CHAPTER 1

# ACCOUNTING IN ACTION

#### Summary of Questions by LEARNING Objectives and Bloom’s Taxonomy

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Item | LO | BT | Item | LO | BT | Item | LO | BT | Item | LO | BT | Item | LO | BT |
| True-False Statements | | | | | | | | | | | | | | |
| 1. | 1 | K | 10. | 1 | K | 19. | 2 | K | 28. | 5 | C | sg37. | 1 | K |
| 2. | 1 | K | 11. | 1 | K | 20. | 2 | C | 29. | 5 | C | sg38. | 2 | K |
| 3. | 1 | C | 12. | 2 | K | 21. | 3 | K | 30. | 5 | C | sg39. | 2 | C |
| 4. | 1 | K | 13. | 2 | K | 22. | 3 | K | 31. | 5 | K | sg40. | 2 | K |
| 5. | 1 | K | 14. | 2 | K | 23. | 3 | K | 32. | 5 | K | sg41. | 3 | K |
| 6. | 1 | C | 15. | 2 | K | 24. | 4 | K | a33. | 6 | K | sg42. | 4 | K |
| 7. | 1 | K | 16. | 2 | K | 25. | 4 | K | a34. | 6 | K | sg43. | 5 | K |
| 8. | 1 | C | 17. | 2 | K | 26. | 4 | K | a35. | 6 | K |  |  |  |
| 9. | 1 | K | 18. | 2 | K | 27. | 4 | K | sg36. | 1 | K |  |  |  |
| Multiple Choice Questions | | | | | | | | | | | | | | |
| 44. | 1 | K | 74. | 2 | C | 104. | 3 | K | 134. | 5 | K | a164. | 6 | C |
| 45. | 1 | K | 75. | 2 | K | 105. | 3 | C | 135. | 5 | K | sg165. | 1 | K |
| 46. | 1 | K | 76. | 2 | K | 106. | 3 | K | 136. | 5 | AP | st166. | 1 | K |
| 47. | 1 | C | 77. | 2 | C | 107. | 3 | C | 137. | 5 | AP | st167. | 1 | K |
| 48. | 1 | K | 78. | 2 | K | 108. | 3 | AP | 138. | 5 | AP | sg168. | 1 | K |
| 49. | 1 | K | 79. | 2 | K | 109. | 3 | AP | 139. | 5 | K | st169. | 1 | K |
| 50. | 1 | K | 80. | 2 | K | 110. | 3 | AP | 140. | 5 | C | sg170. | 2 | K |
| 51. | 1 | K | 81. | 2 | K | 111. | 3 | AP | 141. | 5 | K | st171. | 2 | K |
| 52. | 1 | K | 82. | 2 | K | 112. | 3 | AP | 142. | 5 | K | sg172. | 2 | K |
| 53. | 1 | K | 83. | 2 | K | 113. | 3 | K | 143. | 5 | AP | sg173. | 3 | K |
| 54. | 1 | C | 84. | 2 | C | 114. | 3 | K | 144. | 5 | AP | sg174. | 4 | C |
| 55. | 1 | C | 85. | 2 | C | 115. | 3 | K | 145. | 5 | AP | sg175. | 4 | C |
| 56. | 1 | C | 86. | 2 | K | 116. | 3 | K | 146. | 5 | AP | sg176. | 5 | K |
| 57. | 1 | C | 87. | 2 | K | 117. | 4 | C | 147. | 5 | AP | sg177. | 5 | K |
| 58. | 1 | C | 88. | 2 | C | 118. | 4 | AP | 148. | 5 | AP | 178. | 7 | K |
| 59. | 1 | C | 89. | 2 | K | 119. | 4 | C | 149. | 5 | AP | 179. | 7 | K |
| 60. | 1 | K | 90. | 2 | K | 120. | 4 | C | 150. | 5 | AP | 180. | 7 | K |
| 61. | 1 | K | 91. | 2 | K | 121. | 4 | C | 151. | 5 | AP | 181. | 7 | K |
| 62. | 1 | C | 92. | 2 | K | 122. | 4 | C | 152. | 5 | AP | 182. | 7 | K |
| 63. | 2 | K | 93. | 3 | K | 123. | 4 | C | 153. | 5 | AP | 183. | 7 | K |
| 64. | 2 | C | 94. | 3 | K | 124. | 4 | C | 154. | 5 | AP | 184. | 7 | K |
| 65. | 2 | K | 95. | 3 | K | 125. | 4 | K | 155. | 5 | AP | 185. | 7 | K |
| 66. | 2 | K | 96. | 3 | C | 126. | 4 | C | 156. | 5 | AN | 186. | 7 | K |
| 67. | 2 | K | 97. | 3 | K | 127. | 4 | C | 157. | 5 | AN | 187. | 7 | K |
| 68. | 2 | K | 98. | 3 | K | 128. | 4 | C | 158. | 5 | AN | 188. | 7 | K |
| 69. | 2 | K | 99. | 3 | C | 129. | 4 | AN | 159. | 5 | AN | 189. | 7 | K |
| 70. | 2 | K | 100. | 3 | K | 130. | 4 | C | 160. | 5 | AN | 190. | 7 | K |
| 71. | 2 | C | 101. | 3 | K | 131. | 5 | C | a161. | 6 | K | 191. | 7 | K |
| 72. | 2 | K | 102. | 3 | K | 132. | 5 | C | a162. | 6 | K |  |  |  |
| 73. | 2 | K | 103. | 3 | K | 133. | 5 | K | a163. | 6 | K |  |  |  |

sg This question also appears in the Study Guide.

st This question also appears in a self-test at the student companion website.

a This question covers a topic in an appendix to the chapter.

#### Summary of Questions by LEARNING Objectives and Bloom’s Taxonomy

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Brief Exercises | | | | | | | | | | | | | | | |
| 192. | 1 | C | 195. | 3 | AP | 198. | 4 | C | 201. | 5 | AP |  | |  |  |
| 193. | 3 | K | 196. | 3 | AP | 199. | 5 | AP | 202. | 5 | AP |  | |  |  |
| 194. | 3 | K | 197. | 3 | C | 200.6. | 5 | C |  |  |  |  | |  |  |
| Exercises | | | | | | | | | | | | | | | |
| 203. | 1,2 | K | 211. | 3 | C | 219. | 4 | C | 227. | 5 | AP | 235. | 5 | | AN |
| 204. | 3 | C | 212. | 3,4 | C | 220. | 4 | C | 228. | 5 | AP | 236. | 5 | | C |
| 205. | 3 | C | 213. | 3,4 | C | 221. | 4 | AP | 229. | 5 | AP | 237. | 5 | | AP |
| 206. | 3 | AP | 214. | 3,4 | AP | 222. | 4 | C | 230. | 5 | AN | 238. | 5 | | AP |
| 207. | 3 | C | 215. | 4 | AP | 223. | 4 | C | 231. | 5 | AP | 239. | 5 | | AP |
| 208. | 3 | AP | 216. | 4 | AP | 224. | 4 | C | 232. | 5 | AP |  |  | |  |
| 209. | 3 | AN | 217. | 4 | C | 225. | 4 | C | 233. | 5 | C |  |  | |  |
| 210. | 3 | AN | 218. | 4 | AN | 226. | 4 | C | 234. | 5 | AP |  |  | |  |
| Completion Statements | | | | | | | | | | | | | | | |
| 240. | 1 | K | 242. | 1 | K | 244. | 2 | K | 246. | 2 | K | 248. | 3 | | K |
| 241. | 1 | K | 243. | 1 | K | 245. | 2 | K | 247. | 3 | K | 249. | 5 | | K |

Matching: Q250, Short Answer: Q251-256

#### SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Item | Type | Item | Type | Item | Type | Item | Type | Item | Type | Item | Type | Item | Type |
| Learning Objective 1 | | | | | | | | | | | | | |
| 1. | TF | 8. | TF | 45. | MC | 52. | MC | 59. | MC | 168. | MC | 243. | C |
| 2. | TF | 9. | TF | 46. | MC | 53. | MC | 60. | MC | 169. | MC |  |  |
| 3. | TF | 10. | TF | 47. | MC | 54. | MC | 61. | MC | 192. | BE |  |  |
| 4. | TF | 11. | TF | 48. | MC | 55. | MC | 62. | MC | 203. | Ex |  |  |
| 5. | TF | 36. | TF | 49. | MC | 56. | MC | 165. | MC | 240. | C |  |  |
| 6. | TF | 37. | TF | 50. | MC | 57. | MC | 166. | MC | 241. | C |  |  |
| 7. | TF | 44. | MC | 51. | MC | 58. | MC | 167. | MC | 242. | C |  |  |
| Learning Objective 2 | | | | | | | | | | | | | |
| 12. | TF | 19. | TF | 65. | MC | 72. | MC | 79. | MC | 86. | MC | 170. | MC |
| 13. | TF | 20. | TF | 66. | MC | 73. | MC | 80. | MC | 87. | MC | 171. | MC |
| 14. | TF | 38. | TF | 67. | MC | 74. | MC | 81. | MC | 88. | MC | 172. | MC |
| 15. | TF | 39. | TF | 68. | MC | 75. | MC | 82. | MC | 89. | MC | 203. | Ex |
| 16. | TF | 40. | TF | 69. | MC | 76. | MC | 83. | MC | 90. | MC | 244. | C |
| 17. | TF | 63. | MC | 70. | MC | 77. | MC | 84. | MC | 91. | MC | 245. | C |
| 18. | TF | 64. | MC | 71. | MC | 78. | MC | 85. | MC | 92. | MC | 246. | C |

#### SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Learning Objective 3 | | | | | | | | | | | | | |
| 21. | TF | 96. | MC | 103. | MC | 110. | MC | 173. | MC | 205. | Ex | 212. | Ex |
| 22. | TF | 97. | MC | 104. | MC | 111. | MC | 193. | BE | 206. | Ex | 213. | Ex |
| 23. | TF | 98. | MC | 105. | MC | 112. | MC | 194. | BE | 207. | Ex | 214. | Ex |
| 41. | TF | 99. | MC | 106. | MC | 113. | MC | 195. | BE | 208. | Ex | 247. | C |
| 93. | MC | 100. | MC | 107. | MC | 114. | MC | 196. | BE | 209. | Ex | 248. | C |
| 94. | MC | 101. | MC | 108. | MC | 115. | MC | 197. | BE | 210. | Ex |  |  |
| 95. | MC | 102. | MC | 109. | MC | 116. | MC | 204. | Ex | 211. | Ex |  |  |
| Learning Objective 4 | | | | | | | | | | | | | |
| 24. | TF | 118. | MC | 124. | MC | 130. | MC | 214. | Ex | 220. | Ex | 226. | Ex |
| 25. | TF | 119. | MC | 125. | MC | 174. | MC | 215. | Ex | 221. | Ex |  |  |
| 26. | TF | 120. | MC | 126. | MC | 175. | MC | 216. | Ex | 222. | Ex |  |  |
| 27. | TF | 121. | MC | 127. | MC | 198. | BE | 217. | Ex | 223. | Ex |  |  |
| 42. | TF | 122. | MC | 128. | MC | 212. | Ex | 218. | Ex | 224. | Ex |  |  |
| 117. | MC | 123. | MC | 129. | MC | 213. | Ex | 219. | Ex | 225. | Ex |  |  |
| Learning Objective 5 | | | | | | | | | | | | | |
| 28. | TF | 133. | MC | 141. | MC | 149. | MC | 157. | MC | 201. | BE | 233. | Ex |
| 29. | TF | 134. | MC | 142. | MC | 150. | MC | 158. | MC | 202. | BE | 234. | Ex |
| 30. | TF | 135. | MC | 143. | MC | 151. | MC | 159. | MC | 227. | Ex | 235. | Ex |
| 31. | TF | 136. | MC | 144. | MC | 152. | MC | 160. | MC | 228. | Ex | 236. | Ex |
| 32. | TF | 137. | MC | 145. | MC | 153. | MC | 176. | MC | 229. | Ex | 237. | Ex |
| 43. | TF | 138. | MC | 146. | MC | 154. | MC | 177. | MC | 230. | Ex | 238. | Ex |
| 131. | MC | 139. | MC | 147. | MC | 155. | MC | 199. | BE | 231. | Ex | 239. | Ex |
| 132. | MC | 140. | MC | 148. | MC | 156. | MC | 200. | BE | 232. | Ex | 249. | C |
| Learning Objective 6 | | | | | | | | | | | | | |
| a33. | TF | a35. | TF | a162. | MC | a164. | MC |  |  |  |  |  |  |
| a34. | TF | a161. | MC | a163. | MC |  |  |  |  |  |  |  |  |
| Learning Objective 7 | | | | | | | | | | | | | |
| 178. | MC | 180. | MC | 182. | MC | 184. | MC | 186. | MC | 188. | MC | 190. | MC |
| 179. | MC | 181. | MC | 183. | MC | 185. | MC | 187. | MC | 189. | MC | 191. | MC |

Note: TF = True-False BE = Brief Exercise C = Completion

MC = Multiple Choice Ex = Exercise

## CHAPTER LEARNING OBJECTIVES

1. ***Identify the activities and users associated with accounting.*** Accounting is an information system that identifies, records, and communicates the economic events of an organization to interested users. The major users and uses of accounting are as follows: (a) Management uses accounting information to plan, organize, and run the business. (b) Investors (owners) decide whether to buy, hold, or sell their financial interests on the basis of accounting data. (c) Creditors (suppliers and bankers) evaluate the risks of granting credit or lending money on the basis of accounting information. Other groups that use accounting information are taxing authorities, regulatory agencies, customers, and labor unions.

2. ***Explain the building blocks of accounting: ethics, principles, and assumptions.*** Ethics are the standards of conduct by which actions are judged as right or wrong. Effective financial reporting depends on sound ethical behavior. Generally accepted accounting principles are a common set of standards used by accountants. The monetary unit assumption requires that companies include in the accounting records only transaction data that can be expressed in terms of money. The economic entity assumption requires that the activities of each economic entity be kept separate from the activities of its owners and other economic entities.

3. ***State the accounting equation, and define its components.*** The basic accounting equation is:

Assets = Liabilities + Stockholders' Equity

Assets are resources owned by a business. Liabilities are creditorship claims on total assets. Stockholders' equity is the ownership claim on total assets.

The expanded accounting equation is:

Assets = Liabilities + Common Stock + Revenues − Expenses − Dividends

Common stock is affected when the company issues new shares of stock in exchange for cash. Revenues are increases in assets resulting from income-earning activities. Expenses are the costs of assets consumed or services used in the process of earning revenue. Dividends are payments the company makes to its stockholders.

4. ***Analyze the effects of business transactions on the accounting equation.*** Each business transaction must have a dual effect on the accounting equation. For example, if an individual asset increases, there must be a corresponding (1) decrease in another asset, or (2) increase in a specific liability, or (3) increase in stockholders' equity.

