding. |  |  |  | | --- | --- | | D. | The purchase and sale of long-term assets. | |

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| 67. | Financing activities include:      |  |  | | --- | --- | | A. | The purchase of a building. |  |  |  | | --- | --- | | B. | Issuing common stock to stockholders. |  |  |  | | --- | --- | | C. | Transactions with company employees. |  |  |  | | --- | --- | | D. | Selling goods or services to customers. | |

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| 68. | The accounting equation is defined as:      |  |  | | --- | --- | | A. | Assets = Liabilities + Stockholders' Equity. |  |  |  | | --- | --- | | B. | Assets = Liabilities - Stockholders' Equity. |  |  |  | | --- | --- | | C. | Net Income = Revenues - Expenses. |  |  |  | | --- | --- | | D. | Liabilities + Revenues = Assets. | |

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| 69. | Which statement below best describes the accounting equation?      |  |  | | --- | --- | | A. | The change in retained earnings equals net income less dividends. |  |  |  | | --- | --- | | B. | Equality of revenue and expense transactions over time. |  |  |  | | --- | --- | | C. | Resources of the company equal creditors' and owners' claims to those resources. |  |  |  | | --- | --- | | D. | Financing activities equal investing and operating activities. | |

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| 70. | If a company has stockholders' equity of $60,000 at the end of the year, which of the following statements must be true?      |  |  | | --- | --- | | A. | The company's assets exceed liabilities by $60,000. |  |  |  | | --- | --- | | B. | The company has issued $60,000 of common stock. |  |  |  | | --- | --- | | C. | Net income for the year equals $60,000. |  |  |  | | --- | --- | | D. | Total revenues during the year equal $60,000. | |

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| 71. | Emmitt had the following final balances after the first year of operations: assets, $55,000; stockholders' equity, $25,000; dividends, $3,000; and net income, $10,000. What is the amount of Emmitt's liabilities?      |  |  | | --- | --- | | A. | $55,000. |  |  |  | | --- | --- | | B. | $30,000. |  |  |  | | --- | --- | | C. | $13,000. |  |  |  | | --- | --- | | D. | $7,000. | |

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| 72. | An alternative form of the accounting equation is:      |  |  | | --- | --- | | A. | Net Income = Revenues - Expenses. |  |  |  | | --- | --- | | B. | Stockholders' Equity = Assets + Liabilities. |  |  |  | | --- | --- | | C. | Assets = Liabilities - Stockholders' Equity. |  |  |  | | --- | --- | | D. | Assets - Liabilities = Stockholders' Equity. | |

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| 73. | The accounts that represent the resources of the company are called:      |  |  | | --- | --- | | A. | Liabilities. |  |  |  | | --- | --- | | B. | Revenues. |  |  |  | | --- | --- | | C. | Expenses. |  |  |  | | --- | --- | | D. | Assets. | |

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| 74. | The assets of a company represent:      |  |  | | --- | --- | | A. | Amounts owed to creditors. |  |  |  | | --- | --- | | B. | Sales of goods or services to customers. |  |  |  | | --- | --- | | C. | Resources that will be used to benefit the company. |  |  |  | | --- | --- | | D. | Investments by stockholders. | |

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| 75. | Which of the following accounts represents a resource of the company?      |  |  | | --- | --- | | A. | Common stock. |  |  |  | | --- | --- | | B. | Service revenue. |  |  |  | | --- | --- | | C. | Accounts receivable. |  |  |  | | --- | --- | | D. | Salaries expense. | |

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| 76. | Which of the following does not represent an asset of a company?      |  |  | | --- | --- | | A. | Supplies held by the company. |  |  |  | | --- | --- | | B. | Amounts owed to suppliers. |  |  |  | | --- | --- | | C. | Equipment owned and used for operations. |  |  |  | | --- | --- | | D. | Amounts receivable from customers. | |

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| 77. | Creditors' claims to a corporation's resources are referred to as:      |  |  | | --- | --- | | A. | Dividends. |  |  |  | | --- | --- | | B. | Assets. |  |  |  | | --- | --- | | C. | Liabilities. |  |  |  | | --- | --- | | D. | Stockholders' equity. | |

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| 78. | Liabilities are best defined as:      |  |  | | --- | --- | | A. | Amounts the company expects to collect in the future from customers. |  |  |  | | --- | --- | | B. | Debts or obligations the company owes resulting from past transactions. |  |  |  | | --- | --- | | C. | The amounts that owners have invested in the business. |  |  |  | | --- | --- | | D. | Payments to stockholders. | |

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| 79. | Amounts owed to suppliers for supplies purchased on account are defined as a(n):      |  |  | | --- | --- | | A. | Revenue. |  |  |  | | --- | --- | | B. | Asset. |  |  |  | | --- | --- | | C. | Liability. |  |  |  | | --- | --- | | D. | Expense. | |

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| 80. | Which of the following does not represent a liability of a company?      |  |  | | --- | --- | | A. | Salaries owed to employees. |  |  |  | | --- | --- | | B. | Taxes owed to the government. |  |  |  | | --- | --- | | C. | Amounts owed to suppliers. |  |  |  | | --- | --- | | D. | All of the other answers are liabilities. | |

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| 81. | The accounts that represent resources owed to creditors are called:      |  |  | | --- | --- | | A. | Assets. |  |  |  | | --- | --- | | B. | Liabilities. |  |  |  | | --- | --- | | C. | Dividends. |  |  |  | | --- | --- | | D. | Stockholders' equity. | |

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| 82. | Liabilities can be best described as:      |  |  | | --- | --- | | A. | The amount of expenses over the past year. |  |  |  | | --- | --- | | B. | The amount expected to be distributed to stockholders. |  |  |  | | --- | --- | | C. | The amount owed to creditors. |  |  |  | | --- | --- | | D. | The amount of services provided to customers during the year. | |

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| 83. | The stockholders' interest in a corporation is called:      |  |  | | --- | --- | | A. | Dividends. |  |  |  | | --- | --- | | B. | Assets. |  |  |  | | --- | --- | | C. | Liabilities. |  |  |  | | --- | --- | | D. | Stockholders' equity. | |

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| 84. | Stockholders' claims to the company's resources are referred to as:      |  |  | | --- | --- | | A. | Stockholders' equity. |  |  |  | | --- | --- | | B. | Revenues. |  |  |  | | --- | --- | | C. | Assets. |  |  |  | | --- | --- | | D. | Liabilities. | |

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| 85. | Using the information below from the accounting records of Thomas Corporation, stockholders' claims to the company's resources amount to:   |  |  | | --- | --- | | Assets | $1,200,000 | | Liabilities | $800,000 | | Net income | $100,000 | | Retained earnings | $250,000 |       |  |  | | --- | --- | | A. | $1,200,000. |  |  |  | | --- | --- | | B. | $800,000. |  |  |  | | --- | --- | | C. | $250,000. |  |  |  | | --- | --- | | D. | $400,000. | |

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| 86. | Which of the following best describes revenue?      |  |  | | --- | --- | | A. | Resources of a company. |  |  |  | | --- | --- | | B. | Sales of goods and services to a customer. |  |  |  | | --- | --- | | C. | Cash received from a customer. |  |  |  | | --- | --- | | D. | Dividends paid to stockholders. | |

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| 87. | The costs of providing goods and services to customers are referred to as:      |  |  | | --- | --- | | A. | Assets. |  |  |  | | --- | --- | | B. | Expenses. |  |  |  | | --- | --- | | C. | Liabilities. |  |  |  | | --- | --- | | D. | Revenues. | |

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| 88. | The costs associated with producing revenues are referred to as:      |  |  | | --- | --- | | A. | Dividends. |  |  |  | | --- | --- | | B. | Assets. |  |  |  | | --- | --- | | C. | Liabilities. |  |  |  | | --- | --- | | D. | Expenses. | |

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| 89. | Net income can best be described as:      |  |  | | --- | --- | | A. | Net cash received by a company during the year. |  |  |  | | --- | --- | | B. | Revenues minus expenses. |  |  |  | | --- | --- | | C. | The amount of profits retained in a company for the year. |  |  |  | | --- | --- | | D. | Resources of a company. | |

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| 90. | Use the following appropriate amounts to calculate net income: Revenues, $12,000; Liabilities, $5,000; Expenses, $4,000; Assets, $19,000; Dividends, $4,000.       |  |  | | --- | --- | | A. | $6,000. |  |  |  | | --- | --- | | B. | $8,000. |  |  |  | | --- | --- | | C. | $4,000. |  |  |  | | --- | --- | | D. | $14,000. | |

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| 91. | The account type that represents payments to stockholders is called:       |  |  | | --- | --- | | A. | Liabilities. |  |  |  | | --- | --- | | B. | Assets. |  |  |  | | --- | --- | | C. | Stockholders' equity. |  |  |  | | --- | --- | | D. | Dividends. | |

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| 92. | Dividends represent:      |  |  | | --- | --- | | A. | Resources of the company. |  |  |  | | --- | --- | | B. | Cash payments to stockholders. |  |  |  | | --- | --- | | C. | Amounts owed to creditors. |  |  |  | | --- | --- | | D. | Expenses of operating the company. | |

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| 93. | The equation best describing the income statement is:      |  |  | | --- | --- | | A. | Revenues - Expenses = Net Income. |  |  |  | | --- | --- | | B. | Assets = Revenues - Expenses. |  |  |  | | --- | --- | | C. | Assets = Liabilities + Stockholders' Equity. |  |  |  | | --- | --- | | D. | Revenues + Expenses = Net Income. | |

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| 94. | Expenses are shown in which of the following statements?      |  |  | | --- | --- | | A. | Income statement. |  |  |  | | --- | --- | | B. | Statement of cash flows. |  |  |  | | --- | --- | | C. | Balance sheet. |  |  |  | | --- | --- | | D. | Statement of stockholders' equity. | |

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| 95. | Which of the following items would not appear in an income statement?      |  |  | | --- | --- | | A. | Salaries expense. |  |  |  | | --- | --- | | B. | Advertising expense. |  |  |  | | --- | --- | | C. | Service revenue. |  |  |  | | --- | --- | | D. | Cash. | |

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| 96. | Which of the following items would not appear in an income statement?      |  |  | | --- | --- | | A. | Delivery Expense. |  |  |  | | --- | --- | | B. | Accounts Payable. |  |  |  | | --- | --- | | C. | Service Revenue. |  |  |  | | --- | --- | | D. | Utilities Expense. | |

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| 97. | Consider the following account balances of the Shattuck Law Firm at the end of the year:   |  |  | | --- | --- | | Accounts Payable | $4,400 | | Salaries Expense | 12,800 | | Cash | 1,700 | | Common Stock | 2,400 | | Service Revenue | 8,300 | | Supplies | 4,300 | | Retained Earnings | 1,100 | | Utilities Expense | 5,000 |   How many of these accounts would appear in Shattuck's year-end income statement?       |  |  | | --- | --- | | A. | Five. |  |  |  | | --- | --- | | B. | Four. |  |  |  | | --- | --- | | C. | Three. |  |  |  | | --- | --- | | D. | Two. | |

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| 98. | Net income (loss) appears in which two financial statements?      |  |  | | --- | --- | | A. | Balance sheet and income statement. |  |  |  | | --- | --- | | B. | Income statement and statement of stockholders' equity. |  |  |  | | --- | --- | | C. | Statement of stockholders' equity and balance sheet. |  |  |  | | --- | --- | | D. | Net income appears in only one financial statement. | |

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| 99. | Which of the following items is reported in the statement of stockholders' equity?      |  |  | | --- | --- | | A. | Total assets. |  |  |  | | --- | --- | | B. | Total expenses. |  |  |  | | --- | --- | | C. | Net income. |  |  |  | | --- | --- | | D. | Operating cash flows. | |

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| 100. | Which of the following accounts appears in the statement of stockholders' equity?      |  |  | | --- | --- | | A. | Accounts Payable. |  |  |  | | --- | --- | | B. | Accounts Receivable. |  |  |  | | --- | --- | | C. | Common Stock. |  |  |  | | --- | --- | | D. | Supplies. | |

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| 101. | Which of the following accounts appears in the statement of stockholders' equity?      |  |  | | --- | --- | | A. | Supplies. |  |  |  | | --- | --- | | B. | Cash. |  |  |  | | --- | --- | | C. | Salaries Payable. |  |  |  | | --- | --- | | D. | Retained Earnings. | |

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| 102. | Which one of the following statements regarding financial reports is correct?      |  |  | | --- | --- | | A. | The balance sheet classifies all assets according to operating, investing, and financing activities. |  |  |  | | --- | --- | | B. | The income statement is used to show that a company's resources equal claims to those resources. |  |  |  | | --- | --- | | C. | The statement of stockholders' equity updates the balances of common stock and retained earnings for related transactions during the year. |  |  |  | | --- | --- | | D. | The statement of cash flows shows cash inflows and outflows from operating activities only. | |

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| 103. | Which of the following best explains the meaning of total stockholders' equity?      |  |  | | --- | --- | | A. | The difference between total revenues and total expenses, less dividends for the year. |  |  |  | | --- | --- | | B. | The amount of common stock less dividends over the life of the company. |  |  |  | | --- | --- | | C. | All revenues, expenses, and dividends over the life of the company. |  |  |  | | --- | --- | | D. | The amount of capital invested by stockholders plus profits retained over the life of the company. | |

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| 104. | Which of the following statements regarding financial reports is not correct?      |  |  | | --- | --- | | A. | A balance sheet contains assets, liabilities, and stockholders' equity information. |  |  |  | | --- | --- | | B. | An income statement shows revenues and expenses. |  |  |  | | --- | --- | | C. | A statement of stockholders' equity reports revenues, net income, and dividends information. |  |  |  | | --- | --- | | D. | A statement of cash flows shows cash inflows and outflows from operating, investing, and financing activities. | |

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| 105. | Retained earnings at the end of the year is calculated using:      |  |  | | --- | --- | | A. | Beginning retained earnings, net income, and dividends. |  |  |  | | --- | --- | | B. | Common stock and dividends. |  |  |  | | --- | --- | | C. | Stockholders' equity, net income, and dividends. |  |  |  | | --- | --- | | D. | Net income and dividends. | |

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| 106. | DW has an ending Retained Earnings balance of $51,100. If during the year DW paid dividends of $4,300 and had net income of $22,500, then what was the beginning Retained Earnings balance?       |  |  | | --- | --- | | A. | $24,300. |  |  |  | | --- | --- | | B. | $32,900. |  |  |  | | --- | --- | | C. | $300. |  |  |  | | --- | --- | | D. | $69,300. | |

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| 107. | The ending Retained Earnings balance of Boomer Inc. decreased by $1.0 million from the beginning of the year. The company declared a dividend of $5.4 million during the year. What was the net income for the year?      |  |  | | --- | --- | | A. | $7.5 million. |  |  |  | | --- | --- | | B. | $6.4 million. |  |  |  | | --- | --- | | C. | $4.4 million. |  |  |  | | --- | --- | | D. | $1.0 million. | |

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| 108. | Given the information below about Thomas Corporation, what was the amount of dividends the company paid in the current period?   |  |  | | --- | --- | | Beginning retained earnings | $54,000 | | Ending retained earnings | $110,000 | | Decrease in cash | $10,000 | | Net income | $84,000 | | Change in stockholders’ equity | $15,000 |       |  |  | | --- | --- | | A. | $13,000. |  |  |  | | --- | --- | | B. | $110,000. |  |  |  | | --- | --- | | C. | $28,000. |  |  |  | | --- | --- | | D. | $18,000. | |

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| 109. | Given the information below about David Corporation, what was the amount of dividends the company paid in the current period?       |  |  | | --- | --- | | A. | $140,000. |  |  |  | | --- | --- | | B. | $0. |  |  |  | | --- | --- | | C. | $30,000. |  |  |  | | --- | --- | | D. | $20,000. | |

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| 110. | For the past five years, Mookie Consulting Services reported the following annual net income and dividend amounts:   |  |  |  | | --- | --- | --- | | **Year** | **Net Income** | **Dividends** | | 1 | $22,000 | $2,000 | | 2 | 17,000 | 2,000 | | 3 | 9,000 | 1,000 | | 4 | 14,000 | 3,000 | | 5 | 25,000 | 4,000 |   If Mookie had Retained Earnings of $88,000 at the end of year 5, what was the company's Retained Earnings at the beginning of Year 1?       |  |  | | --- | --- | | A. | $13,000. |  |  |  | | --- | --- | | B. | $25,000. |  |  |  | | --- | --- | | C. | $7,000. |  |  |  | | --- | --- | | D. | $1,000. | |

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| 111. | Sooner Company had a net income of $8,000, $5,000, $12,000, and $10,000 over the first four years of the company's existence. If the average annual amount of dividends paid over the last four years is $3,000, what is the ending retained earnings balance?       |  |  | | --- | --- | | A. | $47,000. |  |  |  | | --- | --- | | B. | $35,000. |  |  |  | | --- | --- | | C. | $23,000. |  |  |  | | --- | --- | | D. | $7,000. | |

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| 112. | Nina Corp. had the following net income (loss) the first three years of operation: $7,100, ($1,600), and $3,600. If the Retained Earnings balance at the end of year three is $1,100, what was the total amount of dividends paid over these three years?      |  |  | | --- | --- | | A. | $500. |  |  |  | | --- | --- | | B. | $0. |  |  |  | | --- | --- | | C. | $9,100. |  |  |  | | --- | --- | | D. | $8,000. | |

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| 113. | Aikman Company has paid dividends of $2,410, $0, $1,570 and $1,060 over the first four years of the company's existence. If Retained Earnings after year four has an ending balance of $9,700, what is the average annual amount of net income (loss) over the past four years for Aikman?      |  |  | | --- | --- | | A. | $3,685. |  |  |  | | --- | --- | | B. | $14,740. |  |  |  | | --- | --- | | C. | $840. |  |  |  | | --- | --- | | D. | $1,260. | |

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| 114. | On January 1, Gucci Brothers Inc. started the year with a $492,000 balance in Retained Earnings and a $605,000 balance in Common Stock. During the year, the company reported net income of $92,000, paid a dividend of $15,200, and issued more common stock for $27,500. What is total stockholders' equity at the end of the year?      |  |  | | --- | --- | | A. | $1,231,700. |  |  |  | | --- | --- | | B. | $1,097,000. |  |  |  | | --- | --- | | C. | $1,201,300. |  |  |  | | --- | --- | | D. | $1,588,300. | |

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| 115. | The financial statement that represents the accounting equation is the:      |  |  | | --- | --- | | A. | Income statement. |  |  |  | | --- | --- | | B. | Statement of cash flows. |  |  |  | | --- | --- | | C. | Balance sheet. |  |  |  | | --- | --- | | D. | Statement of stockholders' equity. | |

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| 116. | The equation best describing the balance sheet is:      |  |  | | --- | --- | | A. | Assets = Liabilities + Stockholders' Equity. |  |  |  | | --- | --- | | B. | Revenues - Expenses = Net Income. |  |  |  | | --- | --- | | C. | Ending Retained Earnings + Dividends = Net Income. |  |  |  | | --- | --- | | D. | Revenues + Expenses = Net Income. | |

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| 117. | The financial statement that represents activity over the entire life of the company is the:      |  |  | | --- | --- | | A. | Income statement. |  |  |  | | --- | --- | | B. | Balance sheet. |  |  |  | | --- | --- | | C. | Statement of financial accounting. |  |  |  | | --- | --- | | D. | Statement of cash flows. | |

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| 118. | Liabilities are shown in which of the following statements?      |  |  | | --- | --- | | A. | Income statement. |  |  |  | | --- | --- | | B. | Statement of cash flows. |  |  |  | | --- | --- | | C. | Balance sheet. |  |  |  | | --- | --- | | D. | Statement of stockholders' equity. | |

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| 119. | Consider the following account balances of the Shattuck Law Firm at the end of the year:   |  |  | | --- | --- | | Accounts Payable | $4,400 | | Salaries Expense | 12,800 | | Cash | 1,700 | | Common Stock | 2,400 | | Service Revenue | 8,300 | | Supplies | 4,300 | | Retained Earnings | 1,100 | | Utilities Expense | 5,000 |   How many of these accounts would appear in Shattuck's year-end balance sheet?       |  |  | | --- | --- | | A. | Five. |  |  |  | | --- | --- | | B. | Four. |  |  |  | | --- | --- | | C. | Three. |  |  |  | | --- | --- | | D. | Two. | |

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| 120. | The two categories of stockholders' equity usually found in the balance sheet of a corporation are:      |  |  | | --- | --- | | A. | Common stock and liabilities. |  |  |  | | --- | --- | | B. | Assets and liabilities. |  |  |  | | --- | --- | | C. | Common stock and retained earnings. |  |  |  | | --- | --- | | D. | Revenues and expenses. | |

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| 121. | Which of the following is not a balance sheet item?      |  |  | | --- | --- | | A. | Assets. |  |  |  | | --- | --- | | B. | Retained Earnings. |  |  |  | | --- | --- | | C. | Expenses. |  |  |  | | --- | --- | | D. | Liabilities. | |

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| 122. | Which of the following is a balance sheet item?      |  |  | | --- | --- | | A. | Net Income. |  |  |  | | --- | --- | | B. | Dividends. |  |  |  | | --- | --- | | C. | Utilities Expense. |  |  |  | | --- | --- | | D. | Cash. | |

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| 123. | Which of the following statements is NOT correct about the financial statements?      |  |  | | --- | --- | | A. | An income statement reports revenues, expenses, and net income information. |  |  |  | | --- | --- | | B. | The statement of stockholders' equity presents common stock, dividends, and retained earnings information. |  |  |  | | --- | --- | | C. | A balance sheet reports assets, liabilities, revenues, and expenses. |  |  |  | | --- | --- | | D. | The statement of cash flows shows cash inflows and outflows from operating, financing, and investing activities. | |

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| 124. | The balance sheet depicts which of the following equations?      |  |  | | --- | --- | | A. | Net income = revenue - expenses. |  |  |  | | --- | --- | | B. | Ending retained earnings = beginning retained earnings + net income - dividends. |  |  |  | | --- | --- | | C. | Assets = liabilities + stockholders' equity. |  |  |  | | --- | --- | | D. | Net cash flows = total cash inflows - total cash outflows. | |

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| 125. | Which of the following financial statements reports a company's retained earnings?      |  |  | | --- | --- | | A. | Income statement. |  |  |  | | --- | --- | | B. | Balance sheet. |  |  |  | | --- | --- | | C. | Statement of cash flows. |  |  |  | | --- | --- | | D. | All of the other answers are statements that report retained earnings. | |

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| 126. | Which of the following is not a balance sheet item?       |  |  | | --- | --- | | A. | Assets. |  |  |  | | --- | --- | | B. | Common stock. |  |  |  | | --- | --- | | C. | Retained earnings. |  |  |  | | --- | --- | | D. | Revenues. | |

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| 127. | Which of the following is not a major section in the statement of cash flows?      |  |  | | --- | --- | | A. | Cash flows from operating activities. |  |  |  | | --- | --- | | B. | Cash flows from customers. |  |  |  | | --- | --- | | C. | Cash flows from financing activities. |  |  |  | | --- | --- | | D. | Cash flows from investing activities. | |

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| 128. | Cash paid for which of the following activities would affect the amount reported for operating cash flows in the statement of cash flows?      |  |  | | --- | --- | | A. | Issuing common stock. |  |  |  | | --- | --- | | B. | Paying dividends. |  |  |  | | --- | --- | | C. | Paying electricity bill for the month. |  |  |  | | --- | --- | | D. | Borrowing cash from a bank to acquire a factory. | |

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| 129. | How many of the following transactions would affect operating cash flows reported in the statement of cash flows (all transaction involve cash)?  Borrowed $50,000 from the bank Purchased $12,000 in supplies Provide services to customers for $27,000 Paid the utility bill of $750 Purchased a delivery truck for $12,000 Received $25,000 from issuing common stock      |  |  | | --- | --- | | A. | One. |  |  |  | | --- | --- | | B. | Two. |  |  |  | | --- | --- | | C. | Three. |  |  |  | | --- | --- | | D. | Four. | |

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| 130. | Investing cash flows in the statement of cash flows would include which of the following?      |  |  | | --- | --- | | A. | Paying salaries for the month. |  |  |  | | --- | --- | | B. | Purchase of land. |  |  |  | | --- | --- | | C. | Paying dividends to stockholders. |  |  |  | | --- | --- | | D. | Selling goods or services to customers. | |

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| 131. | FlintCo purchases additional office equipment to better serves its customers. This cash purchase is reported in the statement of cash flows as what type of activity?      |  |  | | --- | --- | | A. | Company activity. |  |  |  | | --- | --- | | B. | Investing activity. |  |  |  | | --- | --- | | C. | Financing activity. |  |  |  | | --- | --- | | D. | Operating activity. | |

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| 132. | Financing cash flows in the statement of cash flows would include which of the following?      |  |  | | --- | --- | | A. | Paying salaries for the month. |  |  |  | | --- | --- | | B. | Purchase of land. |  |  |  | | --- | --- | | C. | Paying dividends to stockholders. |  |  |  | | --- | --- | | D. | Selling goods or services to customers. | |

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| 133. | Cash received from bank borrowing would be reported in the statement of cash flows as what type of activity?      |  |  | | --- | --- | | A. | Investing. |  |  |  | | --- | --- | | B. | Organizing. |  |  |  | | --- | --- | | C. | Operating. |  |  |  | | --- | --- | | D. | Financing. | |

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| 134. | If total change in cash = $44,000, net operating cash flows = $22,000, and net investing cash flows = ($13,000); then net financing cash flows =      |  |  | | --- | --- | | A. | $15,000. |  |  |  | | --- | --- | | B. | $35,000. |  |  |  | | --- | --- | | C. | $25,000. |  |  |  | | --- | --- | | D. | $45,000. | |

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| 135. | The financial statement(s) that record activity over an interval of time include the:      |  |  | | --- | --- | | A. | Income statement. |  |  |  | | --- | --- | | B. | Balance sheet. |  |  |  | | --- | --- | | C. | Balance sheet and income statement. |  |  |  | | --- | --- | | D. | Income statement and statement of cash flows. | |

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| 136. | Which of the following is the correct order for preparing the financial statements listed?      |  |  | | --- | --- | | A. | Balance sheet, statement of stockholders' equity, and income statement. |  |  |  | | --- | --- | | B. | Balance sheet, income statement, and statement of stockholders' equity. |  |  |  | | --- | --- | | C. | Statement of stockholders' equity, income statement, and balance sheet. |  |  |  | | --- | --- | | D. | Income statement, statement of stockholders' equity, and balance sheet. | |

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| 137. | In what order are the following financial statements prepared: (1) balance sheet, (2) income statement, and (3) statement of stockholders' equity?      |  |  | | --- | --- | | A. | 1, 2, 3. |  |  |  | | --- | --- | | B. | 3, 2, 1. |  |  |  | | --- | --- | | C. | 1, 3, 2. |  |  |  | | --- | --- | | D. | 2, 3, 1. | |

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| 138. | Which financial statement is typically prepared first?      |  |  | | --- | --- | | A. | Balance sheet. |  |  |  | | --- | --- | | B. | Income statement. |  |  |  | | --- | --- | | C. | Statement of stockholders' equity. |  |  |  | | --- | --- | | D. | Statement of cash flows. | |

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| 139. | Which of the following best represents value created for stockholders during the current period?      |  |  | | --- | --- | | A. | Retained earnings. |  |  |  | | --- | --- | | B. | Total assets. |  |  |  | | --- | --- | | C. | Net income. |  |  |  | | --- | --- | | D. | Stockholders' equity. | |

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| 140. | Which of the following has the single greatest impact on stock prices?      |  |  | | --- | --- | | A. | Total dividends. |  |  |  | | --- | --- | | B. | Total assets. |  |  |  | | --- | --- | | C. | Total revenues. |  |  |  | | --- | --- | | D. | Net income. | |

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| 141. | Which financial accounting number impacts stock prices more than any other single piece of information?      |  |  | | --- | --- | | A. | Retained earnings. |  |  |  | | --- | --- | | B. | Net income. |  |  |  | | --- | --- | | C. | Common stock. |  |  |  | | --- | --- | | D. | Total assets. | |

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| 142. | Which financial statement best reveals to investors and creditors information about a company's debt?      |  |  | | --- | --- | | A. | Income statement. |  |  |  | | --- | --- | | B. | Balance sheet. |  |  |  | | --- | --- | | C. | Statement of cash flows. |  |  |  | | --- | --- | | D. | Statement of stockholders' equity. | |

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| 143. | GAAP is an abbreviation for:      |  |  | | --- | --- | | A. | Generally authorized accounting procedures. |  |  |  | | --- | --- | | B. | Generally applied accounting procedures. |  |  |  | | --- | --- | | C. | Generally accepted auditing practices. |  |  |  | | --- | --- | | D. | Generally accepted accounting principles. | |

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| 144. | Generally Accepted Accounting Principles (GAAP) are best defined as:      |  |  | | --- | --- | | A. | Standards or methods for presenting financial accounting information. |  |  |  | | --- | --- | | B. | Government-mandated rules that companies must follow. |  |  |  | | --- | --- | | C. | Rules that best estimate profitability for a company. |  |  |  | | --- | --- | | D. | The group of individuals that create and enforce all accounting rules. | |

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| 145. | The body of rules and procedures that guide the measurement and communication of financial accounting information in the United States is known as:      |  |  | | --- | --- | | A. | Standards of Professional Compliance (SPC). |  |  |  | | --- | --- | | B. | Generally Accepted Accounting Principles (GAAP). |  |  |  | | --- | --- | | C. | Generally Accepted Auditing Standards (GAAS). |  |  |  | | --- | --- | | D. | Rules of Financial Reporting (RFR). | |

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| 146. | The independent, private-sector group that is primarily responsible for setting financial reporting standards in the United States is the:      |  |  | | --- | --- | | A. | FASB. |  |  |  | | --- | --- | | B. | IASB. |  |  |  | | --- | --- | | C. | SEC. |  |  |  | | --- | --- | | D. | IRS. | |

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| 147. | Financial accounting and reporting standards in the United States are established primarily by the:      |  |  | | --- | --- | | A. | Securities and Exchange Commission. |  |  |  | | --- | --- | | B. | Financial Accounting Standards Board. |  |  |  | | --- | --- | | C. | International Accounting Standards Board. |  |  |  | | --- | --- | | D. | U.S. Congress. | |

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| 148. | The private sector organization that is currently responsible for setting accounting standards in the United States is the:      |  |  | | --- | --- | | A. | Financial Accounting Standards Board. |  |  |  | | --- | --- | | B. | Accounting Principles Board. |  |  |  | | --- | --- | | C. | Securities and Exchange Commission. |  |  |  | | --- | --- | | D. | American Institute of Certified Public Accountants. | |

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| 149. | The legal authority to set accounting standards lies with the:      |  |  | | --- | --- | | A. | Financial Accounting Standards Board. |  |  |  | | --- | --- | | B. | Accounting Principles Board. |  |  |  | | --- | --- | | C. | Securities and Exchange Commission. |  |  |  | | --- | --- | | D. | American Institute of Certified Public Accountants. | |

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| 150. | The International Accounting Standards Board:      |  |  | | --- | --- | | A. | Is governed by the U.S. Securities and Exchange Commission. |  |  |  | | --- | --- | | B. | Can overrule the FASB when their policies disagree. |  |  |  | | --- | --- | | C. | Promotes the use of high-quality, understandable global accounting standards. |  |  |  | | --- | --- | | D. | Is the primary standard-setting body in the United States. | |

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| 151. | Financial accounting objectives do not include providing information:      |  |  | | --- | --- | | A. | Useful to investors and creditors in making decisions. |  |  |  | | --- | --- | | B. | To determine market values, assess profit potential, and evaluate management. |  |  |  | | --- | --- | | C. | Helpful to investors in predicting cash flows. |  |  |  | | --- | --- | | D. | That tells about a company's economic resources and claims to those resources. | |

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| 152. | Which statement below best describes the objectives of financial accounting?      |  |  | | --- | --- | | A. | Provide information that helps predict cash flows. |  |  |  | | --- | --- | | B. | Provide information about the economic resources, claims to resources and changes in resources and claims. |  |  |  | | --- | --- | | C. | Provide information that is useful in making decisions. |  |  |  | | --- | --- | | D. | All of the other answers are objectives of financial accounting. | |

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| 153. | Of the following, the most important objective for financial accounting is to provide information useful for:      |  |  | | --- | --- | | A. | Predicting cash flows. |  |  |  | | --- | --- | | B. | Determining taxable income. |  |  |  | | --- | --- | | C. | Providing accountability. |  |  |  | | --- | --- | | D. | Increasing future profits. | |

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| 154. | Independent auditors express an opinion on the:      |  |  | | --- | --- | | A. | Fairness of financial statements. |  |  |  | | --- | --- | | B. | Amount of income taxes a company owes to the government. |  |  |  | | --- | --- | | C. | Quality of the company's products. |  |  |  | | --- | --- | | D. | Quality of a company's workforce. | |

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| 155. | The term "cooking the books" refers to:       |  |  | | --- | --- | | A. | Purposely providing misleading financial information to investors and creditors. |  |  |  | | --- | --- | | B. | Hiring an auditor to provide independent verification of the fairness of financial statements. |  |  |  | | --- | --- | | C. | Filing all tax-related statements by the required deadline. |  |  |  | | --- | --- | | D. | Preparing internal budgets to plan for expenditures in the following year. | |

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| 156. | Fundamental qualitative characteristics of accounting information are:       |  |  | | --- | --- | | A. | Relevance and comparability. |  |  |  | | --- | --- | | B. | Comparability and consistency. |  |  |  | | --- | --- | | C. | Faithful representation and relevance. |  |  |  | | --- | --- | | D. | Faithful representation and consistency. | |

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| 157. | The qualitative characteristic that says accounting information can influence users' decisions by allowing them to assess past performance is:      |  |  | | --- | --- | | A. | Timeliness. |  |  |  | | --- | --- | | B. | Neutrality. |  |  |  | | --- | --- | | C. | Confirmatory value. |  |  |  | | --- | --- | | D. | Predictive value. | |

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| 158. | Accounting information that does not provide measurement bias in favor of a particular set of companies has the characteristic of:      |  |  | | --- | --- | | A. | Relevance. |  |  |  | | --- | --- | | B. | Consistency. |  |  |  | | --- | --- | | C. | Materiality. |  |  |  | | --- | --- | | D. | Neutrality. | |

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| 159. | If accounting information is considered to have faithful representation, then which of the following is true?      |  |  | | --- | --- | | A. | The information represents to users what it claims to represent. |  |  |  | | --- | --- | | B. | The information follows conservatism principles and is also material. |  |  |  | | --- | --- | | C. | The information is considered pertinent to or affects decisions. |  |  |  | | --- | --- | | D. | The information will have predictive value, feedback value, and is timely. | |

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| 160. | For accounting information to be relevant, it should possess which of the following characteristics?      |  |  | | --- | --- | | A. | Predictive value, confirmatory value, and/or materiality. |  |  |  | | --- | --- | | B. | Large in amount and timely. |  |  |  | | --- | --- | | C. | Comparability or consistency. |  |  |  | | --- | --- | | D. | Verifiability. | |

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| 161. | Materiality is based upon which factor(s)?      |  |  | | --- | --- | | A. | Timeliness of an item. |  |  |  | | --- | --- | | B. | Amount and nature of an item. |  |  |  | | --- | --- | | C. | Consistency of an item. |  |  |  | | --- | --- | | D. | Relevance of an item. | |

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| 162. | The conceptual framework's qualitative characteristic of relevance includes:      |  |  | | --- | --- | | A. | Predictive value. |  |  |  | | --- | --- | | B. | Verifiability. |  |  |  | | --- | --- | | C. | Completeness. |  |  |  | | --- | --- | | D. | Neutrality. | |

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| 163. | The conceptual framework's qualitative characteristic of faithful representation includes:      |  |  | | --- | --- | | A. | Predictive value. |  |  |  | | --- | --- | | B. | Neutrality. |  |  |  | | --- | --- | | C. | Confirmatory value. |  |  |  | | --- | --- | | D. | Comparability. | |

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| 164. | Constraints on qualitative characteristics of accounting information include:      |  |  | | --- | --- | | A. | Freedom from material error. |  |  |  | | --- | --- | | B. | Going concern. |  |  |  | | --- | --- | | C. | Neutrality. |  |  |  | | --- | --- | | D. | Cost effectiveness. | |

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| 165. | Enhancing qualitative characteristics of accounting information include:      |  |  | | --- | --- | | A. | Relevance and comparability. |  |  |  | | --- | --- | | B. | Comparability and consistency. |  |  |  | | --- | --- | | C. | Faithful representation and relevance. |  |  |  | | --- | --- | | D. | Cost effectiveness and materiality. | |

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| 166. | The major underlying assumptions of accounting include all of the following except:      |  |  | | --- | --- | | A. | Economic entity. |  |  |  | | --- | --- | | B. | Monetary unit. |  |  |  | | --- | --- | | C. | Legal liability. |  |  |  | | --- | --- | | D. | Going concern. | |

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| 167. | If a company has gone bankrupt, its financial statements likely violate the:      |  |  | | --- | --- | | A. | Periodicity assumption. |  |  |  | | --- | --- | | B. | Monetary unit assumption. |  |  |  | | --- | --- | | C. | Going concern assumption. |  |  |  | | --- | --- | | D. | Economic entity assumption. | |

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| 168. | The assumption that a business will continue to operate into the future is the:      |  |  | | --- | --- | | A. | Monetary unit assumption. |  |  |  | | --- | --- | | B. | Periodicity assumption. |  |  |  | | --- | --- | | C. | Economic entity assumption. |  |  |  | | --- | --- | | D. | Going concern assumption. | |

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| 169. | The assumption that the assets and liabilities of the business are accounted for on the books of the company but not included in the records of the owner is the:      |  |  | | --- | --- | | A. | Monetary unit assumption. |  |  |  | | --- | --- | | B. | Economic entity assumption. |  |  |  | | --- | --- | | C. | Going concern assumption. |  |  |  | | --- | --- | | D. | Periodicity assumption. | |

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| 170. | The assumption that the life of the business can be divided into time intervals for reporting purposes is the:      |  |  | | --- | --- | | A. | Monetary unit assumption. |  |  |  | | --- | --- | | B. | Periodicity assumption. |  |  |  | | --- | --- | | C. | Economic entity assumption. |  |  |  | | --- | --- | | D. | Going concern assumption. | |

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| 171. | The assumption that amounts are reported using a common scale (such as the dollar in the United States) is the:      |  |  | | --- | --- | | A. | Monetary unit assumption. |  |  |  | | --- | --- | | B. | Periodicity assumption. |  |  |  | | --- | --- | | C. | Economic entity assumption. |  |  |  | | --- | --- | | D. | Going concern assumption. | |

**Matching Questions**

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| 172. | Match each account classification with its example.      |  |  |  | | --- | --- | --- | | 1. Liabilities | Land owned by a company. | \_\_\_\_ | | 2. Revenues | Amounts owed to the bank. | \_\_\_\_ | | 3. Dividends | Common stock issued to investors. | \_\_\_\_ | | 4. Stockholders' equity | Payments made to stockholders. | \_\_\_\_ | | 5. Assets | Cleaning services provided to customers. | \_\_\_\_ | | 6. Expenses | Workers' salaries for the current period. | \_\_\_\_ | |

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| 173. | Match each business activity with its example.      |  |  |  | | --- | --- | --- | | 1. Operating | Receive investments from stockholders. | \_\_\_\_ | | 2. Financing | Purchase office building. | \_\_\_\_ | | 3. Investing | Pay utilities. | \_\_\_\_ | |

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| 174. | Match each financial statement with the accounts reported in it.       |  |  |  | | --- | --- | --- | | 1. Income statement | Revenues and expenses. | \_\_\_\_ | | 2. Statement of stockholders' equity | Dividends. | \_\_\_\_ | | 3. Balance sheet | Assets and liabilities. | \_\_\_\_ | |