5. ***Describe the four financial statements and how they are prepared.*** An income statement presents the revenues and expenses, and resulting net income or net loss, for a specific period of time. A retained earnings statement summarizes the changes in retained earnings for a specific period of time. A balance sheet reports the assets, liabilities, and stockholders' equity at a specific date. A statement of cash flows summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.

a6. ***Explain the career opportunities in accounting***. Accounting offers many different jobs in fields such as public and private accounting, governmental accounting, and forensic accounting. Accounting is a popular major because there are many different types of jobs, with unlimited potential for career advancement.

## TRUE-FALSE STATEMENTS

1. Owners of business firms are the only people who need accounting information.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

2. Transactions that can be measured in dollars and cents are recorded in the financial information system.

Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

3. The hiring of a new company president is an economic event recorded by the financial information system.

Ans: F LO1 BT: C Difficulty: Easy TOT: .5 min AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

4. Management of a business enterprise is the major external user of information.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

5. Accounting communicates financial information about a business enterprise to both internal and external users.

Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

6. Accounting information is used only by external users with a financial interest in a business enterprise.

Ans: F LO1 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

7. Financial statements are the major means of communicating accounting information to interested parties.

Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

8. Bookkeeping and accounting are one and the same because the bookkeeping function includes the accounting process.

Ans: F LO1 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

9. The origins of accounting are attributed to Luca Pacioli, a famous mathematician.

Ans: T LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

10. The study of accounting is not useful for a business career unless your career objective is to become an accountant.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

11. A working knowledge of accounting is not relevant to a lawyer or an architect.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

12. A partnership must have more than one owner.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

13. The economic entity assumption requires that the activities of an entity be kept separate and distinct from the activities of its owner and all other economic entities.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

14. The monetary unit assumption states that transactions that can be measured in terms of money should be recorded in the accounting records.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

15. Accountants rely on a fundamental business concept—ethical behavior—in reporting financial information.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

16. The primary accounting standard-setting body in the United States is the International Accounting Standards Board.

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

17. The Financial Accounting Standards Board is a part of the Securities and Exchange Commission.

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

18. The Securities and Exchange Commission oversees U.S. financial markets and accounting standard-setting bodies.

Ans: T LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

19. The cost and fair value of an asset are the same at the time of acquisition and in all subsequent periods.

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

20. Even though a partnership is not a separate legal entity, for accounting purposes the partnership affairs should be kept separate from the personal activities of the owners.

Ans: T LO2 BT: C Difficulty; Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

21. In order to possess future service potential, an asset must have physical substance.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

22. Owners' claims to total business assets take precedence over the claims of creditors because owners invest assets in the business and are liable for losses.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

23. The basic accounting equation states that Assets = Liabilities.

Ans: F LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

24. Accountants record both internal and external transactions.

Ans: T LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

25. Internal transactions do not affect the basic accounting equation because they are economic events that occur entirely within one company.

Ans: F LO4 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

26. The purchase of store equipment for cash reduces assets and stockholders’ equity by an equal amount.

Ans: F LO4 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

27. The purchase of office equipment on credit increases total assets and total liabilities.

Ans: T LO4 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

28. The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments of a company during a period.

Ans: T LO5 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

29. Net income for the period is determined by subtracting total expenses and drawings from total revenues.

Ans: F LO5 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

30. The income statement is sometimes referred to as the statement of operations.

Ans: T LO5 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

31. A balance sheet reports the assets and liabilities of a company for a specific period of time.

Ans: F LO5 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

32. The ending retained earnings balance is reported on both the retained earnings statement and the balance sheet.

Ans: T LO5 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

a33. The study of accounting will be useful only if a student is interested in working for a profit-oriented business firm.

Ans: F LO6 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

a34. Private accountants are accountants who are not employees of business enterprises.

Ans: F LO6 BT:K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

a35. Expressing an opinion as to the fairness of the information presented in financial statements is a service performed by CPAs.

Ans: T LO6 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

36. Identifying is the process of keeping a chronological diary of events measured in dollars and cents.

Ans: F LO1 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

37. Management consulting includes examining the financial statements of companies and expressing an opinion as to the fairness of their presentation.

Ans: F LO1 BT: K Difficulty; Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

38. Accountants do not have to worry about issues of ethics.

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Ethics AICPA BB: Critical Thinking AICPA FN: Reporting

39. At the time an asset is acquired, cost and fair value should be the same.

Ans: T LO2 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

40. The monetary unit assumption requires that all dollar amounts be rounded to the nearest dollar.

Ans: F LO2 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

41. The basic accounting equation is in balance when the creditor and ownership claims against the business equal the assets.

Ans: T LO3 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

42. External transactions involve economic events between the company and some other enterprise or party.

Ans: T LO4 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

43. In the retained earnings statement, revenues are listed first, followed by expenses, and net income (or net loss).

Ans: F LO5 BT: K Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

### Answers to True-False Statements

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** |
| 1. | F | 8. | F | 15. | T | 22. | F | 29. | F | 36. | F | 43. | F |
| 2. | T | 9. | T | 16. | F | 23. | F | 30. | T | 37. | F |  |  |
| 3. | F | 10. | F | 17. | F | 24. | T | 31. | F | 38. | F |  |  |
| 4. | F | 11. | F | 18. | T | 25. | F | 32. | T | 39. | T |  |  |
| 5. | T | 12. | T | 19. | F | 26. | F | 33. | F | 40. | F |  |  |
| 6. | F | 13. | T | 20. | T | 27. | T | 34. | F | 41. | T |  |  |
| 7. | T | 14. | T | 21. | F | 28. | T | 35. | T | 42. | T |  |  |

## MULTIPLE CHOICE QUESTIONS

44. Accountants refer to an economic event as a

a. purchase.

b. sale.

c. transaction.

d. change in ownership.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

45. The starting point of the accounting process is

a. communicating information to users.

b. identifying economic events.

c. recording economic events.

d. None of these answers are correct.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

46. Communication of economic events is the part of the accounting process that involves

a. identifying economic events.

b. quantifying transactions into dollars and cents.

c. preparing accounting reports.

d. recording and classifying information.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

47. Which of the following events **cannot** be quantified into dollars and cents and recorded as an accounting transaction?

a. The appointment of a new CPA firm to perform an audit.

b. The purchase of a new computer.

c. The sale of store equipment.

d. Payment of income taxes.

Ans: a LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

48. Interpretation of reported information involves each of the following **except**

a. limitations of reported data.

b. meaning of reported data.

c. uses of reported data.

d. All of these choices are correct.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

49. The accounting process involves all of the following **except**

a. identifying economic transactions that are relevant to the business.

b. communicating financial information to users by preparing financial reports.

c. recording nonquantifiable economic events.

d. analyzing and interpreting financial reports.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

50. The accounting process is correctly sequenced as

a. identification, communication, recording.

b. recording, communication, identification.

c. identification, recording, communication.

d. communication, recording, identification.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

51. Which of the following techniques are **not** used by accountants to interpret and report financial information?

a. Graphs.

b. Special memos for each class of external users.

c. Charts.

d. Ratios.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

52. Accounting consists of three basic activities which are related to economic events of an organization. These include

a. identifying, recording, and communicating

b. identifying, calculating, and responding

c. classifying, numbering, and reporting

d. issuing, reporting, and classifying

Ans: a LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

53. All of the following statements are correct **except**

a. Good decision-making depends on good information.

b. A vital element in communicating economic events is the accountant's ability to analyze and interpret reported information.

c. The origins of accounting are generally attributed to Socrates, a classical Greek philosopher, who promoted accounting as a social contract.

d. The information that a user of financial information needs depends upon the kinds of decisions the user makes.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

54. Which of the following would **not** be considered an internal user of accounting data for the GHI Company?

a. President of the company.

b. Production manager.

c. Merchandise inventory clerk.

d. President of the employees' labor union.

Ans: d LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

55. Which of the following would **not** be considered an external user of accounting data for the GHI Company?

a. Internal Revenue Service Agent.

b. Management.

c. Creditors.

d. Customers.

Ans: b LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

56. Which of the following would **not** be considered internal users of accounting data for a company?

a. The president of a company.

b. The controller of a company.

c. Creditors of a company.

d. Salesmen of the company.

Ans: c LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

57. Which of the following is an external user of accounting information?

a. Labor unions.

b. Finance directors.

c. Company officers.

d. Managers.

Ans: a LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

58. Which one of the following is **not** an external user of accounting information?

a. Regulatory agencies.

b. Customers.

c. Investors.

d. All of these are external users.

Ans: d LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

59. Bookkeeping differs from accounting in that bookkeeping primarily involves which part of the accounting process?

a. Identification.

b. Communication.

c. Recording.

d. Analysis.

Ans: c LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

60. The origins of accounting are generally attributed to the work of

a. Christopher Columbus.

b. Abner Doubleday.

c. Luca Pacioli.

d. Leonardo da Vinci.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

61. Financial accounting provides economic and financial information for all of the following **except**

a. creditors.

b. investors.

c. managers.

d. other external users.

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

62. The final step in solving an ethical dilemma is to

a. identify and analyze the principal elements in the situation.

b. recognize an ethical situation.

c. identify the alternatives and weigh the impact of each alternative on stakeholders.

d. recognize the ethical issues involved.

Ans: c LO1 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

63. The first step in solving an ethical dilemma is to

a. identify and analyze the principal elements in the situation.

b. identify the alternatives.

c. recognize an ethical situation and the ethical issues involved.

d. weigh the impact of each alternative on various stakeholders.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Ethics AICPA BB: Critical Thinking AICPA FN: Reporting

64. Ethics are the standards of conduct by which one's actions are judged as

a. right or wrong.

b. honest or dishonest.

c. fair or unfair.

d. All of these answers are correct.

Ans: d LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Ethics AICPA BB: Critical Thinking AICPA FN: Reporting

65. All of the following are steps in analyzing ethics cases in financial reporting **except**

a. identify and analyze the principle elements in the situation.

b. contact law enforcement regarding any violations of corporate ethics codes

c. identify the alternatives and weigh the impact of each alternative on various stakeholders.

d. recognize an ethical situation and the ethical issues involved.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

66. In order to increase comparability, in recent years, the FASB and IASB have made efforts to reduce the differences between U.S.GAAP and IFRS through a process known as

a. convergence

b. monetary unit assumption

c. the cost principle

d. the fair value principle

Ans: a LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

67. Martin Corporation purchased land in 2007 for $290,000. In 2015, it purchased a nearly identical parcel of land for $460,000. In its 2015 balance sheet, Martin valued these two parcels of land at a combined value of $920,000. By reporting the land in this manner, Martin Corp. has violated the

a. historical cost principle

b. convergence

c. economic entity assumption

d. monetary unit assumption

Ans: a LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

68. Andre Dickinson, owner of Andre's Fine Wines, also owns a personal residence that costs $475,000. The market value of his residence is $625,000. During preparation of the financial statements for Andre's Fine Wines, the accounting concept most relevant to the presentation of Andre's home is

a. the economic entity assumption.

b. the fair value principle.

c. the monetary unit assumption.

d. convergence.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

69. Generally accepted accounting principles are

a. income tax regulations of the Internal Revenue Service.

b. standards that indicate how to report economic events.

c. theories that are based on physical laws of the universe.

d. principles that have been proven correct by academic researchers.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

70. The historical cost principle requires that when assets are acquired, they be recorded at

a. appraisal value.

b. cost.

c. market price.

d. book value.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

71. The cost of an asset and its fair value are

a. never the same.

b. the same when the asset is sold.

c. irrelevant when the asset is used by the business in its operations.

d. the same on the date of acquisition.

Ans: d LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

72. The body of theory underlying accounting is **not** based on

a. physical laws of nature.

b. concepts.

c. principles.

d. definitions.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

73. The private sector organization involved in developing accounting principles is the

a. Feasible Accounting Standards Body.

b. Financial Accounting Studies Board.

c. Financial Accounting Standards Board.

d. Financial Auditors' Standards Body.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

74. The SEC and FASB are two organizations that are primarily responsible for establishing generally accepted accounting principles. It is true that

a. they are both governmental agencies.

b. the SEC is a private organization of accountants.

c. the SEC often mandates guidelines when no accounting principles exist.

d. the SEC and FASB rarely cooperate in developing accounting standards.

Ans: c LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

75. GAAP stands for

a. Generally Accepted Auditing Procedures.

b. Generally Accepted Accounting Principles.

c. Generally Accepted Auditing Principles.

d. Generally Accepted Accounting Procedures.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

76. Financial information that is capable of making a difference in a decision is

a. faithfully representative.

b. relevant.

c. convergent.

d. generally accepted.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

77. The Duce Company has five plants nationwide that cost a total of $100 million. The current fair value of the plants is $500 million. The plants will be recorded and reported as assets at

a. $100 million.

b. $600 million.

c. $400 million.

d. $500 million.

Ans: a LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

78. The fair value principle is applied for

a. all assets.

b. current assets.

c. buildings.

d. investment securities.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

79. The proprietorship form of business organization

a. must have at least three owners in most states.

b. represents the largest number of businesses in the United States.

c. combines the records of the business with the personal records of the owner.

d. is characterized by a legal distinction between the business as an economic unit and the owner.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

80. The economic entity assumption requires that the activities

a. of different entities can be combined if all the entities are corporations.

b. must be reported to the Securities and Exchange Commission.

c. of a sole proprietorship cannot be distinguished from the personal economic events of its owners.

d. of an entity be kept separate from the activities of its owner.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

81. A business organized as a corporation

a. is not a separate legal entity in most states.

b. requires that stockholders be personally liable for the debts of the business.

c. is owned by its stockholders.

d. terminates when one of its original stockholders dies.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

82. The partnership form of business organization

a. is a separate legal entity.

b. is a common form of organization for service-type businesses.

c. enjoys an unlimited life.

d. has limited liability.

Ans: b LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

83. Which of the following is **not** an advantage of the corporate form of business organization?

a. Limited liability of stockholders

b. Transferability of ownership

c. Unlimited personal liability for stockholders

d. Unlimited life

Ans: c LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

84. A small neighborhood barber shop that is operated by its owner would likely be organized as a

a. joint venture.

b. partnership.

c. corporation.

d. proprietorship.

Ans: d LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

85. John and Sam met at law school and decide to start a small law practice after graduation. They agree to split revenues and expenses evenly. The most common form of business organization for a business such as this would be a

a. joint venture.

b. partnership.

c. corporation.

d. proprietorship.

Ans: b LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

86. Which of the following is true regarding the corporate form of business organization?

a. Corporations are the most prevalent form of business organization.

b. Corporate businesses are generally smaller in size than partnerships and proprietor-ships.

c. The revenues of corporations are greater than the combined revenues of partnerships and proprietorships.

d. Corporations are separate legal entities organized exclusively under federal law.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

87. A basic assumption of accounting that requires activities of an entity be kept separate from the activities of its owner is referred to as the

a. stand alone concept.

b. monetary unit assumption.

c. corporate form of ownership.

d. economic entity assumption.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

88. Ted Leo is the proprietor (owner) of Ted's, a retailer of golf apparel. When recording the financial transactions of Ted's, Ted does not record an entry for a car he purchased for personal use. Ted took out a personal loan to pay for the car. What accounting concept guides Ted's behavior in this situation?

a. Pay back concept

b. Economic entity assumption

c. Cash basis concept

d. Monetary unit assumption

Ans: b LO2 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

89. A basic assumption of accounting assumes that the dollar is

a. unrelated to business transactions.

b. a poor measure of economic activities.

c. the common unit of measure for all business transactions.

d. useless in measuring an economic event.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

90. The assumption that the unit of measure remains sufficiently constant over time is part of the

a. economic entity assumption.

b. cost principle.

c. historical cost principle.

d. monetary unit assumption.