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| 175. | Match each organization to its role.      |  |  |  | | --- | --- | --- | | 1. Financial Accounting Standards Board | Independent, private-sector group that is primarily responsible for setting financial reporting rules in the United States. | \_\_\_\_ | | 2. Public Company Accounting Oversight Board | Enforce proper application of financial reporting rules for companies whose securities are publicly traded. | \_\_\_\_ | | 3. International Accounting Standards Committee | Develop a single set of high-quality, understandable global accounting standards. | \_\_\_\_ | | 4. Securities and Exchange Commission | Ensure that auditors follow strict guidelines when conducting their audits. | \_\_\_\_ | |

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| 176. | Match each qualitative characteristic with its definition.       |  |  |  | | --- | --- | --- | | 1. Predictive value | Information provides feedback on past activities. | \_\_\_\_ | | 2. Confirmatory value | All information necessary to describe an item is reported. | \_\_\_\_ | | 3. Verifiability | Information is presented in time to make useful decisions. | \_\_\_\_ | | 4. Timeliness | Measurements that independent parties would agree upon. | \_\_\_\_ | | 5. Neutrality | Information that does not bias the decision maker. | \_\_\_\_ | | 6. Completeness | Information is useful in helping to forecast future outcomes. | \_\_\_\_ | |

**Essay Questions**

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| 177. | For each transaction, indicate whether a company would classify the related account as an asset, liability, stockholders' equity, dividend, revenue, or expense.   |  |  |  | | --- | --- | --- | |  | **Transactions** | **Related Accounts** | | 1. | Receive cash from investors. | Common Stock | | 2. | Pay rent for the current period. | Rent Expense | | 3. | Purchase office equipment. | Supplies | | 4. | Pay cash to stockholders. | Dividends | | 5. | Provide services to customers. | Service Revenue | |

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| 178. | Account classifications include assets, liabilities, stockholders' equity, dividends, revenues, and expenses. Indicate the account classification for each account name.   |  |  |  |  | | --- | --- | --- | --- | |  | **Account Classifications** | **Accounts** | **Related Transactions** | | 1. | **\_\_\_\_\_\_\_\_\_\_** | Common Stock | Sell common stock to investors. | | 2. | **\_\_\_\_\_\_\_\_\_\_** | Cash | Receive cash from customers. | | 3. | **\_\_\_\_\_\_\_\_\_\_** | Salaries Payable | Incur amounts owed to employees. | | 4. | **\_\_\_\_\_\_\_\_\_\_** | Service Revenue | Sell services to customers. | | 5. | **\_\_\_\_\_\_\_\_\_\_** | Utilities Expense | Incur cost of utilities. | | 6. | **\_\_\_\_\_\_\_\_\_\_** | Supplies | Purchase of office supplies. | | 7. | **\_\_\_\_\_\_\_\_\_\_** | Advertising Expense | Pay for cost of advertising. | | 8. | **\_\_\_\_\_\_\_\_\_\_** | Buildings | Purchase factory for operations. | | 9. | **\_\_\_\_\_\_\_\_\_\_** | Accounts Payable | Purchase supplies on credit. | | 10. | **\_\_\_\_\_\_\_\_\_\_** | Dividends | Distribute cash to stockholders. | |

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| 179. | Indicate whether a company would classify the transaction as financing, investing, or operating.   |  |  | | --- | --- | |  | **Transactions** | | 1. | Receive cash from investors. | | 2. | Pay rent for the current period. | | 3. | Purchase office equipment. | | 4. | Pay cash to stockholders. | | 5. | Provide services to customers. | |

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| 180. | Below are typical transactions for a company. Indicate whether each transaction is classified as a financing, investing, or operating activity.   |  |  |  | | --- | --- | --- | |  | **Type of Business Activity** | **Transactions** | | 1. | **\_\_\_\_\_\_\_\_\_\_** | Purchase office building | | 2. | **\_\_\_\_\_\_\_\_\_\_** | Pay building maintenance fees | | 3. | **\_\_\_\_\_\_\_\_\_\_** | Pay sales taxes to the local government | | 4. | **\_\_\_\_\_\_\_\_\_\_** | Provide services to customers | | 5. | **\_\_\_\_\_\_\_\_\_\_** | Borrow from the bank | | 6. | **\_\_\_\_\_\_\_\_\_\_** | Pay workers’ salaries | | 7. | **\_\_\_\_\_\_\_\_\_\_** | Sell equipment used in operations | | 8. | **\_\_\_\_\_\_\_\_\_\_** | Sell common stock to investors | |

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| 181. | Below are typical transactions for a company. Indicate whether each transaction is classified as a financing, investing, or operating activity.   |  |  |  | | --- | --- | --- | |  | **Type of Business Activity** | **Related Transactions** | | 1. | **\_\_\_\_\_\_\_\_\_\_** | Sell common stock to investors. | | 2. | **\_\_\_\_\_\_\_\_\_\_** | Receive cash from customers. | | 3. | **\_\_\_\_\_\_\_\_\_\_** | Incur amounts owed to employees. | | 4. | **\_\_\_\_\_\_\_\_\_\_** | Sell services to customers. | | 5. | **\_\_\_\_\_\_\_\_\_\_** | Incur cost of utilities. | | 6. | **\_\_\_\_\_\_\_\_\_\_** | Purchase rent one year in advance. | | 7. | **\_\_\_\_\_\_\_\_\_\_** | Pay for cost of advertising. | | 8. | **\_\_\_\_\_\_\_\_\_\_** | Purchase factory for operations. | | 9. | **\_\_\_\_\_\_\_\_\_\_** | Purchase supplies on credit. | | 10. | **\_\_\_\_\_\_\_\_\_\_** | Distribute cash to stockholders. | |

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| 182. | At the end of the current period, Maltese, Inc. reports the following amounts: Assets = $50,000; Liabilities = $28,000; Dividends = $4,000; Revenues = $22,000; Expenses = $16,000. Calculate net income and stockholders' equity at the end of the period. |

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| 183. | At the end of the current period, Rogers Company reports the following amounts: Assets = $25,000; Liabilities = $15,000; Dividends = $3,000; Revenues = $20,000; Expenses = $13,000. Calculate net income and stockholders' equity at the end of the period. |

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| 184. | Below are the account balances for Huffman Corporation at the end of December. Use only the appropriate accounts to prepare an income statement.   |  |  | | --- | --- | | **Accounts** | **Balances** | | Cash | $5,200 | | Salaries expense | 2,300 | | Retained earnings | 2,500 | | Advertising expense | 1,200 | | Equipment | 12,400 | | Service revenue | 9,400 | | Common stock | 8,000 | | Accounts payable | 2,200 | |

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| 185. | At the beginning of the year (January 1), Maurice and Sons has $12,000 of common stock outstanding and retained earnings of $4,200. During the year, the company reports net income of $3,200 and pays dividends of $1,200. In addition, the company issues additional common stock for $5,000. Prepare the statement of stockholders' equity at the end of the year (December 31). |

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| 186. | Klein Interiors has the following account balances at the end of the year. Use only the appropriate accounts to prepare a balance sheet.   |  |  | | --- | --- | | **Accounts** | **Balances** | | Equipment | $78,000 | | Accounts Payable | 12,000 | | Common Stock | 20,000 | | Service Revenue | 62,000 | | Cash | 8,000 | | Retained Earnings | **?** | | Salaries Expense | 38,000 | | Notes Payable | 25,000 | |

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| 187. | Thomason Financial has the following cash transactions for the year. Assume cash at the beginning of the period is $6,000. Prepare a statement of cash flows.   |  |  | | --- | --- | | **Accounts** | **Amounts** | | Cash received for sale of services to customers | $42,000 | | Cash received from issuance of common stock | 33,000 | | Cash paid to purchase office equipment | (49,000) | | Cash paid to building maintenance | (7,000) | | Cash paid for advertisement | (8,000) | | Cash paid to workers | (18,000) | | Cash paid for dividends to stockholders | (3,000) | | Cash received from sale of land | 7,000 | | Cash received from borrowing | 14,000 | |

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| 188. | Each of the following independent situations represents amounts shown on the four basic financial statements. Fill in the missing blanks using your knowledge of amounts that appear on the financial statements.  1. Revenues = $27,000; Expenses = $18,000; Net income = \_\_\_\_\_\_\_\_\_\_. 2. Increase in stockholders' equity = $20,000; Issuance of common stock = $12,000; Dividends = $5,000; Net income = \_\_\_\_\_\_\_\_\_\_. 3. Assets = $25,000; Liabilities = $13,000; Stockholders' equity = \_\_\_\_\_\_\_\_\_\_. 4. Total change in cash = +$28,000; Net operating cash flows = +$30,000; Net financing cash flows = +$18,000; Net investing cash flows = \_\_\_\_\_\_\_\_\_\_. |

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| 189. | During its first five years of operations, Della Manufacturing reports net income and pays dividends as follows. Calculate the balance of retained earnings at the end of each year. Note that retained earnings will always equal $0 at the beginning of year 1.   |  |  |  |  | | --- | --- | --- | --- | | **Year** | **Net Income** | **Dividends** | **Retained Earnings** | | 1 | $1,700 | $1,000 | \_\_\_\_\_\_\_\_\_\_\_ | | 2 | 2,700 | 1,000 | \_\_\_\_\_\_\_\_\_\_\_ | | 3 | 3,200 | 2,000 | \_\_\_\_\_\_\_\_\_\_\_ | | 4 | 5,400 | 2,000 | \_\_\_\_\_\_\_\_\_\_\_ | | 5 | 7,600 | 3,000 | \_\_\_\_\_\_\_\_\_\_\_ | |

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| 190. | Below is information related to retained earnings for five independent situations. Calculate the answer to each.  1. A company reports an increase in retained earnings of $3,200 and net income of $4,800. What is the amount of dividends? 2. A company reports beginning retained earnings of $1,800, net income of $1,200, and $200 dividends. What is the amount of ending retained earnings? 3. A company reports an increase in retained earnings of $2,500 and dividends of $1,500. What is the amount of net income? 4. A company reports ending retained earnings of $2,700, net income of $900, and dividends of $500. What is the amount of beginning retained earnings? 5. A company reports an increase in retained earnings of $500 and net income of $1,200. What is the amount of dividends? |

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| 191. | Below is balance sheet information for five independent situations. Calculate the answer to each.  1. A company reports total assets of $2,000 and total liabilities of $900. What is the amount of stockholders' equity? 2. A company reports total liabilities of $2,400 and stockholders' equity of $1,100. What is the amount of total assets? 3. A company reports total assets of $2,700 and total stockholders' equity of $700. What is the amount of total liabilities? 4. A company reports an increase in assets of $1,700 and an increase in liabilities of $400. What is the amount of the change in stockholders' equity? 5. A company reports an increase in liabilities of $300 and a decrease in stockholders' equity of $800. What is the amount of the change in total assets? |

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| 192. | Below is cash flow information for five independent situations. Calculate the answer to each.    1. A company reports operating cash flows of $3,200, investing cash flows of $700, and financing cash flows of -$400. What is the amount of the change in total cash?  2. A company reports operating cash flows of $1,800, investing cash flows of -$400, and financing cash flows of -$1,100. If the beginning cash amount is $500, what is the ending cash amount?  3. A company reports operating cash flows of $700, investing cash flows of $300, and a change in total cash of $100. What is the amount of cash flows from financing activities?  4. A company reports operating cash flows of $600, financing cash flows of $400, and a change in total cash of $100. What is the amount of cash flows from investing activities?  5. A company reports investing cash flows of -$1,400, financing cash flows of $900, and a change in total cash of $200. What is the amount of cash flows from operating activities? |

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| 193. | Riley Incorporated reports the following amounts at the end of the year:   |  |  |  |  | | --- | --- | --- | --- | | Cash | $3,200 | Service Revenue | $92,500 | | Buildings | 60,000 | Salaries Expense | 72,800 | | Accounts Payable | 8,500 | Equipment | 72,000 | | Interest Expense | 4,000 | Supplies | 6,400 | | Advertising Expense | 11,300 | Notes payable | 40,000 |   In addition, the company had common stock of $65,000 at the beginning of the year and issued an additional $5,000 during the year. The company also had retained earnings of $20,700 at the beginning of the year and paid dividends of $2,000 during the year. Prepare the income statement, statement of stockholders' equity, and balance sheet. |

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| 194. | Below are incomplete financial statements for Beasley, Incorporated. Calculate the missing amounts.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Income Statement** | | **Statement of Stockholders’ Equity** | | | | **Revenues** | **$(a)** |  | **Common Stock** | **Retained Earnings** | | Expenses: |  | Beginning | $25,000 | $12,000 | | Salaries | 8,000 | Issuances | (c) |  | | Delivery | 7,000 | Net income |  | 5,000 | | Utilities | 5,000 | Dividends |  | (d) | | Net income | (b) | Ending | $30,000 | $15,000 | | **Balance Sheet** | | | | | | **Assets:** |  | **Liabilities:** | | | | Cash | $15,000 | Accounts payable | | 15,000 | | Supplies | 7,000 | **Stockholders’ Equity:** | | | | Prepaid rent | (e) | Common stock | | (g) | | Equipment | 35,000 | Retained earnings | | (h) | | Total assets | (f) | Total liabilities and stockholders’ equity | | (i) | |

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| 195. | Use the following information available to prepare an income statement and balance sheet on December 31 for Goldie Company.    Fees for services performed during the year, $120,000  Accounts payable, $18,500  Accounts receivable, $17,300  Miscellaneous costs for the year, $8,700  Supplies on hand, $2,700  Notes payable outstanding, $30,000  Interest cost on the note for the year, $3,000  Equipment, $84,400  Cash on hand, $11,200  Salaries cost for the year, $71,500  Supplies cost for the year, $9,400  Rent cost for the year, $12,000  Common stock that has been issued, $60,000  Retained earnings at the end of the year, $7,100 |

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| 196. | Below are typical transactions for a company.   |  |  |  | | --- | --- | --- | |  | **Type of Business Activity** | **Transactions** | | 1. | **\_\_\_\_\_\_\_\_\_\_** | Issue common stock. | | 2. | **\_\_\_\_\_\_\_\_\_\_** | Collect cash from a bank loan. | | 3. | **\_\_\_\_\_\_\_\_\_\_** | Sell products to customers. | | 4. | **\_\_\_\_\_\_\_\_\_\_** | Pay employees’ wages. | | 5. | **\_\_\_\_\_\_\_\_\_\_** | Purchase equipment for manufacturing. | | 6. | **\_\_\_\_\_\_\_\_\_\_** | Pay dividends to stockholders. | | 7. | **\_\_\_\_\_\_\_\_\_\_** | Sell factory. | | 8. | **\_\_\_\_\_\_\_\_\_\_** | Purchase office supplies. | | 9. | **\_\_\_\_\_\_\_\_\_\_** | Pay utilities. | | 10. | **\_\_\_\_\_\_\_\_\_\_** | Pay for maintenance on delivery vehicles. |   **Required:**    Indicate whether each transaction is classified as a financing, investing, or operating activity. |

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| 197. | Account classifications include assets, liabilities, stockholders' equity, dividends, revenues, and expenses.   |  |  |  |  | | --- | --- | --- | --- | |  | **Account Classifications** | **Accounts** | **Related Transactions** | | 1. | **\_\_\_\_\_\_\_\_\_\_** | Accounts Receivable | Provide services on account. | | 2. | **\_\_\_\_\_\_\_\_\_\_** | Land | Purchase land for operations. | | 3. | **\_\_\_\_\_\_\_\_\_\_** | Prepaid Rent | Purchase rent in advance. | | 4. | **\_\_\_\_\_\_\_\_\_\_** | Salaries Expense | Pay for cost of salaries. | | 5. | **\_\_\_\_\_\_\_\_\_\_** | Utilities Expense | Pay for cost of utilities. | | 6. | **\_\_\_\_\_\_\_\_\_\_** | Service Revenue | Provide services to customers. | | 7. | **\_\_\_\_\_\_\_\_\_\_** | Accounts Payable | Purchase materials on account. | | 8. | **\_\_\_\_\_\_\_\_\_\_** | Notes Payable | Borrow from the bank. | | 9. | **\_\_\_\_\_\_\_\_\_\_** | Dividends | Distribute cash to stockholders. | | 10. | **\_\_\_\_\_\_\_\_\_\_** | Common Stock | Issue stock to stockholders. |   **Required:**    Indicate the account classification for each account name. |

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| 198. | Tiffany's provides financial services related to investment selections, retirement planning, and general insurance needs. For the current year, the company reports the following amounts:   |  |  |  |  | | --- | --- | --- | --- | | Advertising Expense | $31,200 | Service Revenue | $129,300 | | Buildings | 108,000 | Interest Expense | 3,500 | | Salaries Expense | 67,800 | Utilities Expense | 14,500 | | Accounts Payable | 6,300 | Equipment | 25,700 | | Cash | 6,400 | Notes Payable | 30,000 |   In addition, the company had common stock of $60,000 at the beginning of the year and issued an additional $15,000 during the year. The company also had retained earnings of $20,000 at the beginning of the year and paid dividends of $3,500.    **Required:**    Prepare the income statement, statement of stockholders' equity, and balance sheet for Tiffany's for the year ended December 31. |

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| 199. | Below are incomplete financial statements.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Income Statement** | | **Statement of Stockholders’ Equity** | | | | **Revenues** | **(a)** |  | **Common Stock** | **Retained Earnings** | | Expenses: |  | Beginning | $15,000 | $8,000 | | Salaries | $11,000 | Issuances | (c) |  | | Rent | 5,000 | Net income |  | 3,000 | | Advertising | 7,000 | Dividends |  | (d) | | Net income | (b) | Ending | $18,000 | $9,000 | | **Balance Sheet** | | | | | | | **Assets:** |  | **Liabilities:** | | | | Cash | $6,000 | Accounts payable | | $5,000 | | Supplies | (e) | **Stockholders’ Equity:** | | | | Land | 7,000 | Common Stock | | (g) | | Buildings | 14,000 | Retained Earnings | | (h) | | Total assets | (f) | Total liabilities and stockholders’ equity | | (i) |   **Required:**    Calculate the missing amounts. |

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| 200. | Simplex Corporation provides the following information at the end of the year.   |  |  | | --- | --- | | Salaries payable to workers at the end of the year | $3,500 | | Advertising expense for the year | 8,700 | | Building that has been purchased | 70,000 | | Supplies at the end of the year | 7,500 | | Retained earnings | 38,000 | | Utilities expense for the year | 4,200 | | Note payable to the bank | 21,500 | | Service revenue earned during the year | 67,800 | | Salary expense for the year | 24,200 | | Accounts payable to suppliers | 6,700 | | Dividends paid to shareholder during the year | ? | | Common stock that has been issued, including $8,000 that was issued this year | 30,000 | | Cash remaining | 5,500 | | Interest expense for the year | 1,800 | | Accounts receivable from customers | 16,700 |   **Required:**   Prepare the income statement, statement of stockholders' equity, and balance sheet for Simplex Corporation on December 31. The balance of retained earnings at the beginning of the year equals $24,500. |

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| 201. | The four underlying assumptions of generally accepted accounting principles are economic entity, monetary unit, periodicity, and going concern. Consider the following four independent situations.  1. Masterson provides music cassettes for the past 30 years. Because of the advance in electronic musical devices, customer demand has dwindled over the years to almost nothing in the current year and the company can no longer pay its debts. For the most recent year, the company reports its assets in the balance sheet at historical (original) cost. 2. Phillips Flooring specializes in the installation of wood flooring. The company has the usual business expenses: salaries, supplies, utilities, advertising, and taxes. Mr. Phillips took his wife and two sons to Six Flags. Mr. Phillips reported the airfare and hotel expenses in the income statement of Phillips Flooring. 3. Mama's Restaurant has over 200 stores throughout the Southeast. Approximately 100,000 customers visit its stores each day. Because of the continual nature of dining, the company does not publish an income statement. The company feels that it has an indefinite life and a periodic report would mislead investors. 4. Indian Packaging delivers packages between the United States and India. During the current year, the company delivered 2,000 packages for its American customers totaling $75,000 in revenue. For its Indian customers, the company delivered 1,000 packages totaling 1,500,000 Indian Rupee. The company's income statement indicates that total revenue equals 3,000 packages delivered with no corresponding amount in the income statement.  **Required:**  For each situation, indicate which of the underlying assumptions of GAAP is violated. |

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| 202. | Listed below are several terms and definitions associated with the FASB's conceptual framework.   |  |  |  |  | | --- | --- | --- | --- | | **Terms** | | | **Definitions** | | 1. | \_\_\_\_ | Verifiability | a. Requires the consideration of the costs and value of information. | | 2. | \_\_\_\_ | Relevance | b. Recording transaction only for the company. | | 3. | \_\_\_\_ | Timeliness | c. The indefinite life of a company can be broken into definite periods. | | 4. | \_\_\_\_ | Cost effectiveness | d. Accounting should be useful in making decisions. | | 5. | \_\_\_\_ | Decision usefulness | e. Agreement between a measure and the phenomenon it represents. | | 6. | \_\_\_\_ | Faithful representation | f. Information arrives prior to the decision. | | 7. | \_\_\_\_ | Materiality | g. Information is related to the decision at hand. | | 8. | \_\_\_\_ | Economic entity assumption | h. Implies consensus among different measures. | | 9. | \_\_\_\_ | Periodicity assumption | i. Concerns the relative size of an item and its effect on decisions. |   **Required:**    Pair each term with its related definition. |

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| 203. | Define accounting. Describe the two primary functions of financial accounting and its role in our society. |

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| 204. | Describe the three fundamental business activities that accountants measure. What account classifications are typically associated with each type of business activity? |

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| 205. | List and describe the four financial statements most frequently provided to external users. |

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| 206. | How does the value of an audit affect financial statements? |

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| 207. | Define the four basic assumptions underlying Generally Accepted Accounting Principles: (a) economic entity, (b) going concern, (c) periodicity, (d) monetary unit. |

Chapter 01 A Framework for Financial Accounting Answer Key

**True / False Questions**

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| 1. | Accounting is a system of maintaining records of a company's operations and communicating that information to decision makers.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Describe the two primary functions of financial accounting. Topic: Defining Accounting* |

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| 2. | Accounting information is used by investors to decide whether to invest in a company's stock.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Describe the two primary functions of financial accounting. Topic: Defining Accounting* |

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| 3. | Accounting information is used by creditors to decide whether to invest in a company's stock.    **FALSE**  Creditors lend money to a company. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Describe the two primary functions of financial accounting. Topic: Defining Accounting* |

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| 4. | The primary functions of financial accounting are to measure business activities of a company and to communicate those measurements to internal parties for decision-making purposes.    **FALSE**  Financial accounting primarily serves to provide information to external parties. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Describe the two primary functions of financial accounting. Topic: Defining Accounting* |

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| 5. | Financing activities are transactions involving externals sources of funding.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 6. | Investing activities include the purchase and sale of long-term resources.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 7. | Operating activities include transactions that relate to the primary operations of the company.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 8. | A corporation is an entity that is legally separate from its owners.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 9. | Cash, inventory, supplies, and buildings are examples of liabilities.    **FALSE**  These are examples of assets. |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 10. | Amounts owed to suppliers, employees, the government in the form of taxes, and utility companies are examples of liabilities.     **TRUE** |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 11. | If total assets of a company equal $12,000 and total stockholders' equity equals $4,000, then total liabilities equal $8,000.     **TRUE** |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 3 Hard Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 12. | If total liabilities of a company equal $16,000 and total stockholders' equity equals $9,000, then total assets equal $7,000.    **FALSE**  Total assets = Total liabilities ($16,000) + Total stockholders' equity ($9,000) = $25,000. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 3 Hard Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 13. | The accounting equation shows that a company's resources equal creditors' and owners' claims to those resources.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 14. | The costs related to rent, utilities, and salaries in the current reporting period are examples of liabilities.    **FALSE**  These are examples of expenses. |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 15. | The difference between revenues and expenses is referred to as net income or net loss.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 16. | If a company reports revenues of $17,000 and expenses of $12,000, then net income equals $5,000.    **TRUE** |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 3 Hard Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 17. | Expenses are regular cash payments by a corporation to its stockholders.    **FALSE**  Dividends are payments to stockholders. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 18. | Dividends represent a return of the company's profits to its owners, the stockholders.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 19. | One of the differences between a partnership and a corporation is that owners of a partnership have limited liability.    **FALSE**  Stockholders of a corporation have limited liability. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 20. | Limited liability means the stockholders are not held personally responsible for the financial obligations of the corporation.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 21. | One advantage of the corporate form of business is double taxation.    **FALSE**  Double taxation is a disadvantage of the corporate form of business. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 22. | Double taxation refers to a corporation's income being taxed twice—first when the company pays corporate income taxes on income it earns, and then again when stockholders pay personal income taxes when the company distributes that income as dividends to them.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 23. | Financial statements are periodic reports published by the company for the purpose of providing information to managers.    **FALSE**  Financial statements are designed to provide information to external users. |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 24. | The balance sheet is a financial statement that reports the company's revenues and expenses over an interval of time.    **FALSE**  The income statement reports revenues and expenses. |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 25. | The statement of stockholders' equity is a financial statement that summarizes the changes in stockholders' equity over an interval of time.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 26. | The two primary components of stockholders' equity include common stock and revenue.    **FALSE**  The two components of stockholders' equity include common stock and retained earnings. |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 27. | Common stock represents an external source of stockholders' equity, whereas retained earnings represents an internal source.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 28. | Retained earnings represents the cumulative amount of net income, over the life of the company, that has not been distributed to stockholders as dividends.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 29. | Dividends are considered an expense in running the business and reported in the income statement.    **FALSE**  Dividends are a distribution of resources to owners and not considered a cost in running the business to produce revenues. Dividends are reported in the statement of stockholders' equity. |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 30. | All cash transactions reported in the statement of cash flows are classified as (1) operating activities, (2) investing activities, or (3) financing activities.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 31. | Investing cash flows generally include cash receipts and cash payments for transactions involving revenue and expense activities during the period.    **FALSE**  These are operating activities. |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 32. | Operating cash flows generally include cash transactions for the purchase and sale of investments and long-term assets.    **FALSE**  These are investing activities. |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 33. | Financing cash flows include cash transactions with lenders, such as borrowing money and repaying debt, and with stockholders, such as issuing stock and paying dividends.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 34. | Any transaction that affects the income statement ultimately affects the balance sheet through the balance of retained earnings.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 35. | Financial accounting has an impact on everyday business decisions as well as wide-ranging economic consequences.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process. Topic: Making Decisions with Accounting Information* |

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| 36. | Investors and creditors rely heavily on financial accounting information in making investment and lending decisions.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process. Topic: Making Decisions with Accounting Information* |

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| 37. | In general, if a company's net income is increasing, so will its stock price.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: FN Decision Making Accessibility: Keyboard Navigation Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process. Topic: Making Decisions with Accounting Information* |

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| 38. | The rules of financial accounting are called Generally Accepted Accounting Principles (GAAP).    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 39. | Financial accounting and reporting standards in the United States are established primarily by the Financial Accounting Standards Board (FASB).    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 40. | The 1933 Securities Act and the 1934 Securities Exchange Act were designed to restore investor confidence in financial accounting following the stock market crash in 1929.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 41. | The 1934 Securities Exchange Act gives the Securities and Exchange Commission (SEC) the power to require companies that publicly trade their stock to prepare periodic financial statements for distribution to investors and creditors.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 42. | The role of independent auditors is to help ensure that management has in fact appropriately applied Generally Accepted Accounting Principles (GAAP) in preparing the company's financial statements.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 43. | Auditors are trained individuals hired by a company as an independent party to express a professional opinion of the fairness of that company's financial statements.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 44. | The primary objective of financial accounting is to provide useful information to managers in making decisions.    **FALSE**  Financial accounting is intended primarily to provide information to investors and creditors. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 45. | Public accounting firms are professional service firms that traditionally have focused on three areas: auditing, tax preparation/planning, and business consulting.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-06 Identify career opportunities in accounting. Topic: Career Options in Accounting* |

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| 46. | The Financial Accounting Standards Board's conceptual framework does not prescribe Generally Accepted Accounting Principles. It provides an underlying foundation for the development of accounting standards and interpretation of accounting information.    **TRUE** |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

**Multiple Choice Questions**

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| 47. | What is the primary purpose of financial accounting?      |  |  | | --- | --- | | A. | Determine the amount of tax liability owed to the government. |  |  |  | | --- | --- | | B. | Communicate business activities to internal management. |  |  |  | | --- | --- | | **C.** | Measure business activities and communicate those measures to external users to make decisions. |  |  |  | | --- | --- | | D. | Measure the profitability of the company in order to assist employees with making decisions. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Describe the two primary functions of financial accounting. Topic: Defining Accounting* |

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| 48. | The primary purpose(s) of financial accounting is(are) to:      |  |  | | --- | --- | | A. | Measure and record business transactions. |  |  |  | | --- | --- | | B. | Prepare federal and state tax returns. |  |  |  | | --- | --- | | C. | Communicate financial results to investors and creditors. |  |  |  | | --- | --- | | **D.** | Both measure and communicate financial information to external parties. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Describe the two primary functions of financial accounting. Topic: Defining Accounting* |

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| 49. | Which definition below best describes financial accounting?      |  |  | | --- | --- | | A. | Process of measuring income taxes owed to the government. |  |  |  | | --- | --- | | B. | System of maintaining communication with a company's customers and suppliers. |  |  |  | | --- | --- | | C. | Procedures designed to enhance the company's image to potential investors. |  |  |  | | --- | --- | | **D.** | Measuring business activities and communicating them to external parties. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Describe the two primary functions of financial accounting. Topic: Defining Accounting* |

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| 50. | Financial accounting does not deal with which of the following?      |  |  | | --- | --- | | A. | Measuring a company's economic activity. |  |  |  | | --- | --- | | **B.** | Providing information to internal users. |  |  |  | | --- | --- | | C. | Preparing financial reports. |  |  |  | | --- | --- | | D. | Communicating financial results to investors. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Describe the two primary functions of financial accounting. Topic: Defining Accounting* |

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| 51. | Financial accounting:      |  |  | | --- | --- | | **A.** | Provides information primarily for external decision makers. |  |  |  | | --- | --- | | B. | Provides information primarily for a company's employees. |  |  |  | | --- | --- | | C. | Provides information primarily for the use of managers of the company. |  |  |  | | --- | --- | | D. | Is primarily used to compute a company's tax obligation. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Describe the two primary functions of financial accounting. Topic: Defining Accounting* |

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| 52. | The primary focus for financial accounting information is to provide information useful for:   |  |  |  | | --- | --- | --- | |  | **Investing decisions** | **Credit decisions** | | a. | Yes | Yes | | b. | Yes | No | | c. | No | Yes | | d. | No | No |       |  |  | | --- | --- | | **A.** | Investment decisions and credit decisions. |  |  |  | | --- | --- | | B. | Investment decisions but not credit decisions. |  |  |  | | --- | --- | | C. | Credit decisions but not investment decisions. |  |  |  | | --- | --- | | D. | Neither investment decisions nor credit decisions | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Describe the two primary functions of financial accounting. Topic: Defining Accounting* |

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| 53. | Which of the following groups is not among the external users for whom financial statements are prepared?       |  |  | | --- | --- | | A. | Creditors. |  |  |  | | --- | --- | | B. | Regulators. |  |  |  | | --- | --- | | C. | Investors. |  |  |  | | --- | --- | | **D.** | Managers. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Describe the two primary functions of financial accounting. Topic: Defining Accounting* |