Ans: d LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

91. Owners enjoy limited liability in a

a. proprietorship.

b. partnership.

c. corporation.

d. sole proprietorship.

Ans: c LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

92. A problem with the monetary unit assumption is that

a. the dollar has not been stable over time.

b. the dollar has been stable over time.

c. the dollar is a common medium of exchange.

d. it is impossible to account for international transactions.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

93. The common characteristic possessed by all assets is

a. long life.

b. great monetary value.

c. tangible nature.

d. future economic benefit.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

94. Owner's equity is best depicted by the following:

a. Assets = Liabilities.

b. Liabilities + Assets.

c. Residual equity + Assets.

d. Assets – Liabilities.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

95. The basic accounting equation may be expressed as

a. Assets = Equities.

b. Assets – Liabilities = Stockholders' Equity.

c. Assets = Liabilities + Stockholders' Equity.

d. All of these answers are correct.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

96. Liabilities

a. are future economic benefits.

b. are existing debts and obligations.

c. possess service potential.

d. are things of value used by the business in its operation.

Ans: b LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

97. Liabilities of a company would **not** include

a. notes payable.

b. accounts payable.

c. salaries and wages payable.

d. cash.

Ans: d LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

98. Liabilities of a company are owed to

a. debtors.

b. benefactors.

c. creditors.

d. underwriters.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

99. Stockholders' equity can be described as

a. creditorship claim on total assets.

b. ownership claim on total assets.

c. benefactor's claim on total assets.

d. debtor claim on total assets.

Ans: b LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

100. Stockholders' equity is often referred to as

a. residual equity.

b. leftovers.

c. spoils.

d. second equity.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

101. When assets are distributed to the owners of a corporation, these distributions are termed

a. depletions.

b. consumptions.

c. dividends.

d. a credit line.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

102. A dividend is

a. a distribution of the company's earnings to its stockholders.

b. equal to liabilities minus stockholders' equity.

c. equal to assets minus stockholders' equity.

d. equal to revenues less expenses

Ans: a LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

103. Revenues would **not** result from

a. sale of merchandise.

b. issuance of common stock.

c. performance of services.

d. rental of property.

Ans: b LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

104. Sources of increases to stockholder's equity are

a. additional investments by owners.

b. purchases of merchandise.

c. dividends.

d. expenses.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

105. The basic accounting equation **cannot** be restated as

a. Assets – Liabilities = Stockholders' Equity.

b. Assets – Stockholders' Equity = Liabilities.

c. Stockholders' Equity + Liabilities = Assets.

d. Assets + Liabilities = Stockholders' Equity.

Ans: d LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

106. Stockholders' equity is decreased by all of the following **except**

a. sales of stock.

b. net losses.

c. expenses.

d. dividends.

Ans: a LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

107. A net loss will result during a time period when

a. liabilities exceed assets.

b. dividends exceed investments.

c. expenses exceed revenues.

d. revenues exceed expenses.

Ans: c LO3 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

108. If total liabilities increased by $30,000 and stockholders' equity increased by $20,000 during a period of time, then total assets must change by what amount and direction during that same period?

a. $50,000 decrease

b. $10,000 decrease

c. $10,000 increase

d. $50,000 increase

Ans: d LO3 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $30,000 + $20,000 = $50,000

109. If total liabilities decreased by $30,000 and stockholders' equity increased by $20,000 during a period of time, then total assets must change by what amount and direction during that same period?

a. $50,000 decrease

b. $10,000 decrease

c. $10,000 increase

d. $50,000 increase

Ans: b LO3 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $20,000 − $30,000 = ($10,000)

110. If total liabilities decreased by $50,000 and stockholders' equity increased by $30,000 during a period of time, then total assets must change by what amount and direction during that same period?

a. $80,000 decrease

b. $20,000 decrease

c. $20,000 increase

d. $80,000 increase

Ans: b LO3 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $30,000 − $50,000 = ($20,000)

111. If total liabilities decreased by $30,000 and stockholders' equity decreased by $20,000 during a period of time, then total assets must change by what amount and direction during that same period?

a. $50,000 decrease

b. $10,000 decrease

c. $10,000 increase

d. $50,000 increase

Ans: a LO3 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: ($30,000) + ($20,000) = ($50,000)

112. If total liabilities increased by $25,000 during a period of time and stockholders' equity decreased by $9,000 during the same period, then the amount and direction (increase or decrease) of the period’s change in total assets is a(n)

a. $34,000 decrease.

b. $16,000 decrease.

c. $16,000 increase.

d. $34,000 increase.

Ans: c LO3 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $25,000 − $9,000 = $16,000 increase

113. If total assets equal $345,000 and total stockholders' equity equal $140,000, then total liabilities must equal

a. $485,000.

b. $205,000.

c. $140,000.

d. There is not enough information given to determine this.

Ans: b LO3 BT: k Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $345,000 − $140,000 = $205,000

114. Which of the following will **not** cause a change in the stockholders' equity of a business?

a. An increase in prepaid expenses.

b. An increase in retained earnings.

c. The sale of common stock.

d. The declaration and payment of dividends.

Ans: a LO3 BT: k Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

115. The amount of stockholders' equity in a business is **not** affected by

a. The percentage of total assets held in cash.

b. Assets consumed in the process of earning revenues.

c. The profitability of the business.

d. The amount of dividends declared and paid to stockholders.

Ans: a LO3 BT: k Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

116. If the transaction causes an asset account to decrease, which of the following related effects may occur?

a. An increase of equal amount in the common stock account.

b. An increase in a liability account.

c. An increase of equal amount in another asset account.

d. An increase in the combined total of liabilities and stockholders' equity.

Ans: c LO3 BT: k Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

117. The accounting equation for Quattro Enterprises is as follows:

Assets Liabilities Stockholders' Equity

$120,000 = $60,000 + $60,000

If Quattro purchases office equipment on account for $25,000, the accounting equation will change to

Assets Liabilties Stockholders' Equity

a. $120,000 = $60,000 + $60,000

b. $145,000 = $60,000 + $85,000

c. $145,000 = $72,500 + $72,500

d. $145,000 = $85,000 + $60,000

Ans: d LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $120,000 + $25,000 = $145,000; $60,000 + $25,000 = $85,000

118. As of June 30, 2015, Actual Tigers Company has assets of $100,000 and stockholders' equity of $40,000. What are the liabilities for Actual Tigers Company as of June 30, 2015?

a. $40,000

b. $60,000

c. $100,000

d. $140,000

Ans: b LO4 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $100,000 − $40,000 = $60,000

119. Stockholders' equity is increased by

a. dividends.

b. revenues.

c. expenses.

d. liabilities.

Ans: b LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

120. Stockholders' equity is decreased by

a. assets.

b. revenues.

c. expenses.

d. liabilities.

Ans: c LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

121. If total liabilities increased by $8,000, then

a. assets must have decreased by $8,000.

b. stockholders' equity must have increased by $8,000.

c. assets must have increased by $8,000, or stockholders' equity must have decreased by $8,000.

d. assets and stockholders' equity each increased by $4,000.

Ans: c LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

122. Collection of a $1,000 Accounts Receivable

a. increases an asset $1,000; decreases an asset $1,000.

b. increases an asset $1,000; decreases a liability $1,000.

c. decreases a liability $1,000; increases stockholders' equity $1,000.

d. decreases an asset $1,000; decreases a liability $1,000.

Ans: a LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

123. Revenues are

a. the cost of assets consumed during the period.

b. gross increases in stockholders' equity resulting from business activities.

c. the cost of services used during the period.

d. actual or expected cash outflows.

Ans: b LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

124. If an individual asset is increased, then

a. there must be an equal decrease in a specific liability.

b. there must be an equal decrease in stockholders' equity.

c. there must be an equal decrease in another asset.

d. All of these answers are possible.

Ans: c LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

125. If services are rendered on account, then

a. assets will decrease.

b. liabilities will increase.

c. stockholders' equity will increase.

d. liabilities will decrease.

Ans: c LO4 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

126. If expenses are paid in cash, then

a. assets will increase.

b. liabilities will decrease.

c. stockholders' equity will increase.

d. assets will decrease.

Ans: d LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

127. If a corporation distributes cash to its stockholders, then

a. there has been a violation of accounting principles.

b. stockholders' equity will increase.

c. stockholders' equity will decrease.

d. there will be a new liability showing the stockholders owes money to the business.

Ans: c LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

128. If supplies that have been purchased are used in the course of business, then

a. a liability will increase.

b. an asset will increase.

c. stockholders' equity will decrease.

d. stockholders' equity will increase.

Ans: c LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

129. As of December 31, 2015, Calexico Company has assets of $42,000 and stockholders' equity of $20,000. What are the liabilities for Calexico Company as of December 31, 2015?

a. $22,000.

b. $20,000.

c. $42,000.

d. $62,000.

Ans: a LO4 BT: AN Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $42,000 − $20,000 = $22,000

130. Which of the following events is **not** a business transaction?

a. Issuance of stock in exchange for cash.

b. Hired employees.

c. Incurred utility expenses for the month.

d. Earned revenue for services provided.

Ans: b LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

131. Net income results when

a. Assets > Liabilities.

b. Revenues = Expenses.

c. Revenues > Expenses.

d. Revenues < Expenses.

Ans: c LO5 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

132. Retained earnings at the end of the period is equal to

a. retained earnings at the beginning of the period plus net income minus liabilities.

b. retained earnings at the beginning of the period plus net income minus dividends.

c. net income.

d. assets plus liabilities.

Ans: b LO5 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

133. A balance sheet shows

a. revenues, liabilities, and stockholders' equity.

b. expenses, dividends, and stockholders' equity.

c. revenues, expenses, and dividends.

d. assets, liabilities, and stockholders' equity.

Ans: d LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

134. An income statement

a. summarizes the changes in retained earnings for a specific period of time.

b. reports the changes in assets, liabilities, and stockholders' equity over a period of time.

c. reports the assets, liabilities, and stockholders' equity at a specific date.

d. presents the revenues and expenses for a specific period of time.

Ans: d LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

135. If the retained earnings account increases from the beginning of the year to the end of the year, then

a. net income is less than dividends.

b. a net loss is less than dividends.

c. the company must have sold stock.

d. net income is greater than dividends.

Ans: d LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

136. Mofro’s Computer Repair Shop started the year with total assets of $300,000 and total liabilities of $200,000. During the year, the business recorded $500,000 in computer repair revenues, $300,000 in expenses, and Mofro paid dividends of $50,000. Stockholders' equity at the end of the year was

a. $200,000.

b. $100,000.

c. $250,000.

d. $300,000.

Ans: c LO5 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: ($300,000 − $200,000) + ($500,000 − $300,000) − $50,000 = $250,000

137. Mofro’s Computer Repair Shop started the year with total assets of $300,000 and total liabilities of $200,000. During the year, the business recorded $500,000 in computer repair revenues, $300,000 in expenses, and Mofro paid dividends of $50,000. The net income reported by Mofro's Computer Repair Shop for the year was

a. $100,000.

b. $150,000.

c. $200,000.

d. $250,000.

Ans: c LO5 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $500,000 − $300,000 = $200,000

138. Mofro’s Computer Repair Shop started the year with total assets of $300,000 and total liabilities of $200,000. During the year, the business recorded $500,000 in computer repair revenues, $300,000 in expenses, and Mofro paid dividends of $50,000. Mofro's stockholders' equity changed by what amount from the beginning of the year to the end of the year?

a. $100,000.

b. $150,000.

c. $200,000.

d. $250,000.

Ans: b LO5 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: ($300,000 − $200,000) + ($500,000 − $300,000) − $50,000 = $250,000; $250,000 − $100,000 = $150,000

139. The balance sheet is frequently referred to as

a. an operating statement.

b. the statement of financial position.

c. the statement of cash flows.

d. the statement of retained earnings.

Ans: b LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

140. The primary purpose of the statement of cash flows is to report

a. a company's investing transactions.

b. a company's financing transactions.

c. information about cash receipts and cash payments of a company.

d. the net increase or decrease in cash.

Ans: c LO5 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

141. All of the financial statements are for a period of time **except** the

a. income statement.

b. retained earnings statement.

c. balance sheet.

d. statement of cash flows.

Ans: c LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

142. The ending retained earnings amount is shown on

a. the balance sheet only.

b. the retained earnings statement only.

c. both the income statement and the retained earnings statement.

d. both the balance sheet and the retained earnings statement.

Ans: d LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

143. Black Keys Company began the year with stockholders' equity of $280,000. During the year, the company recorded revenues of $375,000, expenses of $285,000, and paid dividends of $30,000. What was Black Keys’ stockholders' equity at the end of the year?

a. $280,000.

b. $340,000.

c. $370,000.

d. $400,000.

Ans: b LO5 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $280,000 + ($375,000 − $285,000) − $30,000 = $340,000

144. Kennedy Company issued stock to Ed Kennedy in exchange for his investment of $75,000 cash in the business. The company recorded revenues of $555,000, expenses of $420,000, and had paid dividends of $30,000. What was Kennedy's net income for the year?

a. $105,000.

b. $135,000.

c. $165,000.

d. $180,000.

Ans: b LO5 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $555,000 − $420,000 = $135,000

145. Centro-matic Company began the year with stockholders' equity of $30,000. During the year, Centro-matic issued additional shares of stock in exchange for cash of $42,000, recorded expenses of $120,000, and paid dividends of $8,000. If Centro-matic’s ending stockholders' equity was $112,000, what was the company’s revenue for the year?

a. $160,000.

b. $168,000.

c. $202,000.

d. $210,000.

Ans: b LO5 BT: AP Difficulty: Medium TOT: 2.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $30,000 + $42,000 + (X − $120,000) − $8,000 = $112,000; X = $168,000

146. Barsuk Company began the year with stockholders' equity of $108,000. During the year, Barsuk issued stock for $147,000, recorded expenses of $420,000, and paid dividends of $28,000. If Barsuk’s ending stockholders' equity was $290,000, what was the company’s revenue for the year?

a. $455,000.

b. $483,000.

c. $602,000.

d. $630,000.

Ans: b LO5 BT: AP Difficulty: Medium TOT: 2.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $108,000 + $147,000 + (X − $420,000) − $28,000 = $290,000; X = $483,000

147. Fat Possum’s Service Shop started the year with total assets of $330,000 and total liabilities of $240,000. During the year, the business recorded $630,000 in revenues, $420,000 in expenses, and paid dividends of $60,000.

Stockholders' equity at the end of the year was

a. $90,000.

b. $240,000.

c. $300,000.

d. $360,000.