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| 54. | The form of business organization that is legally separate from its owners is a:      |  |  | | --- | --- | | A. | Partnership. |  |  |  | | --- | --- | | B. | Sole proprietorship. |  |  |  | | --- | --- | | **C.** | Corporation. |  |  |  | | --- | --- | | D. | Separation entity. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 55. | Which business form has the advantage of limited liability?      |  |  | | --- | --- | | **A.** | Corporation. |  |  |  | | --- | --- | | B. | Sole proprietorship. |  |  |  | | --- | --- | | C. | Partnership. |  |  |  | | --- | --- | | D. | All business forms share equal limited liability. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 56. | Limited liability means:      |  |  | | --- | --- | | **A.** | Stockholders of a corporation are not obligated to pay the corporation's debts out of their own pocket. |  |  |  | | --- | --- | | B. | Liabilities of a company cannot exceed its assets. |  |  |  | | --- | --- | | C. | Companies are not allowed to borrow unless they are profitable. |  |  |  | | --- | --- | | D. | Companies are less likely to be sued if they are formed as a corporation. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 57. | One disadvantage of the corporate form of business is:      |  |  | | --- | --- | | A. | Limited liability. |  |  |  | | --- | --- | | B. | Access to more capital. |  |  |  | | --- | --- | | C. | Smaller in size. |  |  |  | | --- | --- | | **D.** | Double taxation. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 58. | Which of the following is an operating activity?      |  |  | | --- | --- | | A. | Issuing common stock. |  |  |  | | --- | --- | | B. | Paying dividends. |  |  |  | | --- | --- | | C. | Borrowing cash from a bank to acquire a factory. |  |  |  | | --- | --- | | **D.** | Paying electricity bills for the month. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 59. | How many of the following transactions are operating activities?  Borrowed $50,000 from the bank Purchased $12,000 in supplies Provide services to customers for $27,000 Paid the utility bill of $750 Purchased a delivery truck for $12,000 Received $25,000 from issuing common stock      |  |  | | --- | --- | | A. | One. |  |  |  | | --- | --- | | B. | Two. |  |  |  | | --- | --- | | **C.** | Three. |  |  |  | | --- | --- | | D. | Four. |   (1) Purchased supplies, (2) Provided services to customers, and (3) Paid utility bill. |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 3 Hard Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 60. | Transactions related to the primary business activities of the company, such as selling goods and services to customers, are referred to as:      |  |  | | --- | --- | | A. | Investing activities. |  |  |  | | --- | --- | | **B.** | Operating activities. |  |  |  | | --- | --- | | C. | Management activities. |  |  |  | | --- | --- | | D. | Financing activities. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 61. | Stimpleton Company engages in the following cash payments:   |  |  | | --- | --- | | Purchase equipment | $2,000 | | Pay rent | 500 | | Repay loan to the bank | 5,000 | | Pay worker's salaries | 1,000 |   What is the total amount of cash paid for operating activities?       |  |  | | --- | --- | | A. | $6,000. |  |  |  | | --- | --- | | B. | $2,000. |  |  |  | | --- | --- | | C. | $7,000. |  |  |  | | --- | --- | | **D.** | $1,500. |   $500 + $1,000 = $1,500. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Blooms: Apply Difficulty: 3 Hard Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 62. | Accountants are responsible for measuring various operating, investing and financing activities. Which of the following correctly matches the activity with its type?      |  |  | | --- | --- | | A. | Investing - paying utilities for the month. |  |  |  | | --- | --- | | **B.** | Investing - purchasing land. |  |  |  | | --- | --- | | C. | Operating - paying dividends to stockholders. |  |  |  | | --- | --- | | D. | Financing - selling equipment for cash. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 63. | Transactions of a company that include the purchase and sale of long-term assets are referred to as:      |  |  | | --- | --- | | **A.** | Investing activities. |  |  |  | | --- | --- | | B. | Financing activities. |  |  |  | | --- | --- | | C. | Expenditure activities. |  |  |  | | --- | --- | | D. | Operating activities. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 64. | McGill purchases additional office equipment to better serves its customers. This purchase is classified as what type of activity?      |  |  | | --- | --- | | A. | Company activity. |  |  |  | | --- | --- | | B. | Financing activity. |  |  |  | | --- | --- | | **C.** | Investing activity. |  |  |  | | --- | --- | | D. | Operating activity. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 65. | Transactions of a company involving external sources of funding are referred to as:      |  |  | | --- | --- | | A. | Investing activities. |  |  |  | | --- | --- | | **B.** | Financing activities. |  |  |  | | --- | --- | | C. | External activities. |  |  |  | | --- | --- | | D. | Operating activities. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 66. | Financing activities include:      |  |  | | --- | --- | | A. | Primary operations such as selling goods to customers. |  |  |  | | --- | --- | | B. | Transactions with company employees. |  |  |  | | --- | --- | | **C.** | Transactions involving external sources of funding. |  |  |  | | --- | --- | | D. | The purchase and sale of long-term assets. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 67. | Financing activities include:      |  |  | | --- | --- | | A. | The purchase of a building. |  |  |  | | --- | --- | | **B.** | Issuing common stock to stockholders. |  |  |  | | --- | --- | | C. | Transactions with company employees. |  |  |  | | --- | --- | | D. | Selling goods or services to customers. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 68. | The accounting equation is defined as:      |  |  | | --- | --- | | **A.** | Assets = Liabilities + Stockholders' Equity. |  |  |  | | --- | --- | | B. | Assets = Liabilities - Stockholders' Equity. |  |  |  | | --- | --- | | C. | Net Income = Revenues - Expenses. |  |  |  | | --- | --- | | D. | Liabilities + Revenues = Assets. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 69. | Which statement below best describes the accounting equation?      |  |  | | --- | --- | | A. | The change in retained earnings equals net income less dividends. |  |  |  | | --- | --- | | B. | Equality of revenue and expense transactions over time. |  |  |  | | --- | --- | | **C.** | Resources of the company equal creditors' and owners' claims to those resources. |  |  |  | | --- | --- | | D. | Financing activities equal investing and operating activities. |   Assets = Liabilities + Stockholders' Equity. |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 70. | If a company has stockholders' equity of $60,000 at the end of the year, which of the following statements must be true?      |  |  | | --- | --- | | **A.** | The company's assets exceed liabilities by $60,000. |  |  |  | | --- | --- | | B. | The company has issued $60,000 of common stock. |  |  |  | | --- | --- | | C. | Net income for the year equals $60,000. |  |  |  | | --- | --- | | D. | Total revenues during the year equal $60,000. |   Assets - Liabilities = Stockholders' Equity. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 71. | Emmitt had the following final balances after the first year of operations: assets, $55,000; stockholders' equity, $25,000; dividends, $3,000; and net income, $10,000. What is the amount of Emmitt's liabilities?      |  |  | | --- | --- | | A. | $55,000. |  |  |  | | --- | --- | | **B.** | $30,000. |  |  |  | | --- | --- | | C. | $13,000. |  |  |  | | --- | --- | | D. | $7,000. |   Assets ($55,000) = Liabilities + Stockholders' Equity ($25,000). |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 3 Hard Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 72. | An alternative form of the accounting equation is:      |  |  | | --- | --- | | A. | Net Income = Revenues - Expenses. |  |  |  | | --- | --- | | B. | Stockholders' Equity = Assets + Liabilities. |  |  |  | | --- | --- | | C. | Assets = Liabilities - Stockholders' Equity. |  |  |  | | --- | --- | | **D.** | Assets - Liabilities = Stockholders' Equity. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 73. | The accounts that represent the resources of the company are called:      |  |  | | --- | --- | | A. | Liabilities. |  |  |  | | --- | --- | | B. | Revenues. |  |  |  | | --- | --- | | C. | Expenses. |  |  |  | | --- | --- | | **D.** | Assets. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 74. | The assets of a company represent:      |  |  | | --- | --- | | A. | Amounts owed to creditors. |  |  |  | | --- | --- | | B. | Sales of goods or services to customers. |  |  |  | | --- | --- | | **C.** | Resources that will be used to benefit the company. |  |  |  | | --- | --- | | D. | Investments by stockholders. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 75. | Which of the following accounts represents a resource of the company?      |  |  | | --- | --- | | A. | Common stock. |  |  |  | | --- | --- | | B. | Service revenue. |  |  |  | | --- | --- | | **C.** | Accounts receivable. |  |  |  | | --- | --- | | D. | Salaries expense. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 76. | Which of the following does not represent an asset of a company?      |  |  | | --- | --- | | A. | Supplies held by the company. |  |  |  | | --- | --- | | **B.** | Amounts owed to suppliers. |  |  |  | | --- | --- | | C. | Equipment owned and used for operations. |  |  |  | | --- | --- | | D. | Amounts receivable from customers. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 77. | Creditors' claims to a corporation's resources are referred to as:      |  |  | | --- | --- | | A. | Dividends. |  |  |  | | --- | --- | | B. | Assets. |  |  |  | | --- | --- | | **C.** | Liabilities. |  |  |  | | --- | --- | | D. | Stockholders' equity. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 78. | Liabilities are best defined as:      |  |  | | --- | --- | | A. | Amounts the company expects to collect in the future from customers. |  |  |  | | --- | --- | | **B.** | Debts or obligations the company owes resulting from past transactions. |  |  |  | | --- | --- | | C. | The amounts that owners have invested in the business. |  |  |  | | --- | --- | | D. | Payments to stockholders. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 79. | Amounts owed to suppliers for supplies purchased on account are defined as a(n):      |  |  | | --- | --- | | A. | Revenue. |  |  |  | | --- | --- | | B. | Asset. |  |  |  | | --- | --- | | **C.** | Liability. |  |  |  | | --- | --- | | D. | Expense. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 80. | Which of the following does not represent a liability of a company?      |  |  | | --- | --- | | A. | Salaries owed to employees. |  |  |  | | --- | --- | | B. | Taxes owed to the government. |  |  |  | | --- | --- | | C. | Amounts owed to suppliers. |  |  |  | | --- | --- | | **D.** | All of the other answers are liabilities. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 81. | The accounts that represent resources owed to creditors are called:      |  |  | | --- | --- | | A. | Assets. |  |  |  | | --- | --- | | **B.** | Liabilities. |  |  |  | | --- | --- | | C. | Dividends. |  |  |  | | --- | --- | | D. | Stockholders' equity. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 82. | Liabilities can be best described as:      |  |  | | --- | --- | | A. | The amount of expenses over the past year. |  |  |  | | --- | --- | | B. | The amount expected to be distributed to stockholders. |  |  |  | | --- | --- | | **C.** | The amount owed to creditors. |  |  |  | | --- | --- | | D. | The amount of services provided to customers during the year. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 83. | The stockholders' interest in a corporation is called:      |  |  | | --- | --- | | A. | Dividends. |  |  |  | | --- | --- | | B. | Assets. |  |  |  | | --- | --- | | C. | Liabilities. |  |  |  | | --- | --- | | **D.** | Stockholders' equity. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 84. | Stockholders' claims to the company's resources are referred to as:      |  |  | | --- | --- | | **A.** | Stockholders' equity. |  |  |  | | --- | --- | | B. | Revenues. |  |  |  | | --- | --- | | C. | Assets. |  |  |  | | --- | --- | | D. | Liabilities. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 85. | Using the information below from the accounting records of Thomas Corporation, stockholders' claims to the company's resources amount to:   |  |  | | --- | --- | | Assets | $1,200,000 | | Liabilities | $800,000 | | Net income | $100,000 | | Retained earnings | $250,000 |       |  |  | | --- | --- | | A. | $1,200,000. |  |  |  | | --- | --- | | B. | $800,000. |  |  |  | | --- | --- | | C. | $250,000. |  |  |  | | --- | --- | | **D.** | $400,000. |   Stockholders' claims (Stockholders' Equity) = Assets ($1,200,000) - Liabilities ($800,000) |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 86. | Which of the following best describes revenue?      |  |  | | --- | --- | | A. | Resources of a company. |  |  |  | | --- | --- | | **B.** | Sales of goods and services to a customer. |  |  |  | | --- | --- | | C. | Cash received from a customer. |  |  |  | | --- | --- | | D. | Dividends paid to stockholders. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 87. | The costs of providing goods and services to customers are referred to as:      |  |  | | --- | --- | | A. | Assets. |  |  |  | | --- | --- | | **B.** | Expenses. |  |  |  | | --- | --- | | C. | Liabilities. |  |  |  | | --- | --- | | D. | Revenues. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 88. | The costs associated with producing revenues are referred to as:      |  |  | | --- | --- | | A. | Dividends. |  |  |  | | --- | --- | | B. | Assets. |  |  |  | | --- | --- | | C. | Liabilities. |  |  |  | | --- | --- | | **D.** | Expenses. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 89. | Net income can best be described as:      |  |  | | --- | --- | | A. | Net cash received by a company during the year. |  |  |  | | --- | --- | | **B.** | Revenues minus expenses. |  |  |  | | --- | --- | | C. | The amount of profits retained in a company for the year. |  |  |  | | --- | --- | | D. | Resources of a company. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking AICPA: Measurement Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 90. | Use the following appropriate amounts to calculate net income: Revenues, $12,000; Liabilities, $5,000; Expenses, $4,000; Assets, $19,000; Dividends, $4,000.       |  |  | | --- | --- | | A. | $6,000. |  |  |  | | --- | --- | | **B.** | $8,000. |  |  |  | | --- | --- | | C. | $4,000. |  |  |  | | --- | --- | | D. | $14,000. |   Revenues ($12,000) - Expenses ($4,000) = Net Income. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 3 Hard Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 91. | The account type that represents payments to stockholders is called:       |  |  | | --- | --- | | A. | Liabilities. |  |  |  | | --- | --- | | B. | Assets. |  |  |  | | --- | --- | | C. | Stockholders' equity. |  |  |  | | --- | --- | | **D.** | Dividends. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 92. | Dividends represent:      |  |  | | --- | --- | | A. | Resources of the company. |  |  |  | | --- | --- | | **B.** | Cash payments to stockholders. |  |  |  | | --- | --- | | C. | Amounts owed to creditors. |  |  |  | | --- | --- | | D. | Expenses of operating the company. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 93. | The equation best describing the income statement is:      |  |  | | --- | --- | | **A.** | Revenues - Expenses = Net Income. |  |  |  | | --- | --- | | B. | Assets = Revenues - Expenses. |  |  |  | | --- | --- | | C. | Assets = Liabilities + Stockholders' Equity. |  |  |  | | --- | --- | | D. | Revenues + Expenses = Net Income. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 94. | Expenses are shown in which of the following statements?      |  |  | | --- | --- | | **A.** | Income statement. |  |  |  | | --- | --- | | B. | Statement of cash flows. |  |  |  | | --- | --- | | C. | Balance sheet. |  |  |  | | --- | --- | | D. | Statement of stockholders' equity. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 95. | Which of the following items would not appear in an income statement?      |  |  | | --- | --- | | A. | Salaries expense. |  |  |  | | --- | --- | | B. | Advertising expense. |  |  |  | | --- | --- | | C. | Service revenue. |  |  |  | | --- | --- | | **D.** | Cash. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 96. | Which of the following items would not appear in an income statement?      |  |  | | --- | --- | | A. | Delivery Expense. |  |  |  | | --- | --- | | **B.** | Accounts Payable. |  |  |  | | --- | --- | | C. | Service Revenue. |  |  |  | | --- | --- | | D. | Utilities Expense. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 97. | Consider the following account balances of the Shattuck Law Firm at the end of the year:   |  |  | | --- | --- | | Accounts Payable | $4,400 | | Salaries Expense | 12,800 | | Cash | 1,700 | | Common Stock | 2,400 | | Service Revenue | 8,300 | | Supplies | 4,300 | | Retained Earnings | 1,100 | | Utilities Expense | 5,000 |   How many of these accounts would appear in Shattuck's year-end income statement?       |  |  | | --- | --- | | A. | Five. |  |  |  | | --- | --- | | B. | Four. |  |  |  | | --- | --- | | **C.** | Three. |  |  |  | | --- | --- | | D. | Two. |   Salaries Expense, Service Revenue, and Utilities Expense. |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Blooms: Apply Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 98. | Net income (loss) appears in which two financial statements?      |  |  | | --- | --- | | A. | Balance sheet and income statement. |  |  |  | | --- | --- | | **B.** | Income statement and statement of stockholders' equity. |  |  |  | | --- | --- | | C. | Statement of stockholders' equity and balance sheet. |  |  |  | | --- | --- | | D. | Net income appears in only one financial statement. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 99. | Which of the following items is reported in the statement of stockholders' equity?      |  |  | | --- | --- | | A. | Total assets. |  |  |  | | --- | --- | | B. | Total expenses. |  |  |  | | --- | --- | | **C.** | Net income. |  |  |  | | --- | --- | | D. | Operating cash flows. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 100. | Which of the following accounts appears in the statement of stockholders' equity?      |  |  | | --- | --- | | A. | Accounts Payable. |  |  |  | | --- | --- | | B. | Accounts Receivable. |  |  |  | | --- | --- | | **C.** | Common Stock. |  |  |  | | --- | --- | | D. | Supplies. | |

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| 101. | Which of the following accounts appears in the statement of stockholders' equity?      |  |  | | --- | --- | | A. | Supplies. |  |  |  | | --- | --- | | B. | Cash. |  |  |  | | --- | --- | | C. | Salaries Payable. |  |  |  | | --- | --- | | **D.** | Retained Earnings. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 102. | Which one of the following statements regarding financial reports is correct?      |  |  | | --- | --- | | A. | The balance sheet classifies all assets according to operating, investing, and financing activities. |  |  |  | | --- | --- | | B. | The income statement is used to show that a company's resources equal claims to those resources. |  |  |  | | --- | --- | | **C.** | The statement of stockholders' equity updates the balances of common stock and retained earnings for related transactions during the year. |  |  |  | | --- | --- | | D. | The statement of cash flows shows cash inflows and outflows from operating activities only. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 103. | Which of the following best explains the meaning of total stockholders' equity?      |  |  | | --- | --- | | A. | The difference between total revenues and total expenses, less dividends for the year. |  |  |  | | --- | --- | | B. | The amount of common stock less dividends over the life of the company. |  |  |  | | --- | --- | | C. | All revenues, expenses, and dividends over the life of the company. |  |  |  | | --- | --- | | **D.** | The amount of capital invested by stockholders plus profits retained over the life of the company. |   Total stockholders' equity equals the amount of common stock plus retained earnings. Common stock is the amount of capital invested by stockholders, and retained earnings are profits retained over the life of the company. |

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| 104. | Which of the following statements regarding financial reports is not correct?      |  |  | | --- | --- | | A. | A balance sheet contains assets, liabilities, and stockholders' equity information. |  |  |  | | --- | --- | | B. | An income statement shows revenues and expenses. |  |  |  | | --- | --- | | **C.** | A statement of stockholders' equity reports revenues, net income, and dividends information. |  |  |  | | --- | --- | | D. | A statement of cash flows shows cash inflows and outflows from operating, investing, and financing activities. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 105. | Retained earnings at the end of the year is calculated using:      |  |  | | --- | --- | | **A.** | Beginning retained earnings, net income, and dividends. |  |  |  | | --- | --- | | B. | Common stock and dividends. |  |  |  | | --- | --- | | C. | Stockholders' equity, net income, and dividends. |  |  |  | | --- | --- | | D. | Net income and dividends. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 106. | DW has an ending Retained Earnings balance of $51,100. If during the year DW paid dividends of $4,300 and had net income of $22,500, then what was the beginning Retained Earnings balance?       |  |  | | --- | --- | | A. | $24,300. |  |  |  | | --- | --- | | **B.** | $32,900. |  |  |  | | --- | --- | | C. | $300. |  |  |  | | --- | --- | | D. | $69,300. |   Beginning Retained Earnings + Net Income ($22,500) - Dividends ($4,300) = Ending Retained Earnings ($51,100). |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 107. | The ending Retained Earnings balance of Boomer Inc. decreased by $1.0 million from the beginning of the year. The company declared a dividend of $5.4 million during the year. What was the net income for the year?      |  |  | | --- | --- | | A. | $7.5 million. |  |  |  | | --- | --- | | B. | $6.4 million. |  |  |  | | --- | --- | | **C.** | $4.4 million. |  |  |  | | --- | --- | | D. | $1.0 million. |   Beginning Retained Earnings ($0) + Net Income - Dividends ($5.4) = Ending Retained Earnings ($-1.0). |

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| 108. | Given the information below about Thomas Corporation, what was the amount of dividends the company paid in the current period?   |  |  | | --- | --- | | Beginning retained earnings | $54,000 | | Ending retained earnings | $110,000 | | Decrease in cash | $10,000 | | Net income | $84,000 | | Change in stockholders’ equity | $15,000 |       |  |  | | --- | --- | | A. | $13,000. |  |  |  | | --- | --- | | B. | $110,000. |  |  |  | | --- | --- | | **C.** | $28,000. |  |  |  | | --- | --- | | D. | $18,000. |   Beginning Retained Earnings ($54,000) + Net Income ($84,000) - Dividends = Ending Retained Earnings ($110,000). |

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| 109. | Given the information below about David Corporation, what was the amount of dividends the company paid in the current period?       |  |  | | --- | --- | | A. | $140,000. |  |  |  | | --- | --- | | B. | $0. |  |  |  | | --- | --- | | **C.** | $30,000. |  |  |  | | --- | --- | | D. | $20,000. |   Beginning Retained Earnings ($35,000) + Net Income ($85,000) - Dividends = Ending Retained Earnings ($90,000). |

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| 110. | For the past five years, Mookie Consulting Services reported the following annual net income and dividend amounts:   |  |  |  | | --- | --- | --- | | **Year** | **Net Income** | **Dividends** | | 1 | $22,000 | $2,000 | | 2 | 17,000 | 2,000 | | 3 | 9,000 | 1,000 | | 4 | 14,000 | 3,000 | | 5 | 25,000 | 4,000 |   If Mookie had Retained Earnings of $88,000 at the end of year 5, what was the company's Retained Earnings at the beginning of Year 1?       |  |  | | --- | --- | | **A.** | $13,000. |  |  |  | | --- | --- | | B. | $25,000. |  |  |  | | --- | --- | | C. | $7,000. |  |  |  | | --- | --- | | D. | $1,000. |   Beginning retained earnings = ending retained earnings ($88,000) - total net income ($87,000) + total dividends ($12,000). |

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| 111. | Sooner Company had a net income of $8,000, $5,000, $12,000, and $10,000 over the first four years of the company's existence. If the average annual amount of dividends paid over the last four years is $3,000, what is the ending retained earnings balance?       |  |  | | --- | --- | | A. | $47,000. |  |  |  | | --- | --- | | B. | $35,000. |  |  |  | | --- | --- | | **C.** | $23,000. |  |  |  | | --- | --- | | D. | $7,000. |   Beginning Retained Earnings ($0) + Net Income ($8,000 + $5,000 + $12,000 + $10,000) - Dividends ($3,000 \* 4) = Ending Retained Earnings. |

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| *AACSB: Analytical Thinking AICPA: FN Measurement Accessibility: Keyboard Navigation Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 112. | Nina Corp. had the following net income (loss) the first three years of operation: $7,100, ($1,600), and $3,600. If the Retained Earnings balance at the end of year three is $1,100, what was the total amount of dividends paid over these three years?      |  |  | | --- | --- | | A. | $500. |  |  |  | | --- | --- | | B. | $0. |  |  |  | | --- | --- | | C. | $9,100. |  |  |  | | --- | --- | | **D.** | $8,000. |   Beginning Retained Earnings ($0) + Net Income ($7,100 - $1,600 + $3,600) - Dividends = Ending Retained Earnings ($1,100). |

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| 113. | Aikman Company has paid dividends of $2,410, $0, $1,570 and $1,060 over the first four years of the company's existence. If Retained Earnings after year four has an ending balance of $9,700, what is the average annual amount of net income (loss) over the past four years for Aikman?      |  |  | | --- | --- | | **A.** | $3,685. |  |  |  | | --- | --- | | B. | $14,740. |  |  |  | | --- | --- | | C. | $840. |  |  |  | | --- | --- | | D. | $1,260. |   Beginning Retained Earnings ($0) + Net Income - Dividends ($2,410 + $0 + $1,570 + $1,060) = Ending Retained Earnings ($9,700). Divide net income amount by 4 to get average. |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 114. | On January 1, Gucci Brothers Inc. started the year with a $492,000 balance in Retained Earnings and a $605,000 balance in Common Stock. During the year, the company reported net income of $92,000, paid a dividend of $15,200, and issued more common stock for $27,500. What is total stockholders' equity at the end of the year?      |  |  | | --- | --- | | A. | $1,231,700. |  |  |  | | --- | --- | | B. | $1,097,000. |  |  |  | | --- | --- | | **C.** | $1,201,300. |  |  |  | | --- | --- | | D. | $1,588,300. |   Stockholders Equity = Common Stock ($605,000 + $27,500) + Retained Earnings ($492,000 + $92,000 - $15,200). |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 115. | The financial statement that represents the accounting equation is the:      |  |  | | --- | --- | | A. | Income statement. |  |  |  | | --- | --- | | B. | Statement of cash flows. |  |  |  | | --- | --- | | **C.** | Balance sheet. |  |  |  | | --- | --- | | D. | Statement of stockholders' equity. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 116. | The equation best describing the balance sheet is:      |  |  | | --- | --- | | **A.** | Assets = Liabilities + Stockholders' Equity. |  |  |  | | --- | --- | | B. | Revenues - Expenses = Net Income. |  |  |  | | --- | --- | | C. | Ending Retained Earnings + Dividends = Net Income. |  |  |  | | --- | --- | | D. | Revenues + Expenses = Net Income. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 117. | The financial statement that represents activity over the entire life of the company is the:      |  |  | | --- | --- | | A. | Income statement. |  |  |  | | --- | --- | | **B.** | Balance sheet. |  |  |  | | --- | --- | | C. | Statement of financial accounting. |  |  |  | | --- | --- | | D. | Statement of cash flows. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 118. | Liabilities are shown in which of the following statements?      |  |  | | --- | --- | | A. | Income statement. |  |  |  | | --- | --- | | B. | Statement of cash flows. |  |  |  | | --- | --- | | **C.** | Balance sheet. |  |  |  | | --- | --- | | D. | Statement of stockholders' equity. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 119. | Consider the following account balances of the Shattuck Law Firm at the end of the year:   |  |  | | --- | --- | | Accounts Payable | $4,400 | | Salaries Expense | 12,800 | | Cash | 1,700 | | Common Stock | 2,400 | | Service Revenue | 8,300 | | Supplies | 4,300 | | Retained Earnings | 1,100 | | Utilities Expense | 5,000 |   How many of these accounts would appear in Shattuck's year-end balance sheet?       |  |  | | --- | --- | | **A.** | Five. |  |  |  | | --- | --- | | B. | Four. |  |  |  | | --- | --- | | C. | Three. |  |  |  | | --- | --- | | D. | Two. |   Accounts Payable, Cash, Common Stock, Supplies, and Retained Earnings. |

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| 120. | The two categories of stockholders' equity usually found in the balance sheet of a corporation are:      |  |  | | --- | --- | | A. | Common stock and liabilities. |  |  |  | | --- | --- | | B. | Assets and liabilities. |  |  |  | | --- | --- | | **C.** | Common stock and retained earnings. |  |  |  | | --- | --- | | D. | Revenues and expenses. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 121. | Which of the following is not a balance sheet item?      |  |  | | --- | --- | | A. | Assets. |  |  |  | | --- | --- | | B. | Retained Earnings. |  |  |  | | --- | --- | | **C.** | Expenses. |  |  |  | | --- | --- | | D. | Liabilities. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 122. | Which of the following is a balance sheet item?      |  |  | | --- | --- | | A. | Net Income. |  |  |  | | --- | --- | | B. | Dividends. |  |  |  | | --- | --- | | C. | Utilities Expense. |  |  |  | | --- | --- | | **D.** | Cash. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 123. | Which of the following statements is NOT correct about the financial statements?      |  |  | | --- | --- | | A. | An income statement reports revenues, expenses, and net income information. |  |  |  | | --- | --- | | B. | The statement of stockholders' equity presents common stock, dividends, and retained earnings information. |  |  |  | | --- | --- | | **C.** | A balance sheet reports assets, liabilities, revenues, and expenses. |  |  |  | | --- | --- | | D. | The statement of cash flows shows cash inflows and outflows from operating, financing, and investing activities. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 124. | The balance sheet depicts which of the following equations?      |  |  | | --- | --- | | A. | Net income = revenue - expenses. |  |  |  | | --- | --- | | B. | Ending retained earnings = beginning retained earnings + net income - dividends. |  |  |  | | --- | --- | | **C.** | Assets = liabilities + stockholders' equity. |  |  |  | | --- | --- | | D. | Net cash flows = total cash inflows - total cash outflows. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 125. | Which of the following financial statements reports a company's retained earnings?      |  |  | | --- | --- | | A. | Income statement. |  |  |  | | --- | --- | | **B.** | Balance sheet. |  |  |  | | --- | --- | | C. | Statement of cash flows. |  |  |  | | --- | --- | | D. | All of the other answers are statements that report retained earnings. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 126. | Which of the following is not a balance sheet item?       |  |  | | --- | --- | | A. | Assets. |  |  |  | | --- | --- | | B. | Common stock. |  |  |  | | --- | --- | | C. | Retained earnings. |  |  |  | | --- | --- | | **D.** | Revenues. | |

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| 127. | Which of the following is not a major section in the statement of cash flows?      |  |  | | --- | --- | | A. | Cash flows from operating activities. |  |  |  | | --- | --- | | **B.** | Cash flows from customers. |  |  |  | | --- | --- | | C. | Cash flows from financing activities. |  |  |  | | --- | --- | | D. | Cash flows from investing activities. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 128. | Cash paid for which of the following activities would affect the amount reported for operating cash flows in the statement of cash flows?      |  |  | | --- | --- | | A. | Issuing common stock. |  |  |  | | --- | --- | | B. | Paying dividends. |  |  |  | | --- | --- | | **C.** | Paying electricity bill for the month. |  |  |  | | --- | --- | | D. | Borrowing cash from a bank to acquire a factory. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 129. | How many of the following transactions would affect operating cash flows reported in the statement of cash flows (all transaction involve cash)?  Borrowed $50,000 from the bank Purchased $12,000 in supplies Provide services to customers for $27,000 Paid the utility bill of $750 Purchased a delivery truck for $12,000 Received $25,000 from issuing common stock      |  |  | | --- | --- | | A. | One. |  |  |  | | --- | --- | | B. | Two. |  |  |  | | --- | --- | | **C.** | Three. |  |  |  | | --- | --- | | D. | Four. |   (1) Purchased supplies, (2) Provided services to customers, and (3) Paid utility bill. |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 130. | Investing cash flows in the statement of cash flows would include which of the following?      |  |  | | --- | --- | | A. | Paying salaries for the month. |  |  |  | | --- | --- | | **B.** | Purchase of land. |  |  |  | | --- | --- | | C. | Paying dividends to stockholders. |  |  |  | | --- | --- | | D. | Selling goods or services to customers. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 131. | FlintCo purchases additional office equipment to better serves its customers. This cash purchase is reported in the statement of cash flows as what type of activity?      |  |  | | --- | --- | | A. | Company activity. |  |  |  | | --- | --- | | **B.** | Investing activity. |  |  |  | | --- | --- | | C. | Financing activity. |  |  |  | | --- | --- | | D. | Operating activity. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 132. | Financing cash flows in the statement of cash flows would include which of the following?      |  |  | | --- | --- | | A. | Paying salaries for the month. |  |  |  | | --- | --- | | B. | Purchase of land. |  |  |  | | --- | --- | | **C.** | Paying dividends to stockholders. |  |  |  | | --- | --- | | D. | Selling goods or services to customers. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 133. | Cash received from bank borrowing would be reported in the statement of cash flows as what type of activity?      |  |  | | --- | --- | | A. | Investing. |  |  |  | | --- | --- | | B. | Organizing. |  |  |  | | --- | --- | | C. | Operating. |  |  |  | | --- | --- | | **D.** | Financing. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 134. | If total change in cash = $44,000, net operating cash flows = $22,000, and net investing cash flows = ($13,000); then net financing cash flows =      |  |  | | --- | --- | | A. | $15,000. |  |  |  | | --- | --- | | **B.** | $35,000. |  |  |  | | --- | --- | | C. | $25,000. |  |  |  | | --- | --- | | D. | $45,000. |   Total change in cash = net operating cash flows + net investing cash flows + net financing cash flows. |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 135. | The financial statement(s) that record activity over an interval of time include the:      |  |  | | --- | --- | | A. | Income statement. |  |  |  | | --- | --- | | B. | Balance sheet. |  |  |  | | --- | --- | | C. | Balance sheet and income statement. |  |  |  | | --- | --- | | **D.** | Income statement and statement of cash flows. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 136. | Which of the following is the correct order for preparing the financial statements listed?      |  |  | | --- | --- | | A. | Balance sheet, statement of stockholders' equity, and income statement. |  |  |  | | --- | --- | | B. | Balance sheet, income statement, and statement of stockholders' equity. |  |  |  | | --- | --- | | C. | Statement of stockholders' equity, income statement, and balance sheet. |  |  |  | | --- | --- | | **D.** | Income statement, statement of stockholders' equity, and balance sheet. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 137. | In what order are the following financial statements prepared: (1) balance sheet, (2) income statement, and (3) statement of stockholders' equity?      |  |  | | --- | --- | | A. | 1, 2, 3. |  |  |  | | --- | --- | | B. | 3, 2, 1. |  |  |  | | --- | --- | | C. | 1, 3, 2. |  |  |  | | --- | --- | | **D.** | 2, 3, 1. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 138. | Which financial statement is typically prepared first?      |  |  | | --- | --- | | A. | Balance sheet. |  |  |  | | --- | --- | | **B.** | Income statement. |  |  |  | | --- | --- | | C. | Statement of stockholders' equity. |  |  |  | | --- | --- | | D. | Statement of cash flows. | |

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| 139. | Which of the following best represents value created for stockholders during the current period?      |  |  | | --- | --- | | A. | Retained earnings. |  |  |  | | --- | --- | | B. | Total assets. |  |  |  | | --- | --- | | **C.** | Net income. |  |  |  | | --- | --- | | D. | Stockholders' equity. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process. Topic: Making Decisions with Accounting Information* |

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| 140. | Which of the following has the single greatest impact on stock prices?      |  |  | | --- | --- | | A. | Total dividends. |  |  |  | | --- | --- | | B. | Total assets. |  |  |  | | --- | --- | | C. | Total revenues. |  |  |  | | --- | --- | | **D.** | Net income. | |

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| *AACSB: Reflective Thinking AICPA: FN Decision Making Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process. Topic: Making Decisions with Accounting Information* |

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| 141. | Which financial accounting number impacts stock prices more than any other single piece of information?      |  |  | | --- | --- | | A. | Retained earnings. |  |  |  | | --- | --- | | **B.** | Net income. |  |  |  | | --- | --- | | C. | Common stock. |  |  |  | | --- | --- | | D. | Total assets. | |

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| *AACSB: Reflective Thinking AICPA: FN Decision Making Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process. Topic: Making Decisions with Accounting Information* |

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| 142. | Which financial statement best reveals to investors and creditors information about a company's debt?      |  |  | | --- | --- | | A. | Income statement. |  |  |  | | --- | --- | | **B.** | Balance sheet. |  |  |  | | --- | --- | | C. | Statement of cash flows. |  |  |  | | --- | --- | | D. | Statement of stockholders' equity. | |

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| *AACSB: Reflective Thinking AICPA: FN Decision Making Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-04 Describe the role that financial accounting plays in the decision-making process. Topic: Making Decisions with Accounting Information* |

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| 143. | GAAP is an abbreviation for:      |  |  | | --- | --- | | A. | Generally authorized accounting procedures. |  |  |  | | --- | --- | | B. | Generally applied accounting procedures. |  |  |  | | --- | --- | | C. | Generally accepted auditing practices. |  |  |  | | --- | --- | | **D.** | Generally accepted accounting principles. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 144. | Generally Accepted Accounting Principles (GAAP) are best defined as:      |  |  | | --- | --- | | **A.** | Standards or methods for presenting financial accounting information. |  |  |  | | --- | --- | | B. | Government-mandated rules that companies must follow. |  |  |  | | --- | --- | | C. | Rules that best estimate profitability for a company. |  |  |  | | --- | --- | | D. | The group of individuals that create and enforce all accounting rules. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 145. | The body of rules and procedures that guide the measurement and communication of financial accounting information in the United States is known as:      |  |  | | --- | --- | | A. | Standards of Professional Compliance (SPC). |  |  |  | | --- | --- | | **B.** | Generally Accepted Accounting Principles (GAAP). |  |  |  | | --- | --- | | C. | Generally Accepted Auditing Standards (GAAS). |  |  |  | | --- | --- | | D. | Rules of Financial Reporting (RFR). | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 146. | The independent, private-sector group that is primarily responsible for setting financial reporting standards in the United States is the:      |  |  | | --- | --- | | **A.** | FASB. |  |  |  | | --- | --- | | B. | IASB. |  |  |  | | --- | --- | | C. | SEC. |  |  |  | | --- | --- | | D. | IRS. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 147. | Financial accounting and reporting standards in the United States are established primarily by the:      |  |  | | --- | --- | | A. | Securities and Exchange Commission. |  |  |  | | --- | --- | | **B.** | Financial Accounting Standards Board. |  |  |  | | --- | --- | | C. | International Accounting Standards Board. |  |  |  | | --- | --- | | D. | U.S. Congress. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 148. | The private sector organization that is currently responsible for setting accounting standards in the United States is the:      |  |  | | --- | --- | | **A.** | Financial Accounting Standards Board. |  |  |  | | --- | --- | | B. | Accounting Principles Board. |  |  |  | | --- | --- | | C. | Securities and Exchange Commission. |  |  |  | | --- | --- | | D. | American Institute of Certified Public Accountants. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 149. | The legal authority to set accounting standards lies with the:      |  |  | | --- | --- | | A. | Financial Accounting Standards Board. |  |  |  | | --- | --- | | B. | Accounting Principles Board. |  |  |  | | --- | --- | | **C.** | Securities and Exchange Commission. |  |  |  | | --- | --- | | D. | American Institute of Certified Public Accountants. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 150. | The International Accounting Standards Board:      |  |  | | --- | --- | | A. | Is governed by the U.S. Securities and Exchange Commission. |  |  |  | | --- | --- | | B. | Can overrule the FASB when their policies disagree. |  |  |  | | --- | --- | | **C.** | Promotes the use of high-quality, understandable global accounting standards. |  |  |  | | --- | --- | | D. | Is the primary standard-setting body in the United States. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 151. | Financial accounting objectives do not include providing information:      |  |  | | --- | --- | | A. | Useful to investors and creditors in making decisions. |  |  |  | | --- | --- | | **B.** | To determine market values, assess profit potential, and evaluate management. |  |  |  | | --- | --- | | C. | Helpful to investors in predicting cash flows. |  |  |  | | --- | --- | | D. | That tells about a company's economic resources and claims to those resources. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 152. | Which statement below best describes the objectives of financial accounting?      |  |  | | --- | --- | | A. | Provide information that helps predict cash flows. |  |  |  | | --- | --- | | B. | Provide information about the economic resources, claims to resources and changes in resources and claims. |  |  |  | | --- | --- | | C. | Provide information that is useful in making decisions. |  |  |  | | --- | --- | | **D.** | All of the other answers are objectives of financial accounting. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 153. | Of the following, the most important objective for financial accounting is to provide information useful for:      |  |  | | --- | --- | | **A.** | Predicting cash flows. |  |  |  | | --- | --- | | B. | Determining taxable income. |  |  |  | | --- | --- | | C. | Providing accountability. |  |  |  | | --- | --- | | D. | Increasing future profits. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 154. | Independent auditors express an opinion on the:      |  |  | | --- | --- | | **A.** | Fairness of financial statements. |  |  |  | | --- | --- | | B. | Amount of income taxes a company owes to the government. |  |  |  | | --- | --- | | C. | Quality of the company's products. |  |  |  | | --- | --- | | D. | Quality of a company's workforce. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 155. | The term "cooking the books" refers to:       |  |  | | --- | --- | | **A.** | Purposely providing misleading financial information to investors and creditors. |  |  |  | | --- | --- | | B. | Hiring an auditor to provide independent verification of the fairness of financial statements. |  |  |  | | --- | --- | | C. | Filing all tax-related statements by the required deadline. |  |  |  | | --- | --- | | D. | Preparing internal budgets to plan for expenditures in the following year. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 156. | Fundamental qualitative characteristics of accounting information are:       |  |  | | --- | --- | | A. | Relevance and comparability. |  |  |  | | --- | --- | | B. | Comparability and consistency. |  |  |  | | --- | --- | | **C.** | Faithful representation and relevance. |  |  |  | | --- | --- | | D. | Faithful representation and consistency. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 157. | The qualitative characteristic that says accounting information can influence users' decisions by allowing them to assess past performance is:      |  |  | | --- | --- | | A. | Timeliness. |  |  |  | | --- | --- | | B. | Neutrality. |  |  |  | | --- | --- | | **C.** | Confirmatory value. |  |  |  | | --- | --- | | D. | Predictive value. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 158. | Accounting information that does not provide measurement bias in favor of a particular set of companies has the characteristic of:      |  |  | | --- | --- | | A. | Relevance. |  |  |  | | --- | --- | | B. | Consistency. |  |  |  | | --- | --- | | C. | Materiality. |  |  |  | | --- | --- | | **D.** | Neutrality. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 159. | If accounting information is considered to have faithful representation, then which of the following is true?      |  |  | | --- | --- | | **A.** | The information represents to users what it claims to represent. |  |  |  | | --- | --- | | B. | The information follows conservatism principles and is also material. |  |  |  | | --- | --- | | C. | The information is considered pertinent to or affects decisions. |  |  |  | | --- | --- | | D. | The information will have predictive value, feedback value, and is timely. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 160. | For accounting information to be relevant, it should possess which of the following characteristics?      |  |  | | --- | --- | | **A.** | Predictive value, confirmatory value, and/or materiality. |  |  |  | | --- | --- | | B. | Large in amount and timely. |  |  |  | | --- | --- | | C. | Comparability or consistency. |  |  |  | | --- | --- | | D. | Verifiability. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 161. | Materiality is based upon which factor(s)?      |  |  | | --- | --- | | A. | Timeliness of an item. |  |  |  | | --- | --- | | **B.** | Amount and nature of an item. |  |  |  | | --- | --- | | C. | Consistency of an item. |  |  |  | | --- | --- | | D. | Relevance of an item. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 162. | The conceptual framework's qualitative characteristic of relevance includes:      |  |  | | --- | --- | | **A.** | Predictive value. |  |  |  | | --- | --- | | B. | Verifiability. |  |  |  | | --- | --- | | C. | Completeness. |  |  |  | | --- | --- | | D. | Neutrality. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 163. | The conceptual framework's qualitative characteristic of faithful representation includes:      |  |  | | --- | --- | | A. | Predictive value. |  |  |  | | --- | --- | | **B.** | Neutrality. |  |  |  | | --- | --- | | C. | Confirmatory value. |  |  |  | | --- | --- | | D. | Comparability. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 164. | Constraints on qualitative characteristics of accounting information include:      |  |  | | --- | --- | | A. | Freedom from material error. |  |  |  | | --- | --- | | B. | Going concern. |  |  |  | | --- | --- | | C. | Neutrality. |  |  |  | | --- | --- | | **D.** | Cost effectiveness. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 165. | Enhancing qualitative characteristics of accounting information include:      |  |  | | --- | --- | | A. | Relevance and comparability. |  |  |  | | --- | --- | | **B.** | Comparability and consistency. |  |  |  | | --- | --- | | C. | Faithful representation and relevance. |  |  |  | | --- | --- | | D. | Cost effectiveness and materiality. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 166. | The major underlying assumptions of accounting include all of the following except:      |  |  | | --- | --- | | A. | Economic entity. |  |  |  | | --- | --- | | B. | Monetary unit. |  |  |  | | --- | --- | | **C.** | Legal liability. |  |  |  | | --- | --- | | D. | Going concern. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 167. | If a company has gone bankrupt, its financial statements likely violate the:      |  |  | | --- | --- | | A. | Periodicity assumption. |  |  |  | | --- | --- | | B. | Monetary unit assumption. |  |  |  | | --- | --- | | **C.** | Going concern assumption. |  |  |  | | --- | --- | | D. | Economic entity assumption. | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 168. | The assumption that a business will continue to operate into the future is the:      |  |  | | --- | --- | | A. | Monetary unit assumption. |  |  |  | | --- | --- | | B. | Periodicity assumption. |  |  |  | | --- | --- | | C. | Economic entity assumption. |  |  |  | | --- | --- | | **D.** | Going concern assumption. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 169. | The assumption that the assets and liabilities of the business are accounted for on the books of the company but not included in the records of the owner is the:      |  |  | | --- | --- | | A. | Monetary unit assumption. |  |  |  | | --- | --- | | **B.** | Economic entity assumption. |  |  |  | | --- | --- | | C. | Going concern assumption. |  |  |  | | --- | --- | | D. | Periodicity assumption. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 170. | The assumption that the life of the business can be divided into time intervals for reporting purposes is the:      |  |  | | --- | --- | | A. | Monetary unit assumption. |  |  |  | | --- | --- | | **B.** | Periodicity assumption. |  |  |  | | --- | --- | | C. | Economic entity assumption. |  |  |  | | --- | --- | | D. | Going concern assumption. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 171. | The assumption that amounts are reported using a common scale (such as the dollar in the United States) is the:      |  |  | | --- | --- | | **A.** | Monetary unit assumption. |  |  |  | | --- | --- | | B. | Periodicity assumption. |  |  |  | | --- | --- | | C. | Economic entity assumption. |  |  |  | | --- | --- | | D. | Going concern assumption. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

**Matching Questions**

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| 172. | Match each account classification with its example.      |  |  |  | | --- | --- | --- | | 1. Liabilities | Land owned by a company. | **5** | | 2. Revenues | Amounts owed to the bank. | **1** | | 3. Dividends | Common stock issued to investors. | **4** | | 4. Stockholders' equity | Payments made to stockholders. | **3** | | 5. Assets | Cleaning services provided to customers. | **2** | | 6. Expenses | Workers' salaries for the current period. | **6** | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 173. | Match each business activity with its example.      |  |  |  | | --- | --- | --- | | 1. Operating | Receive investments from stockholders. | **2** | | 2. Financing | Purchase office building. | **3** | | 3. Investing | Pay utilities. | **1** | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 174. | Match each financial statement with the accounts reported in it.       |  |  |  | | --- | --- | --- | | 1. Income statement | Revenues and expenses. | **1** | | 2. Statement of stockholders' equity | Dividends. | **2** | | 3. Balance sheet | Assets and liabilities. | **3** | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 175. | Match each organization to its role.      |  |  |  | | --- | --- | --- | | 1. Financial Accounting Standards Board | Independent, private-sector group that is primarily responsible for setting financial reporting rules in the United States. | **1** | | 2. Public Company Accounting Oversight Board | Enforce proper application of financial reporting rules for companies whose securities are publicly traded. | **4** | | 3. International Accounting Standards Committee | Develop a single set of high-quality, understandable global accounting standards. | **3** | | 4. Securities and Exchange Commission | Ensure that auditors follow strict guidelines when conducting their audits. | **2** | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 176. | Match each qualitative characteristic with its definition.       |  |  |  | | --- | --- | --- | | 1. Predictive value | Information provides feedback on past activities. | **2** | | 2. Confirmatory value | All information necessary to describe an item is reported. | **6** | | 3. Verifiability | Information is presented in time to make useful decisions. | **4** | | 4. Timeliness | Measurements that independent parties would agree upon. | **3** | | 5. Neutrality | Information that does not bias the decision maker. | **5** | | 6. Completeness | Information is useful in helping to forecast future outcomes. | **1** | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