Ans: b LO5 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: ($330,000 − $240,000) + ($630,000 − $420,000) − $60,000 = $240,000

148. Fat Possum’s Service Shop started the year with total assets of $330,000 and total liabilities of $2400,000. During the year, the business recorded $630,000 in revenues, $420,000 in expenses, and paid dividends of $60,000.

The net income reported by Fat Possum’s Service Shop for the year was

a. $150,000.

b. $210,000.

c. $240,000.

d. $270,000.

Ans: b LO5 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $630,000 − $420,000 = $210,000

149. Misra Company compiled the following financial information as of December 31, 2015:

Revenues $340,000

Retained earnings (1/1/15) 60,000

Equipment 80,000

Expenses 250,000

Cash 90,000

Dividends 20,000

Supplies 10,000

Accounts payable 40,000

Accounts receivable 70,000

Common stock 80,000

Misra’s assets on December 31, 2015 are

a. $180,000.

b. $250,000.

c. $360,000.

d $490,000.

Ans: b LO5 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $80,000 + $90,000 + $10,000 + $70,000 = $250,000

150. Misra Company compiled the following financial information as of December 31, 2015:

Revenues $340,000

Retained earnings (1/1/15) 60,000

Equipment 80,000

Expenses 250,000

Cash 90,000

Dividends 20,000

Supplies 10,000

Accounts payable 40,000

Accounts receivable 70,000

Common stock 80,000

Misra’s stockholders' equity on December 31, 2015 is

a. $90,000.

b. $140,000.

c. $210,000.

d. $250,000.

Ans: c LO5 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $140,000 + ($340,000 − $250,000) − $20,000 = $210,000

151. Teamboo Company’s stockholders' equity at the beginning of August 2015 was $750,000. During the month, the company earned net income of $175,000 and paid dividends of $75,000. At the end of August 2015, what is the amount of stockholders' equity?

a. $675,000

b. $750,000

c. $825,000

d. $850,000

Ans: d LO5 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $750,000 + $175,000 − $75,000 = $850,000

152. On January 1, 2015, Cat Power Company reported stockholders' equity of $705,000. During the year, the company paid dividends of $30,000. At December 31, 2015, the amount of stockholders' equity was $825,000. What amount of net income or net loss would the company report for 2015?

a. Net loss of $30,000

b. Net income of $90,000

c. Net income of $120,000

d. Net income of $150,000

Ans: d LO5 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $705,000 + X − $30,000 = $825,000; X = $150,000

153. Stahl Consulting started the year with total assets of $60,000 and total liabilities of $15,000. During the year, the business recorded $48,000 in catering revenues and $30,000 in expenses. Stahl issued stock of $9,000 and paid dividends of $15,000 during the year. The stockholders' equity at the end of the year was

a. $33,000.

b. $54,000.

c. $57,000.

d. $63,000.

Ans: c LO5 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: ($60,000 − $15,000) + ($48,000 − $30,000) + $9,000 − $15,000 = $57,000

154. Stahl Consulting started the year with total assets of $60,000 and total liabilities of $15,000. During the year, the business recorded $48,000 in catering revenues and $30,000 in expenses. Stahl issued stock of $9,000 and paid dividends of $15,000 during the year. The net income reported by Stahl Consulting for the year was:

a. $3,000.

b. $12,000.

c. $18,000.

d. $27,000.

Ans: c LO5 BT: AP Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $48,000 − $30,000 = $18,000

155. Stahl Consulting started the year with total assets of $60,000 and total liabilities of $15,000. During the year, the business recorded $48,000 in catering revenues and $30,000 in expenses. Stahl issued stock of $9,000 and paid dividends of $15,000 during the year. Stockholders' equity changed by what amount from the beginning of the year to the end of the year?

a. $3,000.

b. $9,000.

c. $12,000.

d. $45,000.

Ans: c LO5 BT: AP Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: ($60,000 − $15,000) + ($48,000 − $30,000) + $9,000 − $15,000 = $57,000; $57,000 − $45,000 = $12,000

156. During the year 2015, Dilego Company earned revenues of $90,000, had expenses of $56,000, purchased assets with a cost of $10,000 and paid dividends of $6,000. Net income for the year is

a. $18,000.

b. $24,000.

c. $28,000.

d. $34,000.

Ans: d LO5 BT: AN Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $90,000 − $56,000 = $34,000

157. At October 1, Arcade Fire Enterprises reported stockholders' equity of $70,000. During October, no stock was issued and the company earned net income of $18,000. If stockholders' equity at October 31 totals $78,000, what amount of dividends were paid during the month?

a. $0

b. $8,000

c. $10,000

d. $26,000

Ans: c LO5 BT: AN Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $70,000 + $18,000 − X = $78,000; X = $10,000

158. At October 1, Arcade Fire Enterprises reported stockholders' equity of $72,000. During October, no stock was issued and the company posted a net loss of $8,000. If stockholders' equity at October 31 totals $64,000, what amount of dividends were paid during the month?

a. $0

b. $4,000

c. $8,000

d. $16,000

Ans: a LO5 BT: AN Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $72,000 − $8,000 − X = $64,000; X = $0

159. At October 1, Arcade Fire Enterprises reported stockholders' equity of $70,000. During October, common stock of $4,000 was issued and the company earned net income of $14,000. If stockholders' equity at October 31 totals $80,000, what amount of dividends were paid during the month?

a. $0

b. $4,000

c. $8,000

d. $10,000

Ans: c LO5 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $70,000 + $4,000 + $14,000 − X = $80,000; X = $8,000

160. At October 1, Arcade Fire Enterprises reported stockholders' equity of $70,000. During October, common stock of $10,000 was issued and the company posted a net loss of $4,000. If stockholders' equity at October 31 totals $70,000, what amount of dividends were paid during the month?

a. $0

b. $4,000

c. $6,000

d. $10,000

Ans: c LO5 BT: AN Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

Solution: $70,000 + $10,000 − $4,000 − X = $70,000; X = $6,000

a161. All of the following are services offered by public accountants **except**

a. budgeting.

b. auditing.

c. tax planning.

d. consulting.

Ans: a LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

a162. Which list below best describes the major services performed by public accountants?

a. Bookkeeping, mergers, budgets.

b. Employee training, auditing, bookkeeping.

c. Auditing, taxation, management consulting.

d. Cost accounting, production scheduling, recruiting.

Ans: c LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

a163. Preparing tax returns and engaging in tax planning is performed by

a. public accountants only.

b. private accountants only.

c. both public and private accountants.

d. IRS accountants only.

Ans: c LO6 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

a164. A private accountant can perform many activities in a business organization but would **not** work in

a. budgeting.

b. accounting information systems.

c. external auditing.

d. tax accounting.

Ans: c LO6 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

165. Which of the following is **not** part of the accounting process?

a. Recording

b. Identifying

c. Financial decision making

d. Communicating

Ans: c LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

166. The first part of the accounting process is

a. communicating.

b. identifying.

c. processing.

d. recording.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

167. Keeping a systematic, chronological diary of events that are measured in dollars and cents is called

a. communicating.

b. identifying.

c. processing.

d. recording.

Ans: d LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

168. Auditing is

a. the examination of financial statements by a CPA in order to express an opinion on their fairness.

b. a part of accounting that involves only recording of economic events.

c. an area of accounting that involves such activities as cost accounting, budgeting, and accounting information systems.

d. conducted by the Securities and Exchange Commission to ensure that registered financial statements are presented fairly.

Ans: a LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

169. Internal users of accounting information include all of the following **except**

a. company officers.

b. investors.

c. marketing managers.

d. production supervisors.

Ans: b LO1 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

170. The organization(s) primarily responsible for establishing generally accepted accounting principles is(are) the

FASB SEC

a. no no

b. yes no

c. no yes

d. yes yes

Ans: d LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

171. The primary accounting standard-setting body in the United States is the

a. Financial Accounting Standards Board.

b. International Accounting Standards Board.

c. Internal Revenue Service.

d. Securities and Exchange Commission.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

172. A proprietorship is a business

a. owned by one person.

b. owned by two or more persons.

c. organized as a separate legal entity under state corporation law.

d. owned by a governmental agency.

Ans: a LO2 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

173. A net loss will result during a time period when

a. assets exceed liabilities.

b. assets exceed stockholders' equity.

c. expenses exceed revenues.

d. revenues exceed expenses.

Ans: c LO3 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

174. Bright Eyes Downtown Diner received a bill of $600 from the Jronand Wine Advertising Agency. The owner, A. A. Bondy, is postponing payment of the bill until a later date. The effect on specific items in the basic accounting equation is

a. a decrease in Cash and an increase in Accounts Payable.

b. a decrease in Cash and an increase in Retained Earnings.

c. an increase in Accounts Payable and a decrease in Retained Earnings.

d. a decrease in Accounts Payable and an increase in Retained Earnings.

Ans: c LO4 BT: C Difficulty: Medium TOT: 1.5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

175. Matador Company purchases $1,300 of equipment from Danger Mouse Inc. for cash. The effect on the components of the basic accounting equation of Matador Company is

a. an increase in assets and liabilities.

b. a decrease in assets and liabilities.

c. no change in total assets.

d. an increase in assets and a decrease in liabilities.

Ans: c LO4 BT: C Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

176. Druganaut Company buys a $21,000 van on credit. The transaction will affect the

a. income statement only.

b. balance sheet only.

c. income statement and retained earnings statement only.

d. income statement, retained earnings statement, and balance sheet.

Ans: b LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

177. The financial statement that summarizes the financial position of a company is the

a. income statement.

b. balance sheet.

c. operating statement.

d. retained earnings statement.

Ans: b LO5 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

178. Which of the following is **not** a reason one set of international accounting standards are needed?

a. multinational corporations.

b. mergers and acquisitions.

c. information technology.

d. all of these answer choices are correct.

IFRS. Ans: d LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

179. Which of the following is **not** a reason one set of international accounting standards are needed?

a. multinational corporations.

b. financial markets.

c. information technology.

d. all of the above are reasons one set of international accounting standards are needed.

IFRS. Ans: d LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

180. International standards are referred to as

a. IFRS.

b. GAAP.

c. IASB.

d. FASB.

IFRS. Ans: a LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

181. U.S. standards are referred to as

a. IFRS.

b. GAAP.

c. IASB.

d. FASB.

IFRS Ans: b LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

182. International standards are developed by the

a. IFRS.

b. GAAP.

c. IASB.

d. FASB.

IFRS. Ans: c LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

183. U.S. standards are developed by the

a. IFRS.

b. GAAP.

c. IASB.

d. FASB.

IFRS. Ans: d LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

184. The United States and the international standard-setting environment are primarily driven by meeting the needs of

a. investors and creditors.

b. tax authorities.

c. central government planners.

d. academic researchers.

IFRS. Ans: a LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

185. The internal control standards applicable to Sarbanes-Oxley apply to

a. all U.S. and international companies.

b. U.S. and international companies listed on U.S. exchanges.

c. International companies listed on U.S. exchanges.

d. U.S. companies listed on U.S. exchanges.

IFRS. Ans: d LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

186. The concern about international companies adopting SOX-type standards centers on

a. cost-benefit analysis.

b. ethics issues.

c. the governing authorities.

d. comparability.

IFRS. Ans: a LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

187. Financial accounting ethics violations are

a. not a problem in the U.S. or internationally.

b. much more common in the U.S. than internationally.

c. much more common internationally than in the U.S.

d. a major problem both in the U.S. and internationally.

IFRS. Ans: d LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

188. IFRS, compared to GAAP, tends to be more

a. detailed.

b. rules-based.

c. principles-based.

d. full of disclosure requirements.

IFRS. Ans: c LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

189. GAAP, compared to IFRS, tends to be more

a. simple in accounting requirements.

b. rules-based.

c. principles-based.

d. simple in disclosure requirements.

IFRS. Ans: b LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

190. Proprietorships, partnerships, and corporations

a. are the three most common forms of business organizations in the U.S.

b. are the three most common forms of business organizations internationally.

c. are used in different proportions in different countries.

d. all of these answers are correct.

IFRS. Ans: d LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

191. The conceptual framework that underlies IFRS

a. is very similar to that used to develop GAAP.

b. does not define assets or liabilities.

c. does not define equity.

d. does not define income or expenses.

IFRS. Ans: a LO7 BT: K Difficulty: Easy TOT: 1.0 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

### Answers to Multiple Choice Questions

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** | **Item** | **Ans.** |
| 44. | c | 66. | a | 88. | b | 110. | b | 132. | b | 154. | c | 176. | b |
| 45. | b | 67. | a | 89. | c | 111. | a | 133. | d | 155. | c | 177. | b |
| 46. | c | 68. | a | 90. | d | 112. | c | 134. | d | 156. | d | 178. | d |
| 47. | a | 69. | b | 91. | c | 113. | b | 135. | d | 157. | c | 179. | d |
| 48. | d | 70. | b | 92. | a | 114. | a | 136. | c | 158. | a | 180. | a |
| 49. | c | 71. | d | 93. | d | 115. | a | 137. | c | 159. | c | 181. | b |
| 50. | c | 72. | a | 94. | d | 116. | c | 138. | b | 160. | c | 182. | c |
| 51. | b | 73. | c | 95. | d | 117. | d | 139. | b | a161. | a | 183. | d |
| 52. | a | 74. | c | 96. | b | 118. | b | 140. | c | a162. | c | 184. | a |
| 53. | c | 75. | b | 97. | d | 119. | b | 141. | c | a163. | c | 185. | d |
| 54. | d | 76. | b | 98. | c | 120. | c | 142. | d | a164. | c | 186. | a |
| 55. | b | 77. | a | 99. | b | 121. | c | 143. | b | 165. | c | 187. | d |
| 56. | c | 78. | d | 100. | a | 122. | a | 144. | b | 166. | b | 188. | c |
| 57. | a | 79. | b | 101. | c | 123. | b | 145. | b | 167. | d | 189. | b |
| 58. | d | 80. | d | 102. | a | 124. | c | 146. | b | 168. | a | 190. | d |
| 59. | c | 81. | c | 103. | b | 125. | c | 147. | b | 169. | b | 191. | a |
| 60. | c | 82. | b | 104. | a | 126. | d | 148. | b | 170. | d |  |  |
| 61. | c | 83. | c | 105. | d | 127. | c | 149. | b | 171. | a |  |  |
| 62. | c | 84. | d | 106. | a | 128. | c | 150. | c | 172. | a |  |  |
| 63. | c | 85. | b | 107. | c | 129. | a | 151. | d | 173. | c |  |  |
| 64. | d | 86. | c | 108. | d | 130. | b | 152. | d | 174. | c |  |  |
| 65. | b | 87. | d | 109. | b | 131. | c | 153. | c | 175. | c |  |  |

## BRIEF EXERCISES

##### BE 192

Match the following external users of financial accounting information with the type of decision that user will make with the information.

a. Creditor

b. Investor

c. Regulatory Agency

d Internal Revenue Service

\_\_\_\_\_\_\_ (1) Is the company operating within prescribed guidelines?

\_\_\_\_\_\_\_ (2) Is the company complying with tax laws?

\_\_\_\_\_\_\_ (3) Is the company able to pay its debts?

\_\_\_\_\_\_\_ (4) Is the company a good investment?

##### Solution 192

1. c

2. d

3. a

4. b

LO1 BT: C Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### BE 193

Match the following terms and definitions.

a. Accounts receivable c. Accounts payable

b. Creditor d. Note payable

\_\_\_\_\_\_\_ (1) Amounts due from customers

\_\_\_\_\_\_\_ (2) Amounts owed to suppliers for goods and services purchased

\_\_\_\_\_\_\_ (3) Amounts owed to bank

\_\_\_\_\_\_\_ (4) Party to whom money is owed

##### Solution 193

1. a

2. c

3. d

4. b

LO3 BT: K Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### BE 194

Indicate which of these items is an asset (A), liability (L) or stockholders’ equity (SE) account.

\_\_\_\_\_\_\_ (1) Supplies

\_\_\_\_\_\_\_ (2) Dividends

\_\_\_\_\_\_\_ (3) Buildings

\_\_\_\_\_\_\_ (4) Notes Payable

\_\_\_\_\_\_\_ (5) Salaries and Wages Payable

##### Solution 194

1. Assets (A)

2. Stockholders’ equity (SE)

3. Asset (A)

4. Liability (L)

5. Liability (L)

LO3 BT: K Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### BE 195

Use the accounting equation to answer the following questions.

1. Picaresque Sails Co. has total assets of $140,000 and total liabilities of $45,000. What is stockholders' equity?

2. The Natenal Fun Center has total assets of $225,000 and stockholders' equity of $100,000. What are total liabilities?

3. Okkervil River Restaurant has total liabilities of $50,000 and stockholders' equity of $100,000. What are total assets?

##### Solution 195

1. $140,000 – $45,000 = $95,000 stockholders' equity

2. $225,000 – $100,000 = $125,000 total liabilities

3. $50,000 + $100,000 = $150,000 total assets

LO3 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### BE 196

Determine the missing items.

**Assets = Liabilities + Stockholders' Equity**

$85,000 $52,000 (a)

(b) $28,000 $34,000

$84,000 (c) $50,000

##### Solution 196

a. $33,000

b. $62,000

c. $34,000

LO3 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### BE 197

Classify each of these items as an asset (A), liability (L), or stockholders' equity (SE).

\_\_\_\_\_ 1. Accounts receivable

\_\_\_\_\_ 2. Accounts payable

\_\_\_\_\_ 3. Common stock

\_\_\_\_\_ 4. Supplies

\_\_\_\_\_ 5. Utilities expense

\_\_\_\_\_ 6. Cash

\_\_\_\_\_ 7. Notes payable

\_\_\_\_\_ 8. Equipment

##### Solution 197 (5 min.)

1. A 5. SE

2. L 6. A

3. SE 7. L

4. A 8. A

LO3 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### BE 198

Identify the impact on the accounting equation of each of the following transactions.

1. Purchase office supplies on account.

2. Paid secretary weekly salary.

3. Purchased office furniture for cash.

4. Received monthly utility bill to be paid at later time.

##### Solution 198 (5 min.)

1. Increase assets and increase liabilities.

2. Decrease assets and decrease stockholders' equity.

3. Increase assets and decrease assets.

4. Increase liabilities and decrease stockholders' equity.

LO4 BT: C Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### BE 199

Balance sheet amounts as of December 31, 2015 for Matt Pond's Tutoring Service are listed below. Prepare a balance sheet in good form.

Accounts Payable $ 400

Accounts Receivable 1,000

Cash 300

Common Stock ?

##### Solution 199 (5 min.)

MATT POND’s TUTORING SERVICE

Balance Sheet

December 31, 2015

Assets Liabilities and Stockholders’ Equity

Cash $ 300 Accounts Payable $ 400

Accounts Receivable 1,000 Common Stock 900

Total assets $1,300 Total liabilities and stockholders’ equity $1,300

LO5 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### BE 200

Identify whether the following items would be reported on the income statement (IS) or balance sheet (BS).

1. Cash

2. Service Revenue

3. Notes Payable

4. Interest Expense

5. Accounts Receivable

##### Solution 200

1. Balance Sheet (BS)

2. Income Statement (IS)

3. Balance Sheet (BS)

4. Income Statement (IS)

5. Balance Sheet (BS)

LO5 BT: C Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### BE 201

Use the following information to calculate for the year ended December 31, 2015 (a) net income, (b) ending retained earnings, and (c) total assets.

Supplies $ 3,000 Revenues $25,000

Operating expenses 12,000 Cash 15,000

Accounts payable 9,000 Dividends 1,000

Accounts receivable 3,000 Notes payable 1,000

Beginning retained earnings 5,000 Equipment 6,000

##### Solution 201

(a) $13,000 (b) $17,000 (c) $27,000

LO5 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### BE 202

Listed below in alphabetical order are the balance sheet items of Madjack Company at December 31, 2015. Prepare a balance sheet and include a complete heading.

Accounts payable $ 21,000

Accounts receivable 15,000

Buildings 91,000

Cash 6,000

Common stock 108,000

Equipment 17,000

##### Solution 202

MADJACK COMPANY

Balance Sheet

December 31, 2015

ASSETS

Cash $ 6,000

Accounts receivable 15,000

Equipment 17,000

Buildings 91,000

Total assets $129,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Accounts payable $ 21,000

Stockholders' equity

Common stock 108,000

Total liabilities and stockholders' equity $129,000

LO5 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

## EXERCISES

##### Ex. 203

Below is a list of important abbreviations widely used in business. For each abbreviation give the full designation.

1. CPA

2. IRS

3. FBI

4. FASB

5. GAAP

6. SEC

##### Solution 203

1. Certified Public Accountant

2. Internal Revenue Service

3. Federal Bureau of Investigation

4. Financial Accounting Standards Board

5. Generally Accepted Accounting Principles

6. Securities and Exchange Commission

LO1, 2 BT: K Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 204

Determine the missing amount for each of the following. Assets = Liabilities + Stockholders' Equity

1. (a) $55,000 $95,0002. $125,000 (b) $85,0003. $160,000 $65,000 (c)

##### Solution 204

1. (a) = $150,000 ($55,000 + $95,000)2. (b) = $40,000 ($125,000 - $85,000)3. (c) = $95,000 ($160,000 - $65,000)

LO3 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 205

For the items listed below, fill in the appropriate code letter to indicate whether the item is an asset, liability, or stockholders' equity item.

Code

Asset A

Liability L

Stockholders' Equity SE

1. Rent Expense 6. Cash

2. Equipment 7. Accounts Receivable

3. Accounts Payable 8. Dividends

4. Common Stock 9. Service Revenue

5. Insurance Expense 10. Notes Payable

**Solution 205**

1. SE 6. A

2. A 7. A

3. L 8. SE

4. SE 9. SE

5. SE 10. L

LO3 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 206

At the beginning of the year, Shaolin Company had total assets of $520,000 and total liabilities of $210,000. Answer the following questions viewing each situation as being independent of the others.

(1) If total assets increased $200,000 during the year, and total liabilities decreased $75,000, what is the amount of stockholders' equity at the end of the year?

(2) During the year, total liabilities increased $230,000 and stockholders' equity decreased $90,000. What is the amount of total assets at the end of the year?

(3) If total assets decreased $40,000 and stockholders' equity increased $130,000 during the year, what is the amount of total liabilities at the end of the year?

**Solution 206**

Total Assets Total Liabilities Stockholders' Equity

Beginning $520,000 $210,000

Change 200,000 (75,000)

Ending $720,000 – $135,000 = $585,000 (1)

Total Assets Total Liabilities Stockholders' Equity

Beginning $520,000 $210,000 $310,000

Change 230,000 (90,000)

Ending $660,000 (2) = $440,000 + $220,000

Total Assets Total Liabilities Stockholders' Equity

Beginning $520,000 $210,000 $310,000

Change (40,000) 130,000

Ending $480,000 = $ 40,000 (3) + $440,000

LO3 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 207

Magnolia Electric Car Cleaning has the following accounts:

Equipment Notes Payable

Accounts Payable Common Stock

Cash Dividends

Supplies

Accounts Receivable

Identify which items are (1) Assets

(2) Liabilities

(3) Stockholders Equity

##### Solution 207

(1) Assets—Equipment, Cash, Supplies, Accounts Receivable

(2) Liabilities—Accounts Payable, Notes Payable

(3) Stockholders' Equity— Common Stock, Dividends

LO3 BT: C Difficulty: Easy TOT: .5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 208

On June 1, 2015, Secretly Canadian Company prepared a balance sheet that shows the following:

Assets (no cash) $100,000

Liabilities 45,000

Stockholders' Equity 55,000

##### Ex. 208 (cont.)

Shortly thereafter, all of the assets were sold for cash. How would the balance sheet appear immediately after the sale of the assets for cash for each of the following cases?

Cash Received for Balances Immediately After Sale

the Assets Assets – Liabilities = Stockholders' Equity

Cash A $110,000 $\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_ $\_\_\_\_\_\_\_\_

Cash B 100,000 \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_

Cash C 90,000 \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_

**Solution 208**

Cash Received for Balances Immediately After Sale

the Assets Assets – Liabilities = Stockholders' Equity

Cash A $110,000 $110,000 $45,000 $65,000

Cash B 100,000 100,000 45,000 55,000

Cash C 90,000 90,000 45,000 45,000

LO3 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 209

At the beginning of 2015, Hold Steady Company had total assets of $520,000 and total liabilities of $250,000. Answer each of the following questions.

1. If total assets increased $60,000 and stockholders' equity decreased $90,000 during the year, determine the amount of total liabilities at the end of the year.

2. During the year, total liabilities decreased $75,000 and stockholders' equity increased $50,000. Compute the amount of total assets at the end of the year.

3. If total assets decreased $100,000 and total liabilities increased $55,000 during the year, determine the amount of stockholders' equity at the end of the year.

**Solution 209**

1. Ending Total Liabilities = ($520,000 + $60,000) – ($520,000 – $250,000 - $90,000) = $580,000 – $180,000 = $400,000

2. Ending Total Assets = ($250,000 – $75,000) + ($520,000 – $250,000 + $50,000) = $175,000 + $320,000 = $495,000

3. Ending Stockholders' Equity = ($520,000 – $100,000) – ($250,000 + $55,000) = $420,000 – $305,000 = $115,000

LO3 BT: AN Difficulty: Medium TOT: 5 min. AACSB: Analysis AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 210

Compute the missing amount in each category of the accounting equation.

Assets Liabilities Stockholders' Equity

(a) $319,000 $ ? $143,000

(b) $223,000 $ 79,000 $ ?

(c) $ ? $233,000 $325,000

**Solution 210**

(a) $176,000 ($319,000 – $143,000 = $176,000).

(b) $144,000 ($223,000 – $79,000 = $144,000).

(c) $558,000 ($233,000 + $325,000 = $558,000).

LO3 BT: AN Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 211

From the following list of selected accounts taken from the records of Ward Homeopathic Center, identify those that would appear on the balance sheet.

a. Common Stock f. Accounts Payable

b. Service Revenue g. Cash

c. Land h. Rent Expense

d. Salaries and Wages Expense i. Supplies

e. Notes Payable j. Utilities Expense

**Solution 211**

a, c, e, f, g, i

LO3 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 212

Selected transactions for Mountain Goats Tree Service are listed below.

1. Sold common stock for cash to start business.

2. Paid for monthly advertising.

3.Purchased supplies on account.

4.Billed customers for services performed.

5.Paid cash dividends.

6.Received cash from customers billed in (4).

7.Incurred utilities expense on account.

8.Purchased additional supplies for cash.

9.Received cash from customers when service was performed.

**Instructions**

List the numbers of the above transactions and describe the effect of each transaction on assets,

liabilities, and stockholders' equity. For example, the first answer is: (1) Increase in assets and increase in stockholders' equity.

**Solution 212**

1. Increase in assets and increase in stockholders' equity.

2. Decrease in assets and decrease in stockholders' equity.

3. Increase in assets and increase in liabilities.

4. Increase in assets and increase in stockholders' equity.

5. Decrease in assets and decrease in stockholders' equity.

6. Increase in assets and decrease in assets.

7. Increase in liabilities and decrease in stockholders' equity.

8. Increase in assets and decrease in assets.

9. Increase in assets and increase in stockholders' equity.

##### LO3, 4 BT: C Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 213

Wilco Legal Eagles Company entered into the following transactions during

March 2015.

1.Purchased office equipment for $23,000 from Business Equipment, Inc. on account.

2.Paid $3,000 cash for March rent on office furniture.

3.Received $15,000 cash from customers for legal work billed in February.

4.Provided legal services to Amy Construction Company for $3,500 cash.

5.Paid Northern States Power Co. $2,700 cash for electric usage in March.

6.Stockholders' invested an additional $32,000 in the business.

7.Paid Business Equipment, Inc. for the office equipment purchased in (1) above.

8.Incurred advertising expense for March of $1,900 on account.

**Instructions**

Indicate with the appropriate letter whether each of the transactions above results in:

(a)an increase in assets and a decrease in assets.

(b)an increase in assets and an increase in stockholders' equity.

(c)an increase in assets and an increase in liabilities.

(d)a decrease in assets and a decrease in stockholders' equity.

(e)a decrease in assets and a decrease in liabilities.

(f)an increase in liabilities and a decrease in stockholders' equity.

(g)an increase in stockholders' equity and a decrease in liabilities.

**Solution 213**

1. (c) 5. (d)

2. (d) 6. (b)

3. (a) 7. (e)

4. (b) 8. (f)

LO3, 4 BT: C Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 214

Two items are omitted from each of the following summaries of balance sheet and income

statement data for two proprietorships for the year 2015, Holly Enterprises and Cat Stevens.

**Holly Enterprises Cat Stevens**

Beginning of year:

Total assets $ 98,000 $129,000

Total liabilities 60,000 (c)

Total stockholders' equity (a) 85,000

End of year:

Total assets 160,000 180,000

Total liabilities 100,000 50,000

Total stockholders' equity 60,000 130,000

Changes during year in stockholders' equity:

Additional investment (b) 25,000

Dividends 25,000 (d)

Total revenues 215,000 100,000

Total expenses 185,000 65,000

**Instructions**

Determine the missing amounts.