**Essay Questions**

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| 177. | For each transaction, indicate whether a company would classify the related account as an asset, liability, stockholders' equity, dividend, revenue, or expense.   |  |  |  | | --- | --- | --- | |  | **Transactions** | **Related Accounts** | | 1. | Receive cash from investors. | Common Stock | | 2. | Pay rent for the current period. | Rent Expense | | 3. | Purchase office equipment. | Supplies | | 4. | Pay cash to stockholders. | Dividends | | 5. | Provide services to customers. | Service Revenue |      1. Stockholders' equity; 2. Expense; 3. Asset; 4. Dividend; 5. Revenue. |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 178. | Account classifications include assets, liabilities, stockholders' equity, dividends, revenues, and expenses. Indicate the account classification for each account name.   |  |  |  |  | | --- | --- | --- | --- | |  | **Account Classifications** | **Accounts** | **Related Transactions** | | 1. | **\_\_\_\_\_\_\_\_\_\_** | Common Stock | Sell common stock to investors. | | 2. | **\_\_\_\_\_\_\_\_\_\_** | Cash | Receive cash from customers. | | 3. | **\_\_\_\_\_\_\_\_\_\_** | Salaries Payable | Incur amounts owed to employees. | | 4. | **\_\_\_\_\_\_\_\_\_\_** | Service Revenue | Sell services to customers. | | 5. | **\_\_\_\_\_\_\_\_\_\_** | Utilities Expense | Incur cost of utilities. | | 6. | **\_\_\_\_\_\_\_\_\_\_** | Supplies | Purchase of office supplies. | | 7. | **\_\_\_\_\_\_\_\_\_\_** | Advertising Expense | Pay for cost of advertising. | | 8. | **\_\_\_\_\_\_\_\_\_\_** | Buildings | Purchase factory for operations. | | 9. | **\_\_\_\_\_\_\_\_\_\_** | Accounts Payable | Purchase supplies on credit. | | 10. | **\_\_\_\_\_\_\_\_\_\_** | Dividends | Distribute cash to stockholders. |      1. Stockholders' equity; 2. Asset; 3. Liability; 4. Revenue; 5. Expense; 6. Asset; 7. Expense; 8. Asset; 9. Liability; 10. Dividend. |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 179. | Indicate whether a company would classify the transaction as financing, investing, or operating.   |  |  | | --- | --- | |  | **Transactions** | | 1. | Receive cash from investors. | | 2. | Pay rent for the current period. | | 3. | Purchase office equipment. | | 4. | Pay cash to stockholders. | | 5. | Provide services to customers. |      1. Financing; 2. Operating; 3. Investing; 4. Financing; 5. Operating. |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 180. | Below are typical transactions for a company. Indicate whether each transaction is classified as a financing, investing, or operating activity.   |  |  |  | | --- | --- | --- | |  | **Type of Business Activity** | **Transactions** | | 1. | **\_\_\_\_\_\_\_\_\_\_** | Purchase office building | | 2. | **\_\_\_\_\_\_\_\_\_\_** | Pay building maintenance fees | | 3. | **\_\_\_\_\_\_\_\_\_\_** | Pay sales taxes to the local government | | 4. | **\_\_\_\_\_\_\_\_\_\_** | Provide services to customers | | 5. | **\_\_\_\_\_\_\_\_\_\_** | Borrow from the bank | | 6. | **\_\_\_\_\_\_\_\_\_\_** | Pay workers’ salaries | | 7. | **\_\_\_\_\_\_\_\_\_\_** | Sell equipment used in operations | | 8. | **\_\_\_\_\_\_\_\_\_\_** | Sell common stock to investors |      1. Investing; 2. Operating; 3. Operating; 4. Operating; 5. Financing; 6. Operating; 7. Investing; 8. Financing. |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 181. | Below are typical transactions for a company. Indicate whether each transaction is classified as a financing, investing, or operating activity.   |  |  |  | | --- | --- | --- | |  | **Type of Business Activity** | **Related Transactions** | | 1. | **\_\_\_\_\_\_\_\_\_\_** | Sell common stock to investors. | | 2. | **\_\_\_\_\_\_\_\_\_\_** | Receive cash from customers. | | 3. | **\_\_\_\_\_\_\_\_\_\_** | Incur amounts owed to employees. | | 4. | **\_\_\_\_\_\_\_\_\_\_** | Sell services to customers. | | 5. | **\_\_\_\_\_\_\_\_\_\_** | Incur cost of utilities. | | 6. | **\_\_\_\_\_\_\_\_\_\_** | Purchase rent one year in advance. | | 7. | **\_\_\_\_\_\_\_\_\_\_** | Pay for cost of advertising. | | 8. | **\_\_\_\_\_\_\_\_\_\_** | Purchase factory for operations. | | 9. | **\_\_\_\_\_\_\_\_\_\_** | Purchase supplies on credit. | | 10. | **\_\_\_\_\_\_\_\_\_\_** | Distribute cash to stockholders. |      1. Financing; 2. Operating; 3. Operating; 4. Operating; 5. Operating; 6. Operating; 7. Operating; 8. Investing; 9. Operating; 10. Financing. |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 182. | At the end of the current period, Maltese, Inc. reports the following amounts: Assets = $50,000; Liabilities = $28,000; Dividends = $4,000; Revenues = $22,000; Expenses = $16,000. Calculate net income and stockholders' equity at the end of the period.       |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Revenues** | **-** | **Expenses** | **=** | **Net Income** | | $22,000 | **-** | $16,000 | = | **$6,000** | | **Assets** | **=** | **Liabilities** | **+** | **Stockholder's equity** | | $50,000 | **=** | $28,000 | + | $X | | $50,000 | **-** | $28,000 | = | **$22,000** | |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 183. | At the end of the current period, Rogers Company reports the following amounts: Assets = $25,000; Liabilities = $15,000; Dividends = $3,000; Revenues = $20,000; Expenses = $13,000. Calculate net income and stockholders' equity at the end of the period.       |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Revenues** | **-** | **Expenses** | **=** | **Net Income** | | $20,000 | **-** | $13,000 | = | **$7,000** | | **Assets** | **=** | **Liabilities** | **+** | **Stockholder's equity** | | $25,000 | **=** | $15,000 | + | $X | | $25,000 | **-** | $15,000 | = | **$10,000** | |

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| 184. | Below are the account balances for Huffman Corporation at the end of December. Use only the appropriate accounts to prepare an income statement.   |  |  | | --- | --- | | **Accounts** | **Balances** | | Cash | $5,200 | | Salaries expense | 2,300 | | Retained earnings | 2,500 | | Advertising expense | 1,200 | | Equipment | 12,400 | | Service revenue | 9,400 | | Common stock | 8,000 | | Accounts payable | 2,200 |       |  |  |  | | --- | --- | --- | | **Huffman Corporation**  **Income Statement For the year ended December 31** | | | | Service revenue |  | $9,400 | | Expenses: |  |  | | Salaries | $2,300 |  | | Advertising | 1,200 |  | | Total expenses |  | 3,500 | | Net income |  | $5,900 | |

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| 185. | At the beginning of the year (January 1), Maurice and Sons has $12,000 of common stock outstanding and retained earnings of $4,200. During the year, the company reports net income of $3,200 and pays dividends of $1,200. In addition, the company issues additional common stock for $5,000. Prepare the statement of stockholders' equity at the end of the year (December 31).     |  |  |  |  | | --- | --- | --- | --- | | **Maurice and Sons Statement of Stockholders’ Equity**  **For the year ended December 31** | | | | |  | **Common Stock** | **Retained Earnings** | **Total**  **Stockholders’ Equity** | | Balance at January 1 | $12,000 | $4,200 | $16,200 | | Issuance of common stock | 5,000 |  | 5,000 | | Add: Net income for the year |  | 3,200 | 3,200 | | Less: Dividends |  | (1,200) | (1,200) | | Balance at December 31 | $17,000 | $6,200 | $23,200 | |

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| 186. | Klein Interiors has the following account balances at the end of the year. Use only the appropriate accounts to prepare a balance sheet.   |  |  | | --- | --- | | **Accounts** | **Balances** | | Equipment | $78,000 | | Accounts Payable | 12,000 | | Common Stock | 20,000 | | Service Revenue | 62,000 | | Cash | 8,000 | | Retained Earnings | **?** | | Salaries Expense | 38,000 | | Notes Payable | 25,000 |       |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Klein Interiors Balance Sheet**  **December 31** | | | | | | **Assets** | | **Liabilities** | |  | | Cash | $8,000 | Accounts payable | $12,000 |  | | Equipment | 78,000 | Notes payable | 25,000 |  | |  |  | Total liabilities | 37,000 |  | |  |  | **Stockholders’ Equity** | | | |  |  | Common stock | 20,000 |  | |  |  | Retained earnings | 29,000 | \* | |  |  | Total stockholders’ equity | 49,000 |  | | Total assets | $86,000 | Total liabilities and stockholders’ equity | $86,000 |  |      |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | \* | **Assets** | **=** | **Liabilities** | **+** | **Stockholders’ equity** | | | |  | $86,000 | = | $37,000 | + | ($20,000 + Retained earnings) | | | |  | $86,000 | - | $37,000 | - | $20,000 | = | Retained earnings | |  |  |  |  |  | $29,000 | = | Retained earnings | |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 187. | Thomason Financial has the following cash transactions for the year. Assume cash at the beginning of the period is $6,000. Prepare a statement of cash flows.   |  |  | | --- | --- | | **Accounts** | **Amounts** | | Cash received for sale of services to customers | $42,000 | | Cash received from issuance of common stock | 33,000 | | Cash paid to purchase office equipment | (49,000) | | Cash paid to building maintenance | (7,000) | | Cash paid for advertisement | (8,000) | | Cash paid to workers | (18,000) | | Cash paid for dividends to stockholders | (3,000) | | Cash received from sale of land | 7,000 | | Cash received from borrowing | 14,000 |        |  |  |  | | --- | --- | --- | | **Thomason Financial Statement of Cash Flows**  **For the year ended December 31** | | | | **Cash Flows from Operating Activities** | |  | | Cash inflows: |  |  | | From sale of services to customers | $42,000 |  | | Cash outflows: |  |  | | For building maintenance | (7,000) |  | | For advertisement | (8,000) |  | | For workers | (18,000) |  | | Net cash flows from operating activities |  | $9,000 | | **Cash Flows from Investing Activities** |  |  | | Purchase office equipment | (49,000) |  | | Sale of land | 7,000 |  | | Net cash flows from investing activities |  | (42,000) | | **Cash Flows from Financing Activities** |  |  | | Issue common stock | 33,000 |  | | Borrow from bank | 14,000 |  | | Pay dividends | (3,000) |  | | Net cash flows from financing activities |  | 44,000 | | Net increase in cash |  | 11,000 | | Cash at the beginning of the year |  | 6,000 | | Cash at the end of the year |  | $17,000 | |

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| 188. | Each of the following independent situations represents amounts shown on the four basic financial statements. Fill in the missing blanks using your knowledge of amounts that appear on the financial statements.  1. Revenues = $27,000; Expenses = $18,000; Net income = \_\_\_\_\_\_\_\_\_\_. 2. Increase in stockholders' equity = $20,000; Issuance of common stock = $12,000; Dividends = $5,000; Net income = \_\_\_\_\_\_\_\_\_\_. 3. Assets = $25,000; Liabilities = $13,000; Stockholders' equity = \_\_\_\_\_\_\_\_\_\_. 4. Total change in cash = +$28,000; Net operating cash flows = +$30,000; Net financing cash flows = +$18,000; Net investing cash flows = \_\_\_\_\_\_\_\_\_\_.       |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | 1. | **Revenues** | **-** | **Expenses** | **=** | **Net Income** |  |  | |  | $27,000 | - | $18,000 | = | **$9,000** |  |  | | 2. | **Change in stockholders' equity** | **=** | **Issue common stock** | **-** | **Dividends** | **+** | **Net Income** | |  | $20,000 | = | $12,000 | - | $5,000 | + | $X | |  | $20,000 | - | $12,000 | + | $5,000 | = | **$13,000** | | 3. | **Assets** | **=** | **Liabilities** | **+** | **Stockholders' equity** |  |  | |  | $25,000 | = | $13,000 | + | $X |  |  | |  | $25,000 | - | $13,000 | **=** | **$12,000** |  |  | | 4. | **Total change in cash** | **=** | **Operating cash flows** | **+** | **Financing cash flows** | **+** | **Investing cash flows** | |  | $28,000 | = | $30,000 | + | $18,000 | + | $X | |  | $28,000 | - | $30,000 | - | $18,000 | = | **($20,000)** | |

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| 189. | During its first five years of operations, Della Manufacturing reports net income and pays dividends as follows. Calculate the balance of retained earnings at the end of each year. Note that retained earnings will always equal $0 at the beginning of year 1.   |  |  |  |  | | --- | --- | --- | --- | | **Year** | **Net Income** | **Dividends** | **Retained Earnings** | | 1 | $1,700 | $1,000 | \_\_\_\_\_\_\_\_\_\_\_ | | 2 | 2,700 | 1,000 | \_\_\_\_\_\_\_\_\_\_\_ | | 3 | 3,200 | 2,000 | \_\_\_\_\_\_\_\_\_\_\_ | | 4 | 5,400 | 2,000 | \_\_\_\_\_\_\_\_\_\_\_ | | 5 | 7,600 | 3,000 | \_\_\_\_\_\_\_\_\_\_\_ |       |  |  |  |  | | --- | --- | --- | --- | | **Year** | **Net Income** | **Dividends** | **Retained Earnings\*** | | 1 | $1,700 | $1,000 | $700 | | 2 | 2,700 | 1,000 | 2,400 | | 3 | 3,200 | 2,000 | 3,600 | | 4 | 5,400 | 2,000 | 7,000 | | 5 | 7,600 | 3,000 | 11,600 |   \* Retained earnings = beginning retained earnings + net income dividends |

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| 190. | Below is information related to retained earnings for five independent situations. Calculate the answer to each.  1. A company reports an increase in retained earnings of $3,200 and net income of $4,800. What is the amount of dividends? 2. A company reports beginning retained earnings of $1,800, net income of $1,200, and $200 dividends. What is the amount of ending retained earnings? 3. A company reports an increase in retained earnings of $2,500 and dividends of $1,500. What is the amount of net income? 4. A company reports ending retained earnings of $2,700, net income of $900, and dividends of $500. What is the amount of beginning retained earnings? 5. A company reports an increase in retained earnings of $500 and net income of $1,200. What is the amount of dividends?       |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | ***Change in Retained Earnings*** | ***=*** | ***Net* *Income*** | ***-*** | ***Dividends*** | | *1.* | *$3,200* | *=* | *$4,800* | *-* | *$X* | |  | *$3,200* | *=* | *$4,800* | *-* | ***$1,600*** | | *2.* | *[$X - $1,800]* | *=* | *$1,200* | *-* | *$200* | |  | ***$X = $2,800*** | *=* |  | *-* |  | | *3.* | *$2,500* | *=* | *$X* | *-* | *$1,500* | |  | *$2,500* | *=* | ***$4,000*** | *-* | *$1,500* | | *4.* | *[$2,700 - $X]* | *=* | *$900* | *-* | *$500* | |  | *$X =* ***$2,300*** | *=* |  | *-* |  | | *5.* | *$500* | *=* | *$1,200* | *-* | *$X* | |  | *$500* | *=* | *$1,200* | *-* | ***$700*** | |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 191. | Below is balance sheet information for five independent situations. Calculate the answer to each.  1. A company reports total assets of $2,000 and total liabilities of $900. What is the amount of stockholders' equity? 2. A company reports total liabilities of $2,400 and stockholders' equity of $1,100. What is the amount of total assets? 3. A company reports total assets of $2,700 and total stockholders' equity of $700. What is the amount of total liabilities? 4. A company reports an increase in assets of $1,700 and an increase in liabilities of $400. What is the amount of the change in stockholders' equity? 5. A company reports an increase in liabilities of $300 and a decrease in stockholders' equity of $800. What is the amount of the change in total assets?       |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | 1. | **Assets** | **=** | **Liabilities** | **+** | **Stockholders' equity** | |  | $2,000 | = | $900 | + | $X | |  | $2,000 | = | $900 | **+** | **$1,100** | | 2. | **Assets** | **=** | **Liabilities** | **+** | **Stockholders' equity** | |  | $X | = | $2,400 | + | $1,100 | |  | **$3,500** | **=** | $2,400 | + | $1,100 | | 3. | **Assets** | **=** | **Liabilities** | **+** | **Stockholders' equity** | |  | $2,700 | = | $X | + | $700 | |  | $2,700 | = | **$2,000** | + | $700 | | 4. | **Change in Assets** | **=** | **Change in liabilities** | **+** | **Change in stockholders' equity** | |  | $1,700 | = | $400 | + | $X | |  | $1,700 | = | $400 | + | **$1,300** | | 5. | **Change in Assets** | **=** | **Change in liabilities** | **+** | **Change in stockholders' equity** | |  | $X | = | $300 | + | ($800) | |  | ($500) | = | $300 | + | ($800) | |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 192. | Below is cash flow information for five independent situations. Calculate the answer to each.    1. A company reports operating cash flows of $3,200, investing cash flows of $700, and financing cash flows of -$400. What is the amount of the change in total cash?  2. A company reports operating cash flows of $1,800, investing cash flows of -$400, and financing cash flows of -$1,100. If the beginning cash amount is $500, what is the ending cash amount?  3. A company reports operating cash flows of $700, investing cash flows of $300, and a change in total cash of $100. What is the amount of cash flows from financing activities?  4. A company reports operating cash flows of $600, financing cash flows of $400, and a change in total cash of $100. What is the amount of cash flows from investing activities?  5. A company reports investing cash flows of -$1,400, financing cash flows of $900, and a change in total cash of $200. What is the amount of cash flows from operating activities?       |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | |  | **Total change in cash** | **=** | **Operating cash flows** | **+** | **Investing cash flows** | **+** | **Financing cash flows** | | 1. | Total change in  cash | = | Operating  cash flows | + | Investing cash  flows | + | Financing  cash flows | |  | **$3,500** | = | $3,200 | + | $700 | + | ($400) | | 2. | Total change in  cash | = | Operating  cash flows | + | Investing cash  flows | + | Financing  cash flows | |  | ($X - $500) | = | $1,800 | + | ($400) | + | ($1,100) | |  | **$X = $800** |  |  |  |  |  |  | | 3. | Total change in  cash | = | Operating  cash flows | + | Investing cash  flows | + | Financing  cash flows | |  | $100 | = | $700 | + | $300 | + | **($900)** | | 4. | Total change in  cash | = | Operating  cash flows | + | Investing cash  flows | + | Financing  cash flows | |  | $100 | = | $600 | + | **($900)** | + | $400 | | 5. | Total change in  cash | = | Operating  cash flows | + | Investing cash  flows | + | Financing  cash flows | |  | $200 | = | **$700** | + | ($1,400) | + | $900 | |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 193. | Riley Incorporated reports the following amounts at the end of the year:   |  |  |  |  | | --- | --- | --- | --- | | Cash | $3,200 | Service Revenue | $92,500 | | Buildings | 60,000 | Salaries Expense | 72,800 | | Accounts Payable | 8,500 | Equipment | 72,000 | | Interest Expense | 4,000 | Supplies | 6,400 | | Advertising Expense | 11,300 | Notes payable | 40,000 |   In addition, the company had common stock of $65,000 at the beginning of the year and issued an additional $5,000 during the year. The company also had retained earnings of $20,700 at the beginning of the year and paid dividends of $2,000 during the year. Prepare the income statement, statement of stockholders' equity, and balance sheet.       |  |  |  | | --- | --- | --- | | **Riley Incorporated Income Statement For the year ended December 31** | | | | Service revenue |  | $92,500 | | Expenses: |  |  | | Salaries | $72,800 |  | | Advertising | 11,300 |  | | Interest | 4,000 |  | | Total expenses |  | 88,100 | | Net income |  | $4,400 |      |  |  |  |  | | --- | --- | --- | --- | | **Riley Incorporated Statement of Stockholders’ Equity**  **For the year ended December 31** | | | | |  | **Common Stock** | **Retained Earnings** | **Total Stockholders’ Equity** | | Balance at beginning of the year | $65,000 | $20,700 | $85,700 | | Issuance of common stock | 5,000 |  | 5,000 | | Add: Net income for the year |  | 4,400 | 4,400 | | Less: Dividends |  | (2,000) | (2,000) | | Balance at end of the year | $70,000 | $23,100 | $93,100 |      |  |  |  |  | | --- | --- | --- | --- | | **Riley Incorporated Balance Sheet**  **December 31** | | | | | **Assets** | | **Liabilities** | | | Cash | $3,200 | Accounts payable | $8,500 | | Supplies | 6,400 | Notes payable | 40,000 | | Equipment | 72,000 | Total liabilities | 48,500 | | Building | 60,000 |  |  | |  |  | **Stockholders’ Equity** | | |  |  | Common stock | 70,000 | |  |  | Retained earnings | 23,100 | |  |  | Total stockholders’ equity | 93,100 | | Total assets | $141,600 | Total liabilities and stockholders’ equity | $141,600 | |