**Solution 214**

(a) Total assets (beginning of year) $98,000

Total liabilities (beginning of year) (60,000)

Total stockholders' equity (beginning of year) $38,000

(b) Total stockholders' equity (end of year) $60,000

Total stockholders' equity (beginning of year) (38,000)

Increase in stockholders' equity $22,000

Total revenues $215,000

Total expenses 185,000

Net income $ 30,000

Increase in stockholders' equity $22,000

Less: Net income $(30,000)

Add: Dividends 25,000) (5,000)

Additional investment $17,000

(c) Total assets (beginning of year) $129,000

Total stockholders' equity (beginning of year) (85,000)

Total liabilities (beginning of year) $ 44,000

**Solution 214** (cont.)

(d) Total stockholders' equity (end of year) $130,000

Total stockholders' equity (beginning of year) (85,000)

Increase in stockholders' equity $ 45,000

Total revenues $100,000

Total expenses (65,000)

Net income $ 35,000

Increase in stockholders' equity $45,000

Less: Net income $ 35,000

Additional investment 25,000 (60,000)

Dividends $(15,000)

##### LO3, 4 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 215

An analysis of the transactions made by White Stripes & Co., a law firm, for the month of July is shown below. Each increase and decrease in stockholders' equity is explained.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Assets | | | | | | | | = | Liab | + | Stockholders' Equity | | | | | |
|  | | | | | | | |  |  |  | Retained Earnings | | | | | |
|  | Cash | + | Accounts Receivable | + | Supplies | + | Equipment | = | Accounts Payable | + | Com Stock | + | Rev. | -Exp | -Div. |  |
| 1. | +$15,000 |  |  |  |  |  |  |  |  |  | +$15,000 |  |  |  |  |  |
| 2. | - 2,000 |  |  |  |  |  | +$5,000 |  | +$3,000 |  |  |  |  |  |  |  |
| 3. | - 750 |  |  |  | +$750 |  |  |  |  |  |  |  |  |  |  |  |
| 4. | + 2,500 |  | +$6,600 |  |  |  |  |  |  |  |  |  | +$9,100 |  |  | Rev. |
| 5. | - 1,500 |  |  |  |  |  |  |  | - 1,500 |  |  |  |  |  |  |  |
| 6. | - 2,500 |  |  |  |  |  |  |  |  |  |  |  |  |  | -$2,500 | Div. |
| 7. | - 750 |  |  |  |  |  |  |  |  |  |  |  |  | -$750 |  | Rent. |
| 8. | + 550 |  | -550 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 9. | - 3,500 |  |  |  |  |  |  |  |  |  |  |  |  | -$4,500 |  | Sal. |
| 10. | + 500 |  |  |  |  |  |  |  | + 500 |  |  |  |  | -500 |  | Util. |

**Instructions**

(a)Determine how much stockholders' equity increased for the month.

(b)Compute the amount of net income for the month.

**Solution 215**

(a) Investment $15,000

Service revenue 9,100

Dividends (2,500)

Rent expense (750)

Salaries expense (4,500)

Utilities expense (500)

Increase in capital $15,850

**Solution 215** (cont.)

(b) Service revenue $9,100

Rent expense (750)

Salaries expense (4,500)

Utilities expense (500)

Net income $3,350

##### LO4 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 216

The Constantine Company had the following assets and liabilities on the dates indicated.

**December 31 Total Assets Total Liabilities**

2014 $480,000 $250,000

2015 $460,000 $220,000

2016 $590,000 $300,000

Constantine began business on January 1, 2014, with an investment of $100,000.

**Instructions**

From an analysis of the change in stockholders' equity during the year, compute the net income (or loss) for:

(a)2014, assuming Constantine’s dividends were $45,000 for the year.

(b)2015, assuming Constantine made an additional investment of $50,000 and paid no dividends in 2015.

(c)2016, assuming Constantine made an additional investment of $15,000 and paid dividends of $40,000 in 2016.

**Solution 216**

(a) Stockholders' equity—12/31/14 ($480,000 – $250,000) $230,000

Stockholders' equity—1/1/14 (100,000)

Increase in stockholders' equity 130,000

Add: Dividends 45,000

Net income for 2014 $175,000

(b) Stockholders' equity—12/31/15 ($460,000 – $210,000) $240,000

Stockholders' equity—1/1/15—see (a) (230,000)

Increase in stockholders' equity 10,000

Less: Additional investment 50,000

Net loss for 2015 $ (40,000)

(c) Stockholders' equity—12/31/16 ($590,000 – $300,000) $290,000

Stockholders' equity—1/1/16—see (b) 240,000

Increase in stockholders' equity 50,000

Less: Additional investment (15,000)

35,000

Add: Dividends 40,000

Net income for 2016 $ 75,000

##### LO4 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 217

For each of the following, indicate whether the transaction affects revenue (R), expense (E), dividends (D), common stock (CS), or no effect on stockholders' equity (NOE).

1. Made an investment to start the business.

2. Billed customers for services performed.

3. Purchased equipment on account.

4. Paid monthly rent.

5. Paid dividends.

**Solution 217**

1. Common stock (CS)2. Revenue (R)3. No effect (NOE)4. Expense (E)5. Dividends (D)

LO4 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 218

Presented below is a balance sheet for Jim Henson Yard Service at December 31, 2015.

**JIM HENSON YARD SERVICE**

Balance Sheet

December 31, 2015

Assets Liabilities and Stockholders' Equity

Cash $13,000 Liabilities

Accounts receivable 6,000 Accounts payable $ 8,000

Supplies 9,000 Notes payable 15,000

Equipment 11,000 Stockholders' equity

Common stock 16,000

Total assets $39,000 Total liabilities & stockholders' equity $39,000

The following additional data are available for the year which began on January 1: All expenses (excluding supplies expense) total $6,000. Supplies on January 1, were $11,000 and $7,000 of supplies were purchased during the year. Net income for the year was $8,000 and dividends paid were $9,000.

**Instructions**

Determine the following: (Show all computations.)

1. Supplies used during the year.

2. Total expenses for the year.

3. Service revenues for the year.

4. Stockholders' equity on January 1.

**Solution 218**

1. Computation of Supplies Used:

Beginning Supplies, Jan. 1 $11,000

Add: Purchases 7,000

Less: Ending Supplies, Dec. 31 (9,000)

Equals: Supplies Used $ 9,000

2. Computation of Total Expenses:

All Expenses (excluding supplies expense) $ 6,000

Plus: Supplies Used 9,000

Total Expenses $15,000

3. Computation of Revenues:

Net Income $ 8,000

Plus: Total Expenses 15,000

Total Revenues $23,000

4. Computation of Stockholders' Equity on January 1:

Stockholders' equity, December 31 $16,000

Plus: Dividends 9,000

Less: Net Income (8,000)

Stockholders' equity, January 1 $17,000

LO4 BT: AN Difficulty: Hard TOT: 10 min. AACSB: Analysis AICPA BB: Critical Thinking AICPA PC: Problem Solving

##### Ex. 219

Analyze the transactions of a business organized as a corporation described below and indicate their effect on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (–) to indicate a decrease.

Assets = Liabilities + Stockholders' Equity

1. Received cash for services provided.

2. Purchased office equipment on credit.

3. Paid employees' salaries.

4. Received cash from customer in payment

on account.

5. Paid telephone bill for the month.

6. Paid for office equipment purchased in

transaction 2.

7. Purchased office supplies on credit.

8. Paid dividends.

9. Obtained a loan from the bank.

10. Billed customers for services rendered.

**Solution 219**

Assets = Liabilities + Stockholders' Equity

1. Received cash for services provided. + +

2. Purchased office equipment on credit. + +

3. Paid employees' salaries. – –

4. Received cash from customer in payment +,–

on account.

5. Paid telephone bill for the month. – –

6. Paid for office equipment purchased in

transaction 2. – –

7. Purchased office supplies on credit. + +

8. Paid dividends. – –

9. Obtained a loan from the bank. + +

10. Billed customers for services rendered. + +

LO4 BT: C Difficulty: Medium TOT: 10 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 220

For each of the following, indicate whether the transaction increased (+), decreased (-), or had no effect (NE) on assets, liabilities, and stockholders' equity using the following format.

Assets = Liabilities + Stockholders' Equity

1. Issued stock in exchange for cash.2. Billed customers for services performed.3. Purchased equipment on account.4. Paid dividends.

5. Paid for equipment purchased in 3. above.

**Solution 220**

Assets = Liabilities + Stockholders' Equity

1. + NE +2. + NE +3. + + NE4. – NE –5. – – NE

LO4 BT: C Difficulty: Easy TOT: 10 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 221

Neko Case decides to open a cleaning and laundry service near the local college campus that will operate as a corporation. Analyze the following transactions for the month of June in terms of their effect on the basic accounting equation. Record each transaction by increasing (+) or decreasing (–) the dollar amount of each item affected. Indicate the new balance of each item after a transaction is recorded. It is not necessary to identify the cause of changes in stockholders' equity.

Transactions

(1) Issued stock in exchange for $20,000 cash on June 1.

(2) Purchased equipment for $5,000 paying $3,000 in cash and the remainder due in 30 days.

(3) Purchased supplies for $1,200 cash.

(4) Received a bill from College News for $300 for advertising in the campus newspaper.

(5) Cash receipts from customers for cleaning and laundry amounted to $2,400.

(6) Paid salaries of $600 to student workers.

(7) Billed the Lion Soccer Team $450 for cleaning and laundry services.

(8) Paid $300 to College News for advertising that was previously billed in Transaction 4.

(9) Paid dividends of $1,200.

(10) Incurred utility expenses for month on account, $500.

Trans- Accounts Accounts Common Retained

action Cash + Receivable + Supplies + Equipment = Payable + Stock + Earnings

(1)

——————————————————————————————————————————

Balance

(2)

——————————————————————————————————————————

Balance

(3)

——————————————————————————————————————————

Balance

(4)

——————————————————————————————————————————

Balance

(5)

——————————————————————————————————————————

Balance

(6)

——————————————————————————————————————————

Balance

(7)

——————————————————————————————————————————

Balance

(8)

——————————————————————————————————————————

##### Ex. 221 (cont.)

Balance

(9)

——————————————————————————————————————————

Balance

(10)

——————————————————————————————————————————

Totals

**Solution 221**

Trans- Accounts Accounts Common Retained

action Cash + Receivable + Supplies + Equipment = Payable + Stock + Earnings

(1) +$20,000 +$20,000

——————————————————————————————————————————

Balance $20,000 $20,000

(2) – 3,000 +$5,000 +$2,000

——————————————————————————————————————————

Balance $17,000 $5,000 $2,000 $20,000

(3) – 1,200 +$1,200

——————————————————————————————————————————

Balance $15,800 $1,200 $5,000 $2,000 $20,000

(4) + 300 – $300

——————————————————————————————————————————

Balance $15,800 $1,200 $5,000 $2,300 $20,000 – $300

(5) + 2,400 + 2,400

——————————————————————————————————————————

Balance $18,200 $1,200 $5,000 $2,300 $20,000 $2,100

(6) – 600 – 600

——————————————————————————————————————————

Balance $17,600 $1,200 $5,000 $2,300 $20,000 $1,500

(7) +$450 + 450

——————————————————————————————————————————

Balance $17,600 $450 $1,200 $5,000 $2,300 $20,000 $1,950

(8) – 300 – 300

——————————————————————————————————————————

Balance $17,300 $450 $1,200 $5,000 $2,000 $20,000 $1,950

(9) – 1,200 – 1,200

——————————————————————————————————————————

Balance $16,100 $450 $1,200 $5,000 $2,000 $20,000 $750

(10) + 500 – 500

——————————————————————————————————————————

Totals $16,100 $450 $1,200 $5,000 $2,500 $20,000 $250

LO4 BT: AP Difficulty: Medium TOT: 20 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 222

For each of the following, describe a transaction that will have the stated effect on the elements of the accounting equation.

(a) Increase one asset and decrease another asset.

(b) Increase an asset and increase a liability.

(c) Decrease an asset and decrease a liability.

(d) Increase an asset and increase stockholders' equity.

(e) Increase one asset, decrease one asset, and increase a liability.

##### Solution 222

(a) Receive cash from customers on account.

Purchase supplies for cash.

(b) Purchase supplies on account.

Purchase equipment and signed a note payable.

(c) Pay cash to reduce accounts payable.

Pay cash to reduce a note payable.

(d) Issued common stock in exchange for cash.

Render services on account (or for cash).

(e) Buy equipment with a cash down payment with the remainder financed by a note payable.

LO4 BT: C Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 223

The following transactions represent part of the activities of Bloc Party Company for the first month of its existence. Indicate the effect of each transaction upon the total assets of the business by one of the following phrases: increased total assets, decreased total assets, or no change in total assets.

(a) Issued stock in exchange for cash.

(b) Purchased a computer for cash.

(c) Purchased office equipment with money borrowed from the bank.

(d) Paid the first month's utility bill.

(e) Collected an accounts receivable.

(f) Paid dividends.

##### Solution 223

(a) Increased total assets.

(b) No change in total assets.

(c) Increased total assets.

(d) Decreased total assets.

(e) No change in total assets.

##### Solution 223 (cont.)

(f) Decreased total assets.

LO4 BT: C Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 224

Selected transactions for Parton Company are listed below. List the number of the transaction and then describe the effect of each transaction on assets, liabilities, and stockholders' equity.

Sample: Issued common stock in exchange for cash investment.

The answer would be—Increase in assets and increase in stockholders' equity.

1. Paid monthly utility bill.

2. Purchased new display case for cash.

3. Paid cash for repair work on security system.

4. Billed customers for services performed.

5. Received cash from customers billed in 4.

6. Paid dividends.

7. Incurred advertising expenses on account.

8. Paid monthly rent.

9. Received cash from customers when service was rendered.

**Solution 224**

1. Decrease in assets and decrease in stockholders' equity.

2. No net change in assets.

3. Decrease in assets and decrease in stockholders' equity.

4. Increase in assets and increase in stockholders' equity.

5. No net change in assets.

6. Decrease in assets and decrease in stockholders' equity.

7. Increase in liabilities and decrease in stockholders' equity.

8. Decrease in assets and decrease in stockholders' equity.

9. Increase in assets and increase in stockholders' equity.

LO4 BT: C Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 225

A service company shows five transactions summarized below. The effect of each transaction on the accounting equation is shown, and also the new balance of each item in the equation. For each transaction (a) to (e) write an explanation of the nature of the transaction.

Accounts Equip- Accounts Stockholders'

##### Cash + Rec. + ment + Land + Building = Payable + Equity

##### ——————————————————————————————————————————

$5,000 $6,500 $10,000 $7,500 $50,000 $3,000 $76,000

a) –2,000 –2,000

3,000 6,500 10,000 7,500 50,000 1,000 76,000

b) +1,000 – 1,000

4,000 5,500 10,000 7,500 50,000 1,000 76,000

##### Ex. 225 (cont.)

c) + 5,000 +5,000

4,000 5,500 15,000 7,500 50,000 6,000 76,000

d) +2,500 + 2,500

6,500 5,500 15,000 7,500 50,000 6,000 78,500

e) +3,000 + 3,000

$6,500 $8,500 $15,000 $7,500 $50,000 $6,000 $81,500

**Solution 225**

(a) Paid cash to creditors.

(b) Received cash from customers on account.

(c) Bought equipment on account.

(d) Issued stock in exchange for cash or services rendered to customers for cash.

(e) Services rendered on account.

LO4 BT: C Difficulty: Medium TOT: 5 min. AACSB: Analysis AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 226

There are ten transactions listed below. Match the transactions that have the identical effect on the accounting equation. You should end up with 5 matches.

a. Receive cash from customers on account.

b. Issued stock in exchange for cash.

c. Pay cash to reduce an accounts payable.

d. Purchase supplies for cash.

e. Pay cash to reduce a notes payable.

f. Purchase supplies on account.

g. Additional investment by a stockholder.

h. Purchase equipment with a note payable.

i. Pay utilities with cash.

j. Pay dividends.

**Solution 226**

Match #1 = a, d

#2 = c, e

#3 = f, h

#4 = b, g

#5 = i, j

LO4 BT: C Difficulty: Medium TOT: 10 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 227

An analysis of the transactions made by Cookie Mountain Legal, a law firm, for the month of July is shown below. Each increase and decrease in stockholders' equity is explained.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Assets | | | | | | | | = | Liab | + | Stockholders' Equity | | | | | |
|  | | | | | | | |  |  |  | Retained Earnings | | | | | |
|  | Cash | + | Accounts Receivable | + | Supplies | + | Equipment | = | Accounts Payable | + | Com Stock | + | Rev. | -Exp | -Div. |  |
| 1. | +$15,000 |  |  |  |  |  |  |  |  |  | +$15,000 |  |  |  |  |  |
| 2. | - 2,000 |  |  |  |  |  | +$5,000 |  | +$3,000 |  |  |  |  |  |  |  |
| 3. | - 750 |  |  |  | +$750 |  |  |  |  |  |  |  |  |  |  |  |
| 4. | + 2,500 |  | +$6,600 |  |  |  |  |  |  |  |  |  | +$9,100 |  |  | Rev. |
| 5. | - 1,500 |  |  |  |  |  |  |  | - 1,500 |  |  |  |  |  |  |  |
| 6. | - 2,500 |  |  |  |  |  |  |  |  |  |  |  |  |  | -$2,500 | Div. |
| 7. | - 750 |  |  |  |  |  |  |  |  |  |  |  |  | -$750 |  | Rent. |
| 8. | + 550 |  | -550 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 9. | - 4,500 |  |  |  |  |  |  |  |  |  |  |  |  | -$4,500 |  | Sal. |
| 10. |  |  |  |  |  |  |  |  | + 500 |  |  |  |  | -500 |  | Util. |

**Instructions**

(a)Prepare an income statement for the month ending July 31, 2015.

(b)Prepare a retained earnings statement for the month ending July 31, 2015.

**Solution 227**

(a)

**COOKIE MOUNTAIN LEGAL**

Income Statement

For the Month Ended July 31, 2015

Revenues

Service revenue $9,100

Expenses

Salaries and wages expense $4,500

Rent expense 750

Utilities expense 500

Total expenses 5,750

Net income $3,350

(b)

**COOKIE MOUNTAIN LEGAL**

Retained Earnings Statement

For the Month Ended July 31, 2015

Retained earnings, July 1 $ 0

Add: Net income 3,350

3,350

Less: Dividends 2,500

Retained earnings, July 31 $ 850

##### LO5 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 228

An analysis of the transactions made by Cookie Mountain Legal, a law firm, for the month of July is shown below. Each increase and decrease in retained earnings is explained.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Assets | | | | | | | | = | Liab | + | Stockholders' Equity | | | | | |
|  | | | | | | | |  |  |  | Retained Earnings | | | | | |
|  | Cash | + | Accounts Receivable | + | Supplies | + | Equipment | = | Accounts Payable | + | Com Stock | + | Rev. | -Exp | -Div. |  |
| 1. | +$15,000 |  |  |  |  |  |  |  |  |  | +$15,000 |  |  |  |  |  |
| 2. | - 2,000 |  |  |  |  |  | +$5,000 |  | +$3,000 |  |  |  |  |  |  |  |
| 3. | - 750 |  |  |  | +$750 |  |  |  |  |  |  |  |  |  |  |  |
| 4. | + 2,500 |  | +$6,600 |  |  |  |  |  |  |  |  |  | +$9,100 |  |  | Rev. |
| 5. | - 1,500 |  |  |  |  |  |  |  | - 1,500 |  |  |  |  |  |  |  |
| 6. | - 2,500 |  |  |  |  |  |  |  |  |  |  |  |  |  | -$2,500 | Div. |
| 7. | - 750 |  |  |  |  |  |  |  |  |  |  |  |  | -$750 |  | Rent. |
| 8. | + 550 |  | -550 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 9. | - 4,500 |  |  |  |  |  |  |  |  |  |  |  |  | -$4,500 |  | Sal. |
| 10. |  |  |  |  |  |  |  |  | + 500 |  |  |  |  | -500 |  | Util. |

**Instructions**

##### Prepare a balance sheet at July 31, 2015.

**Solution 228**

**COOKIE MOUNTAIN LEGAL**

Balance Sheet

July 31, 2015

Assets

Cash $ 6,050

Accounts receivable 6,050

Supplies 750

Equipment 5,000

Total assets $17,850

Liabilities and Stockholders' Equity

Liabilities

Accounts payable $ 2,000

Stockholders' equity

Common stock $15,000

Retained earnings 850 15,850

Total liabilities and stockholders' equity $17,850

##### LO5 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 229

The following information relates to Bonnie Billy Co. for the year 2015.

Retained earnings, January 1, 2015 $ 67,000 Advertising expense $6,500

Dividends 6,000 Rent expense 9,500

Service revenue 65,500 Utilities expense 1,400

Salaries and wages expense 29,000

**Instructions**

After analyzing the data, prepare an income statement and a retained earnings statement for the year ending December 31, 2015

**Solution 229**

**BONNIE BILLY CO.**

Income Statement

For the Year Ended December 31, 2015

Revenues

Service revenue $65,500

Expenses

Salaries and wages expense $29,000

Rent expense 9,500

Advertising expense 6,500

Utilities expense 1,400

Total expenses 46,400

Net income $19,100

**BONNIE BILLY CO.**

Retained Earnings Statement

For the Year Ended December 31, 2015

Retained earnings, January 1 $67,000

Add: Net income 19,100

86,100

Less: Dividends 6,000

Retained earnings, December 31 $80,100

##### LO5 BT: AP Difficulty: Easy TOT: 7 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 230

Van Occupanther is the bookkeeper for Roscoe Company. Van has been trying to get the balance sheet of Roscoe Company to balance. Roscoe’s balance sheet is as follows.

**ROSCOE COMPANY**

Balance Sheet

December 31, 2015

Assets Liabilities

Cash $9,400 Accounts payable $25,000

Supplies 7,100 Accounts receivable (19,500)

Equipment 45,000 Common stock 40,000

Dividends 9,200 Retained earnings 25,200

Total assets $70,700 Total liabilities and

stockholders' equity $70,700

**Instructions**

Prepare a correct balance sheet.

**Solution 230**

**ROSCOE COMPANY**

Balance Sheet

December 31, 2015

Assets

Cash $ 9,400

Accounts receivable 19,500

Supplies 7,100

Equipment 45,000

Total assets $81,000

Liabilities and Stockholders' Equity

Liabilities

Accounts payable $25,000

Stockholders' equity

Common stock $40,000

Retained earnings ($25,200 – $9,200) 16,000 56,000

Total liabilities and stockholders' equity $81,000

##### LO5 BT: AN Difficulty: Medium TOT: 5 min. AACSB: Analytical AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 231

Presented below is information related to Anthony Scalici Company.

Retained earnings, January 1, 2015 $ 21,000

Service revenue—2015 320,000

Total expenses—2015 213,000

Assets, January 1, 2015 85,000

Liabilities, January 1, 2015 64,000

Assets, December 31, 2015 165,000

Liabilities, December 31, 2015 90,000

Dividends—2015 ?

**Instructions**

Prepare the 2015 retained earnings statement for Anthony Scalici Company.

**Solution 231**

**ANTHONY SCALICI, COMPANY**

Retained Earnings Statement

For the Year Ended December 31, 2015

Retained earnings, January 1 $ 21,000

Add: Net income 107,000\*

128,000

Less: Dividends 53,000

Retained earnings, December 31 $ 75,000

\*Service revenue $320,000

Total expenses (213,000)

Net income $107,000

##### LO5 BT: AP Difficulty: Medium TOT: 7 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 232

Prepare an income statement, a retained earnings statement, and a balance sheet for the accupuncture practice of Golda Bear, from the items listed below for the month of September, 2015.

Retained earnings, September 1 $17,000

Common stock 30,000

Accounts payable 7,000

Equipment 35,000

Service revenue 28,000

Dividends 6,000

Supplies expense 4,500

Cash 3,000

Utilities expense 700

Supplies 4,800

Salaries and wages expense 9,000

Accounts receivable 14,000

Rent expense 5,000

GOLDA BEAR, ACCUPUNCTURIST

Income Statement

For the Month Ended September 30, 2015

##### ——————————————————————————————————————————

Revenues $

Expenses $ $

Total expenses $

Net income $

GOLDA BEAR, ACCUPUNCTURIST

Retained Earnings Statement

For the Month Ended September 30, 2015

##### ——————————————————————————————————————————

Retained Earnings, September 1 $

Add:

$

Less:

$

##### Ex. 232 (cont.)

GOLDA BEAR, ACCUPUNCTURIST

Balance Sheet

September 30, 2015

##### ——————————————————————————————————————————

Assets

$

Total assets

$

Liabilities and Stockholder' Equity

Liabilities

$

Stockholders' Equity $

Total liabilities and stockholders' equity $

**Solution 232**

GOLDA BEAR, ACCUPUNCTURIST

Income Statement

For the Month Ended September 30, 2015

##### ——————————————————————————————————————————

Revenues

Service revenue $28,000

Expenses

Salaries and wages expense $9,000

Rent expense 5,000

Supplies expense 4,500

Utilities expense 700

Total expenses 19,200

Net income $ 8,800

GOLDA BEAR, ACCUPUNCTURIST

Retained Earnings Statement

For the Month Ended September 30, 2015

Retained earnings, September 1 $17,000

Add: Net income 8,800

25,800

Less: Dividends 6,000

Retained earnings, September 30 $19,800

**Solution 232** (cont.)

GOLDA BEAR, ACCUPUNCTURIST

Balance Sheet

September 30, 2015

##### ——————————————————————————————————————————

Assets

Cash $ 3,000

Accounts receivable 14,000

Supplies 4,800

Equipment 35,000

Total assets $56,800

Liabilities and Stockholders' Equity

Liabilities

Accounts payable $ 7,000

Stockholders' Equity

Common stock $30,000

Retained earnings 19,800 49,800

Total liabilities and stockholders' equity $56,800

LO5 BT: AP Difficulty: Hard TOT: 15 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 233

Indicate whether the following items would appear on the balance sheet (BS), income statement (IS), or retained earnings statement (RE).

1. Advertising expense2. Accounts receivable3. Dividends4. Rent revenue5. Salaries and wages payable6. Supplies

##### Solution 233 (5 min.)

1. Income statement (IS) 4. Income statement (IS)2. Balance sheet (BS) 5. Balance sheet (BS)3. Retained earnings statement (RE) 6. Balance sheet (BS)

LO5 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 234

Listed below in alphabetical order are the balance sheet items of Rock Plaza Company at December 31, 2015. Prepare a balance sheet and include a complete heading.

Accounts Payable $ 24,000

Accounts Receivable 15,000

Buildings 51,000

Cash 7,000

Common Stock 102,000

Land 42,000

Equipment 11,000

##### Solution 234 (5 min.)

ROCK PLAZA COMPANY

Balance Sheet

December 31, 2015

ASSETS

Cash $ 7,000

Accounts receivable 15,000

Land 42,000

Buildings 51,000

Equipment 11,000

Total assets $126,000

LIABILITIES

Accounts payable $ 24,000

STOCKHOLDERS' EQUITY

Common stock 102,000

Total liabilities and stockholders' equity $126,000

LO5 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 235

One item is omitted in each of the following summaries of balance sheet and income statement data for three different sole corporations, X, Y, and Z. Determine the amounts of the missing items, identifying each corporation by letter.

Corporation

X Y Z

Beginning of the Year:

Assets $390,000 $150,000 $219,000

Liabilities 250,000 105,000 168,000

End of the Year:

Assets 450,000 175,000 195,000

Liabilities 280,000 95,000 169,000

During the Year:

Issued additional shares of stock ? 79,000 80,000

Dividends 90,000 83,000 ?

Revenue 195,000 ? 187,000

Expenses 170,000 113,000 175,000

**Solution 235**

Corporation X ($95,000)

Beginning stockholders' equity ($390,000 – $250,000) $140,000

Additional investments ($260,000 – $140,000 – $25,000) 95,000

Net income for year ($195,000 – $170,000) 25,000

260,000

Less dividends 90,000

Ending stockholders' equity ($450,000 – $280,000) $170,000

Corporation Y ($152,000)

Beginning stockholders' equity ($150,000 – $105,000) $ 45,000

Additional investments 79,000

Net income for year 39,000

[Revenues = $152,000 ($113,000 + $39,000)] 163,000

Less dividends 83,000

Ending stockholders' equity ($175,000 – $95,000) $ 80,000

Corporation Z ($117,000)

Beginning stockholders' equity ($219,000 – $168,000) $ 51,000

Additional investments 80,000

Net income for year ($187,000 – $175,000) 12,000

143,000

Less dividends ($143,000 – $26,000) 117,000

Ending stockholders' equity ($195,000 – $169,000) $ 26,000

LO5 BT: AN Difficulty: Hard TOT: 10 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA PC: Problem Solving

##### Ex. 236

Indicate in the space provided by each item whether it would appear on the Income Statement (IS), Balance Sheet (BS), or Retained Earnings Statement (RE):

a. Service Revenue g. Accounts Receivable

b. Utilities Expense h. Retained Earnings (ending)

c. Cash i. Equipment

d. Accounts Payable j. Advertising Expense

e. Office Supplies k. Dividends

f. Salaries Expense l. Notes Payable

**Solution 236**

a. IS g. BS

b. IS h. RE, BS

c. BS i. BS

d. BS j. IS

e. BS k. RE

f. IS l. BS

LO5 BT: C Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 237

Maria Queen was reviewing her business activities at the end of the year (2015) and decided to prepare a Retained Earnings Statement. At the beginning of the year her assets were $700,000 and her liabilities were $210,000. At the end of the year the assets had grown to $930,000 but liabilities had also increased to $340,000. Common Stock was $200,000 in both years. The net income for the year was $220,000. The company paid dividends of $120,000 during the year.

Prepare a Retained Earnings statement in good form.

##### Solution 237

MARIA QUEEN

Retained Earnings Statement

For the Year Ended 2015

Beginning retained earnings $290,000

Add: Net Income 220,000

510,000

Less: Dividends 120,000

Ending retained earnings $390,000

LO5 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### Ex. 238

At September 1, the balance sheet accounts for Stanley’s Restaurant were as follows:

Accounts Payable $ 3,800 Land $33,000

Accounts Receivable 9,600 Common Stock ?

Buildings 68,000 Notes Payable 48,000

Cash 10,000 Supplies 6,600

Equipment 18,700

The following transactions occurred during the next two days:

The company issued additional shares of stock for $22,000 cash in the business. The accounts payable were paid in full. (No payment was made on the notes payable.)