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| 194. | Below are incomplete financial statements for Beasley, Incorporated. Calculate the missing amounts.   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Income Statement** | | **Statement of Stockholders’ Equity** | | | | | **Revenues** | **$(a)** |  | **Common Stock** | | **Retained Earnings** | | Expenses: |  | Beginning | $25,000 | | $12,000 | | Salaries | 8,000 | Issuances | (c) | |  | | Delivery | 7,000 | Net income |  | | 5,000 | | Utilities | 5,000 | Dividends |  | | (d) | | Net income | (b) | Ending | $30,000 | | $15,000 | | **Balance Sheet** | | | | | | | **Assets:** |  | **Liabilities:** | | | | | Cash | $15,000 | Accounts payable | | | 15,000 | | Supplies | 7,000 | **Stockholders’ Equity:** | | | | | Prepaid rent | (e) | Common stock | | (g) | | | Equipment | 35,000 | Retained earnings | | (h) | | | Total assets | (f) | Total liabilities and stockholders’ equity | | (i) | |      In the income statement, (b) = **$5,000** (in the statement of stockholders' equity)    In the income statement, (a) $20,000 = $5,000  (a) = **$25,000**    In the statement of stockholders' equity, $25,000 + (c) = $30,000  (c) = **$5,000**    In the statement of stockholders' equity, $12,000 + 5,000 (d) = $15,000  (d) = **$2,000**    In the balance sheet, (g) = **$30,000** and (h) **$15,000** (in the statement of stockholders' equity)    (i) = $15,000 + $30,000 (g) + $15,000 (h)  (i) = **$60,000**    (f) = **$60,000** (i)    (e) = $60,000 (f) $15,000 $7,000 $35,000  (e) = **$3,000** |

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| 195. | Use the following information available to prepare an income statement and balance sheet on December 31 for Goldie Company.    Fees for services performed during the year, $120,000  Accounts payable, $18,500  Accounts receivable, $17,300  Miscellaneous costs for the year, $8,700  Supplies on hand, $2,700  Notes payable outstanding, $30,000  Interest cost on the note for the year, $3,000  Equipment, $84,400  Cash on hand, $11,200  Salaries cost for the year, $71,500  Supplies cost for the year, $9,400  Rent cost for the year, $12,000  Common stock that has been issued, $60,000  Retained earnings at the end of the year, $7,100       |  |  | | --- | --- | | **Goldie Company Income Statement For the period ended December 31** | | | Service revenue | $120,000 | | Expenses: |  | | Salaries | 71,500 | | Rent | 12,000 | | Supplies | 9,400 | | Interest | 3,000 | | Miscellaneous | 8,700 | | Total expenses | 104,600 | | Net income | $15,400 |      |  |  |  |  | | --- | --- | --- | --- | | **Goldie Company Balance Sheet**  **December 31** | | | | | **Assets** | | **Liabilities** | | | Cash | $11,200 | Accounts payable | $18,500 | | Accounts Receivable | 17,300 | Notes payable | 30,000 | | Supplies | 2,700 | Total liabilities | 48,500 | | Equipment | 84,400 |  |  | |  |  | **Stockholders’ Equity** | | |  |  | Common stock | 60,000 | |  |  | Retained earnings | 7,100 | |  |  | Total stockholders’ equity | 67,100 | | Total assets | $115,600 | Total liabilities and stockholders’ equity | $115,600 | |

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| *AACSB: Analytical Thinking AICPA: FN Reporting Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 196. | Below are typical transactions for a company.   |  |  |  | | --- | --- | --- | |  | **Type of Business Activity** | **Transactions** | | 1. | **\_\_\_\_\_\_\_\_\_\_** | Issue common stock. | | 2. | **\_\_\_\_\_\_\_\_\_\_** | Collect cash from a bank loan. | | 3. | **\_\_\_\_\_\_\_\_\_\_** | Sell products to customers. | | 4. | **\_\_\_\_\_\_\_\_\_\_** | Pay employees’ wages. | | 5. | **\_\_\_\_\_\_\_\_\_\_** | Purchase equipment for manufacturing. | | 6. | **\_\_\_\_\_\_\_\_\_\_** | Pay dividends to stockholders. | | 7. | **\_\_\_\_\_\_\_\_\_\_** | Sell factory. | | 8. | **\_\_\_\_\_\_\_\_\_\_** | Purchase office supplies. | | 9. | **\_\_\_\_\_\_\_\_\_\_** | Pay utilities. | | 10. | **\_\_\_\_\_\_\_\_\_\_** | Pay for maintenance on delivery vehicles. |   **Required:**    Indicate whether each transaction is classified as a financing, investing, or operating activity.       |  |  |  | | --- | --- | --- | |  | **Type of business activity** | **Transactions** | | 1. | **Financing** | Issue common stock. | | 2. | **Financing** | Collect cash from a bank loan. | | 3. | **Operating** | Sell products to customers. | | 4. | **Operating** | Pay employees’ wages. | | 5. | **Investing** | Purchase equipment for manufacturing. | | 6. | **Financing** | Pay dividends to stockholders. | | 7. | **Investing** | Sell factory. | | 8. | **Operating** | Purchase office supplies. | | 9. | **Operating** | Pay utilities. | | 10. | **Operating** | Pay for maintenance on delivery vehicles. | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 197. | Account classifications include assets, liabilities, stockholders' equity, dividends, revenues, and expenses.   |  |  |  |  | | --- | --- | --- | --- | |  | **Account Classifications** | **Accounts** | **Related Transactions** | | 1. | **\_\_\_\_\_\_\_\_\_\_** | Accounts Receivable | Provide services on account. | | 2. | **\_\_\_\_\_\_\_\_\_\_** | Land | Purchase land for operations. | | 3. | **\_\_\_\_\_\_\_\_\_\_** | Prepaid Rent | Purchase rent in advance. | | 4. | **\_\_\_\_\_\_\_\_\_\_** | Salaries Expense | Pay for cost of salaries. | | 5. | **\_\_\_\_\_\_\_\_\_\_** | Utilities Expense | Pay for cost of utilities. | | 6. | **\_\_\_\_\_\_\_\_\_\_** | Service Revenue | Provide services to customers. | | 7. | **\_\_\_\_\_\_\_\_\_\_** | Accounts Payable | Purchase materials on account. | | 8. | **\_\_\_\_\_\_\_\_\_\_** | Notes Payable | Borrow from the bank. | | 9. | **\_\_\_\_\_\_\_\_\_\_** | Dividends | Distribute cash to stockholders. | | 10. | **\_\_\_\_\_\_\_\_\_\_** | Common Stock | Issue stock to stockholders. |   **Required:**    Indicate the account classification for each account name.       |  |  |  | | --- | --- | --- | |  | **Account Classifications** | **Account Names** | | 1. | **Asset** | Accounts Receivable | | 2. | **Asset** | Land | | 3. | **Asset** | Prepaid Rent | | 4. | **Expense** | Salaries Expense | | 5. | **Expense** | Utilities Expense | | 6. | **Revenue** | Service Revenue | | 7. | **Liability** | Accounts Payable | | 8. | **Liability** | Notes Payable | | 9. | **Dividends** | Dividends | | 10. | **Stockholders’ Equity** | Common Stock | |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 198. | Tiffany's provides financial services related to investment selections, retirement planning, and general insurance needs. For the current year, the company reports the following amounts:   |  |  |  |  | | --- | --- | --- | --- | | Advertising Expense | $31,200 | Service Revenue | $129,300 | | Buildings | 108,000 | Interest Expense | 3,500 | | Salaries Expense | 67,800 | Utilities Expense | 14,500 | | Accounts Payable | 6,300 | Equipment | 25,700 | | Cash | 6,400 | Notes Payable | 30,000 |   In addition, the company had common stock of $60,000 at the beginning of the year and issued an additional $15,000 during the year. The company also had retained earnings of $20,000 at the beginning of the year and paid dividends of $3,500.    **Required:**    Prepare the income statement, statement of stockholders' equity, and balance sheet for Tiffany's for the year ended December 31.       |  |  | | --- | --- | | **Tiffany’s Income Statement For the year ended December 31** | | | Service revenue | $129,300 | | Expenses: |  | | Advertising | 31,200 | | Salaries | 67,800 | | Utilities | 14,500 | | Interest | 3,500 | | Total expenses | 117,000 | | Net income | $12,300 |      |  |  |  |  | | --- | --- | --- | --- | | **Tiffany’s Statement of Stockholders’ Equity For the year ended December 31** | | | | |  | **Common Stock** | **Retained Earnings** | **Total Stockholders’ Equity** | | Balance at beginning of the year | $60,000 | $20,000 | $80,000 | | Issuance of common stock | 15,000 |  | 15,000 | | Add: Net income for the year |  | 12,300 | 12,300 | | Less: Dividends |  | (3,500) | (3,500) | | Balance at end of the year | $75,000 | $28,800 | $103,800 |      |  |  |  |  | | --- | --- | --- | --- | | **Tiffany’s**  **Balance Sheet**  **December 31** | | | | | **Assets** | | **Liabilities** | | | Cash | $6,400 | Accounts payable | $6,300 | | Equipment | 25,700 | Notes payable | 30,000 | | Buildings | 108,000 | Total liabilities | 36,300 | |  |  | **Stockholders’ Equity** | | |  |  | Common stock | 75,000 | |  |  | Retained earnings | 28,800 | |  |  | Total stockholders’ equity | 103,800 | | Total assets | $140,100 | Total liabilities and stockholders’ equity | $140,100 | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Blooms: Apply Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 199. | Below are incomplete financial statements.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Income Statement** | | **Statement of Stockholders’ Equity** | | | | **Revenues** | **(a)** |  | **Common Stock** | **Retained Earnings** | | Expenses: |  | Beginning | $15,000 | $8,000 | | Salaries | $11,000 | Issuances | (c) |  | | Rent | 5,000 | Net income |  | 3,000 | | Advertising | 7,000 | Dividends |  | (d) | | Net income | (b) | Ending | $18,000 | $9,000 | | **Balance Sheet** | | | | | | | **Assets:** |  | **Liabilities:** | | | | Cash | $6,000 | Accounts payable | | $5,000 | | Supplies | (e) | **Stockholders’ Equity:** | | | | Land | 7,000 | Common Stock | | (g) | | Buildings | 14,000 | Retained Earnings | | (h) | | Total assets | (f) | Total liabilities and stockholders’ equity | | (i) |   **Required:**    Calculate the missing amounts.      (Suggested order of calculation) On the statement of stockholders' equity, $15,000 + (c) = $18,000 (c) = **$3,000**  $8,000 + $3,000 - (d) = $9,000 (d) = **$2,000**  (b) = **$3,000**  From (b),  (a) - $11,000 - $5,000 - $7,000 = $3,000 (b) (a) = **$26,000**  From the statement of stockholders' equity, (g) = **$18,000** (h) = **$9,000**  From (g) and (h), $5,000 + $18,000 (g) + $9,000 (h) = (i) (i) = **$32,000**  From total liabilities and stockholders' equity, (f) = **$32,000**  From (f), $6,000 + (e) + $7,000 + $14,000 = $32,000 (f) (e) = **$5,000** |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Blooms: Analyze Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 200. | Simplex Corporation provides the following information at the end of the year.   |  |  | | --- | --- | | Salaries payable to workers at the end of the year | $3,500 | | Advertising expense for the year | 8,700 | | Building that has been purchased | 70,000 | | Supplies at the end of the year | 7,500 | | Retained earnings | 38,000 | | Utilities expense for the year | 4,200 | | Note payable to the bank | 21,500 | | Service revenue earned during the year | 67,800 | | Salary expense for the year | 24,200 | | Accounts payable to suppliers | 6,700 | | Dividends paid to shareholder during the year | ? | | Common stock that has been issued, including $8,000 that was issued this year | 30,000 | | Cash remaining | 5,500 | | Interest expense for the year | 1,800 | | Accounts receivable from customers | 16,700 |   **Required:**   Prepare the income statement, statement of stockholders' equity, and balance sheet for Simplex Corporation on December 31. The balance of retained earnings at the beginning of the year equals $24,500.       |  |  | | --- | --- | | **Simplex Corporation Income Statement For the year ended December 31** | | | Service revenue | $67,800 | | Expenses: |  | | Advertising | 8,700 | | Utilities | 4,200 | | Salaries | 24,200 | | Interest | 1,800 | | Total expenses | 38,900 | | Net income | $28,900 |      |  |  |  |  | | --- | --- | --- | --- | | **Simplex Corporation Statement of Stockholders’ Equity**  **For the year ended December 31** | | | | |  | **Common Stock** | **Retained Earnings** | **Total Stockholders Equity’** | | Balance at January 1 | $22,000 | $24,500 | $46,500 | | Issuance of common stock | 8,000 |  | 8,000 | | Net income for the year |  | 28,900 | 28,900 | | Less: Dividends |  | **(15,400)\*** | (15,400) | | Balance at December 31 | $30,000 | $38,000 | $68,000 |      |  |  | | --- | --- | | \* Beginning retained earnings | $24,500 | | + Net income | 28,900 | | - Dividends | ? | | = Ending retained earnings | $38,000 |      |  |  |  |  | | --- | --- | --- | --- | | **Simplex Corporation**  **Balance Sheet**  **December 31, 2018** | | | | | **Assets** | | **Liabilities** | | | Cash | $5,500 | Accounts payable | $6,700 | | Accounts receivable | 16,700 | Salaries payable | 3,500 | | Supplies | 7,500 | Notes payable | 21,500 | | Buildings | 70,000 | Total liabilities | 31,700 | |  |  | **Stockholders’ Equity** | | |  |  | Common stock | 30,000 | |  |  | Retained earnings | 38,000 | |  |  | Total stockholders’ equity | 68,000 | | Total assets | $99,700 | Total liabilities and stockholders’ equity | $99,700 | |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Blooms: Apply Difficulty: 3 Hard Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 201. | The four underlying assumptions of generally accepted accounting principles are economic entity, monetary unit, periodicity, and going concern. Consider the following four independent situations.  1. Masterson provides music cassettes for the past 30 years. Because of the advance in electronic musical devices, customer demand has dwindled over the years to almost nothing in the current year and the company can no longer pay its debts. For the most recent year, the company reports its assets in the balance sheet at historical (original) cost. 2. Phillips Flooring specializes in the installation of wood flooring. The company has the usual business expenses: salaries, supplies, utilities, advertising, and taxes. Mr. Phillips took his wife and two sons to Six Flags. Mr. Phillips reported the airfare and hotel expenses in the income statement of Phillips Flooring. 3. Mama's Restaurant has over 200 stores throughout the Southeast. Approximately 100,000 customers visit its stores each day. Because of the continual nature of dining, the company does not publish an income statement. The company feels that it has an indefinite life and a periodic report would mislead investors. 4. Indian Packaging delivers packages between the United States and India. During the current year, the company delivered 2,000 packages for its American customers totaling $75,000 in revenue. For its Indian customers, the company delivered 1,000 packages totaling 1,500,000 Indian Rupee. The company's income statement indicates that total revenue equals 3,000 packages delivered with no corresponding amount in the income statement.  **Required:**  For each situation, indicate which of the underlying assumptions of GAAP is violated.       |  |  | | --- | --- | |  | **Assumption violated** | | 1. | Going concern | | 2. | Economic entity | | 3. | Periodicity | | 4. | Monetary unit | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 202. | Listed below are several terms and definitions associated with the FASB's conceptual framework.   |  |  |  |  | | --- | --- | --- | --- | | **Terms** | | | **Definitions** | | 1. | \_\_\_\_ | Verifiability | a. Requires the consideration of the costs and value of information. | | 2. | \_\_\_\_ | Relevance | b. Recording transaction only for the company. | | 3. | \_\_\_\_ | Timeliness | c. The indefinite life of a company can be broken into definite periods. | | 4. | \_\_\_\_ | Cost effectiveness | d. Accounting should be useful in making decisions. | | 5. | \_\_\_\_ | Decision usefulness | e. Agreement between a measure and the phenomenon it represents. | | 6. | \_\_\_\_ | Faithful representation | f. Information arrives prior to the decision. | | 7. | \_\_\_\_ | Materiality | g. Information is related to the decision at hand. | | 8. | \_\_\_\_ | Economic entity assumption | h. Implies consensus among different measures. | | 9. | \_\_\_\_ | Periodicity assumption | i. Concerns the relative size of an item and its effect on decisions. |   **Required:**    Pair each term with its related definition.       |  |  | | --- | --- | | 1. | h. | | 2. | g. | | 3. | f. | | 4. | a. | | 5. | d. | | 6. | e. | | 7. | i. | | 8. | b. | | 9. | c. | |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |

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| 203. | Define accounting. Describe the two primary functions of financial accounting and its role in our society.      Accounting is "the language of business." The functions of financial accounting are to measure the business activities of a company and to communicate those measurements to external parties for decision-making purposes. A large number of people, including investors and creditors, rely on financial accounting information to make informed, and presumably, better decisions about companies. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Describe the two primary functions of financial accounting. Topic: Defining Accounting* |

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| 204. | Describe the three fundamental business activities that accountants measure. What account classifications are typically associated with each type of business activity?     Financing activities are transactions involving external sources of funding. There are two basic sources of this external funding—the owners of the company who invest their own funds in the business, and creditors who lend money to the company. Investing activities include the purchase and sale of (1) long-term resources such as land, buildings, equipment, and machinery; and (2) any resources not directly related to a company's normal operations. Operating activities include transactions that relate to the primary operations of the company, such as providing products and services to customers and the associated costs of doing so, like utilities, taxes, advertising, wages, rent, and maintenance. In general, financing activities are associated with long-term liabilities and stockholders' equity (including dividends), investing activities are associated with long-term assets, and operating activities are associated with revenues and expenses. |

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| *AACSB: Reflective Thinking AICPA: FN Measurement Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Understand the business activities that financial accounting measures. Topic: Measuring Business Activities* |

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| 205. | List and describe the four financial statements most frequently provided to external users.      The income statement presents revenues and expenses over an interval of time. The statement of shareholders' equity summarizes the changes in stockholders' equity (common stock and retained earnings) over an interval of time. The balance sheet presents the assets, liabilities, and stockholders' equity at a point in time. The statement of cash flows presents the cash receipts and cash payments over an interval of time for operating, investing, & financing activities. |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Determine how financial accounting information is communicated through financial statements. Topic: Communicating through Financial Statements* |

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| 206. | How does the value of an audit affect financial statements?     Outside auditors add credibility to financial statements, increasing the confidence of capital market participants who rely on financial statements in making investment and credit decisions and recommendations. |

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| *AACSB: Reflective Thinking AICPA: FN Reporting Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Explain the term generally accepted accounting principles (GAAP) and describe the role of GAAP in financial accounting. Topic: Financial Accounting Standards* |

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| 207. | Define the four basic assumptions underlying Generally Accepted Accounting Principles: (a) economic entity, (b) going concern, (c) periodicity, (d) monetary unit.     Economic entity - All economic events can be identified with a particular economic entity. Going concern - In the absence of information to the contrary, it is anticipated that a business entity will continue to operate indefinitely. Periodicity - The life of a company can be divided into artificial time periods to provide timely information to external users. Monetary unit - In the U.S., financial statement elements should be measured in terms of the U.S. dollar. It assumes that the value of a dollar is stable over time. |

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| *AACSB: Reflective Thinking AICPA: BB Critical Thinking Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-07 Explain the nature of the conceptual framework used to develop generally accepted accounting principles. Topic: Conceptual Framework* |