**Instructions**

Prepare a balance sheet at September 1, 2015.

##### Solution 238

STANLEY'S RESTAURANT

Balance Sheet

September 1, 2015

ASSETS

Cash $ 28,200

Accounts receivable 9,600

Supplies 6,600

Land 33,000

Buildings 68,000

Equipment 18,700

Total assets $164,100

LIABILITIES

Accounts payable $ -0-

Notes payable 48,000

STOCKHOLDERS' EQUITY

Common stock 116,100

Total liabilities and stockholders' equity $164,100

Cash ($10,000 + $22,000 – $3,800) = $28,200

Accounts Payable ($3,800 – $3,800) = $0

Common stock: Beginning balance ($145,900 – $51,800) $ 94,100

Additional investment 22,000

Ending balance $116,100

LO5 BT: AP Difficulty: Hard TOT: 10 min. AACSB: Analysis AICPA BB: Critical Thinking AICPA PC: Problem Solving

##### Ex. 239

Presented below are balance sheet items for Black Angel Company at December 31, 2015.

Accounts payable $35,000 Accounts receivable 36,000 Cash 17,000 Equipment 77,000 Common stock 45,000 Notes payable 50,000

Compute each of the following:1. Total assets.2. Total liabilities.

##### Solution 239

1. Total assets = $130,000 ($36,000 + $17,000 + $77,000)2. Total liabilities = $85,000 ($35,000 + $50,000)

LO5 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

## COMPLETION STATEMENTS

240. Accounting is an information system that identifies, \_\_\_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_\_\_\_\_ the economic events of an organization.

241. The mere recording of economic events is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_, and is just one part of the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ process.

242. The three major services rendered by a certified public accountant are \_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and management \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

243. Accountants who are employees of business enterprises are referred to as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ accountants.

244. A common set of standards that provides guidelines to accountants and indicates how to report economic events is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

245. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ principle states that assets should be recorded at the value exchanged at the time the asset is acquired.

246. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ assumption requires that the activities of an entity be kept separate from the activities of its owner.

247. The residual claim on total assets of a business is known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and is equal to total assets minus total liabilities.

248. Dividends \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ stockholders' equity but are not expenses.

249. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ reports the assets, liabilities, and stockholders' equity of a business enterprise at a specific date.

### Answers to Completion Statements

240. records, communicates 245. historical cost

241. bookkeeping, accounting 246. economic entity

242. auditing, taxation, consulting 247. stockholders' equity

243. private (or managerial) 248. reduce

244. generally accepted accounting principles 249. balance sheet

LO1–5 BT: K Difficulty: Easy TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

## MATCHING

250. Match the items below by entering the appropriate code letter in the space provided.

A. CPA F. Corporation

B. Budgeting G. Assets

C. SEC H. Equities

D. Proprietorship I. Expenses

E. Economic Entity Assumption J. Transaction

1. Activities of an entity must be kept separate from its owner’s activities.

2. Consumed assets or services.

3. Ownership is limited to one person.

4. Offers expert accounting service to the general public.

5. Creditor and ownership claims against the assets of the business.

6. A separate legal entity under state laws.

7. Government agency that can mandate accounting rules.

8. Quantifying goals and objectives.

9. Future economic benefits.

10. Economic events recorded by accountants.

### Answers to Matching

1. E 6. F

2. I 7. C

3. D 8. B

4. A 9. G

5. H 10. J

LO1–5 BT: K Difficulty: Easy TOT: 3 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

## SHORT-ANSWER ESSAY QUESTIONS

##### \*S-A E 251

The accounting profession provides many career opportunities for individuals. Identify the major fields that exist in accounting and comment on the major functions performed by individuals in each of these areas.

##### \*Solution 251

The major fields that exist in accounting are in the areas of (1) public accounting, (2) private accounting, and (3) not-for-profit accounting. In public accounting, an accountant may practice as: (1) an auditor who examines the financial statements of companies and expresses an opinion as to the fairness of presentation; (2) a tax specialist who gives tax advice, prepares tax returns, and represents clients before governmental agencies; and (3) a management accountant who engages in the development of accounting and computer systems and the design of organizational systems.

Private (managerial) accountants perform many different activities within a company. Private accountants may be involved in: cost accounting, budgeting, general financial accounting, accounting information systems, and tax accounting.

LO6 BT: K Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA BB: Critical Thinking AICPA FN: Reporting

##### S-A E 252

The framework used to record and summarize the economic activities of a business enterprise is referred to as the accounting equation. State the basic accounting equation and define its major components. How are business transactions and financial statements related to the accounting equation?

##### Solution 252

The basic accounting equation is expressed as follows:

Assets = Liabilities + Stockholders' Equity

Assets are defined as resources owned by the business. Liabilities are creditorship claims against the assets of the business; or simply put, liabilities are existing debts and obligations. Stockholders' equity is the ownership claim on the total assets of the business; it is equal to total assets minus total liabilities.

Business transactions are economic events and activities that affect the elements of the basic accounting equation; that is, transactions cause increases or decreases in the assets, liabilities, and stockholders' equity. The financial statements report the results and effects of transactions on the business' assets, liabilities, and stockholders' equity. The balance sheet is a summary expression of the basic accounting equation.

LO3 BT: C Difficulty: Medium TOT: 4 min. AACSB: Communication AICPA BB: Critical Thinking AICPA FN: Reporting

##### S-A E 253

Your friend, Angela, made this comment:

My major is biology and I plan to research for cures for major illnesses. Thus, I have no need to study accounting.

What is your response to Angela?

##### Solution 253

Angela, you are entering a dynamic profession and you have the opportunity to make important contributions to society. While science will be your profession and major concern, you will not be able to escape the need to understand accounting. Accounting staff and professionals will always be available to assist you. Here are some areas that will directly affect you:

As a manager, you will need to review accounting information (both internal and external) and make decisions. Budgets will be an important part of your research activities. As an employee, you will be concerned about the financial information of your employer. Thus, you will need to be able to read the company’s financial statements. Also, as an investor, you will be interested in the financial statements of other companies.

You will probably not be a preparer of the financial statements, but you do need an understanding of how they are prepared. You also need a good understanding of how to interpret the information on the financial statements.

LO1 BT: S Difficulty: Hard TOT: 5 min. AACSB: Communication AICPA BB: Critical Thinking AICPA FN: Reporting

##### S-A E 254

The information needs of a specific user of financial accounting information depends upon the kinds of decisions that user makes. Identify the major users of accounting information and discuss what questions financial accounting information answers for each group of users.

##### Solution 254

The major users of accounting information are internal users and external users. Internal users are those who manage the business. External users are those outside the business who have either a present or potential financial interest.

Financial accounting information may answer the following questions for internal users:

1. Is cash sufficient to pay our debts?

2. Can we afford to give employee pay raises this year?

3. What is the cost of manufacturing each unit of product?

4. Which product line is the most profitable?

Questions answered by financial accounting information for external users include:

1. Is the company earning satisfactory income?

2. How does the company compare in size and profitability with competitors?

3. Will the company be able to pay its debts as they come due?

LO1 BT: C Difficulty: Medium TOT: 5 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### S-A E 255 (Ethics)

Joanna Newsom owns and operates Joanna's Burgers, a small fast food store, located at the edge of City College campus in Newton, Ohio. After several very profitable years, Joanna's Burgers began to have problems. Most of the problems were related to Joanna's expansion of the eating area in the restaurant without corresponding increases in the food preparation area. Joanna does not have the cash or financial backing to expand further. She has therefore decided to sell her business.

Vivian Girls is interested in purchasing the business. However, she is located in another city and is unfamiliar with Newton. She has asked Joanna why she is selling Joanna's Burgers. Joanna replies that her elderly mother requires extra care, and that her brother needs help in his manufacturing business. Both are true, but neither is her primary reason for selling. Joanna reasons that Vivian should not have asked her anyway, since profitable businesses don't come up for sale.

**Required:**

1. Identify the stakeholders in this situation.

2. Did Joanna act ethically in not revealing fully her reasons for selling the business? Why or why not?

##### Solution 255

1. The stakeholders include

Joanna Newsom

Vivian Girls

Newton, Ohio

students of City College

City College

persons financing the purchase of Sam's Burgers

2. Joanna did not act ethically in not revealing fully her reasons for selling the business. Students might be of the opinion that a purchaser should investigate a business before purchasing it, rather than relying entirely on the seller's assertions. However, students should realize that Joanna should have said something about her problems. She might ethically be allowed to put these in the best possible light, perhaps, but failure to disclose them at all is certainly unethical. This is especially true, since family concerns might well cause someone to sell a business that is otherwise doing well. Joanna has shown an intent to deceive that is unethical, and might be actionable in court as well.

LO2 BT: E Difficulty: Medium TOT: 5 min. AACSB: Ethics AICPA BB: Critical Thinking AICPA FN: Reporting

##### S-A E 256 (Communication)

Rachel Bells Havens is a friend of yours from high school. She decided to become a beautician after leaving high school, rather than to attend college. She recently opened her own shop, and has contracted her services to a local hospital. She is paid a monthly fee for her services, and receives a small gratuity from each of the patients.

She has just received her first set of financial statements from her accountant. She is quite upset. The statements show a cash balance of $3,600 at the end of the month, but a net income of only $500. She has written you a letter, asking you whether such a situation is possible, or whether she should find another accountant.

**Required:**

Write a short letter to your friend. Use proper form. Answer her question completely, but briefly.

##### Solution 256

Answers will vary. The instructor's requirements concerning proper form should be followed. The letter may be either business or personal. As a minimum, the letter should be in a recognizable form, and proper grammar and spelling should be used. A suggested personal letter follows:

1245 Lily Lane

Buena Vista, AR 77661

(Date)

Dear Rachel,

Congratulations on opening your business! I am sure you will do well, combining your creative genius with your talent for serving others.

You asked about your financial statements. Of course, you realize that I am just an accounting student, but I do know that it is possible to have a large cash balance and little net income. You may have had expenses that were not paid in cash yet. These expenses reduce your income, but not your cash.

I think that you should discuss the statements with the accountant who prepared them. He or she will be in the best position to explain the results.

Thanks for the question. It really made me think.

Sincerely,

(signature)

LO5 BT: C Difficulty: Medium TOT: 5 min. AACSB: Communication AICPA BB: Critical Thinking AICPA FN: Reporting

## CHALLENGE EXERCISES

##### CE 1

The total assets and liabilities of Company at January 1 and December 31, 2015 are presented below.

**January 1 December 31**

Assets $95,000 $140,000

Liabilities 30,000 36,000

**Instructions:**

1. Assume dividends of $10,800 were paid and no additional stock was issued during the year. Revenues were $110,000. Compute (a) net income, and (b) expenses.

2. Assume additional stock was issued for $4,800 and no dividends were paid during the year. Expenses were $42,000. Compute (a) net income, and (b) revenues.

3. Assume additional stock was issued for $62,000 and dividends of $15,600 were paid during the year. Compute net income.

4. Assume additional stock was issued for $6,000 and net income was $51,000. Compute dividends paid.

**Solution CE 1**

1. a. January 1 stockholders' equity = $95,000 − $30,000 = $65,000.

December 31 stockholders' equity = $140,000 − $36,000 = $104,000.

The change in stockholders' equity = $104,000 − $65,000 = $39,000.

$39,000 = Net income + investments by owners − dividends.

$39,000 = NI + $0 − $10,800.

NI = $49,800.

b. Revenues − expenses = net income.

$110,000 − expenses = $49,800.

Expenses = $60,200.

2. a. January 1 stockholders' equity = $95,000 − $30,000 = $65,000.

December 31 stockholders' equity = $140,000 − $36,000 = $104,000.

The change in stockholders' equity = $104,000 − $65,000 = $39,000.

$39,000 = Net income + investments by owners − dividends.

$39,000 = NI + $4,800 − $0.

NI = $34,200.

b. Revenues − expenses = net income.

Revenues − $42,000 = $34,200.

Revenues = $76,200.

3. a. January 1 stockholders' equity = $95,000 − $30,000 = $65,000.

December 31 stockholders' equity = $140,000 − $36,000 = $104,000.

The change in stockholders' equity = $104,000 − $65,000 = $39,000.

$39,000 = Net income + investments by owners − dividends.

$39,000 = NI + $62,000 − $15,600.

NI = $7,400. (a net loss).

**Solution CE 1** (cont.)

4. a. January 1 stockholders' equity = $95,000 − $30,000 = $65,000.

December 31 stockholders' equity = $140,000 − $36,000 = $104,000.

The change in stockholders' equity = $104,000 − $65,000 = $39,000.

$39,000 = Net income + investments by owners − dividends.

$39,000 = $51,000 + $6,000 − dividends.

Dividends = $18,000.

LO3 BT: AP Difficulty: Hard TOT: 15 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### CE 2

Windsor Service had the following financial information at the end of 2015.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **1/1/15** | **2015** | **12/31/15** |
| Accounts payable |  |  | $19,000 |
| Accounts Receivable |  |  | 25,000 |
| Advertising Expense |  | $1,000 |  |
| Cash |  |  | 16,000 |
| Common Stock |  |  | 15,000 |
| Dividends |  | 9,000 |  |
| Equipment |  |  | 38,000 |
| Notes Payable |  |  | 20,000 |
| Rent Expense |  | 3,500 |  |
| Retained Earnings | $6,000 |  |  |
| Salaries and Wages Expense |  | 20,000 |  |
| Service Revenue |  | 55,000 |  |
| Utilities Expense |  | 2,500 |  |

**Instructions:**

Prepare a 2015 income statement, 2015 retained earnings statement, and a 12/31/15 balance sheet for Windsor Service.

**Solution CE 2**

**Windsor Service**

**Income Statement**

**For the year ended December 31, 2015**

Revenue

Service revenue $55,000

Expenses

Salaries and wages expenses $20,000

Rent expense 3,500

Utilities expense 2,500

Advertising expense 1,000 27,000

Net income $28,000

**Solution CE 2** (cont.)

**Windsor Service**

**Retained Earnings Statement**

**For the year ended December 31, 2015**

Retained earnings, 1/1/15 $ 6,000

Add: net income 28,000

34,000

Less: dividends 9,000

Retained earnings, 12/31/15 $25,000

**Windsor Service**

**Balance Sheet**

**December 31, 2015**

Assets

Cash $16,000

Accounts receivable 25,000

Equipment 38,000

Total assets $79,000

Liabilities

Accounts payable $19,000

Notes payable 20,000

Total liabilities $39,000

Stockholders' Equity

Common stock $15,000

Retained earnings 25,000

40,000

Total liabilities and stockholders' equity $79,000

LO5 BT: AP Difficulty: Hard TOT: 15 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting

##### CE 3

This information is for Downing Company for the year ended December 31, 2015.

Cash received from revenues from customers $930,000 Cash received for issuance of common stock 420,000 Cash paid for new equipment 150,000 Cash dividends paid 30,000 Cash paid for expenses 640,000 Cash balance 1/1/15 50,000

**Instructions**

Prepare the 2015 statement of cash flows for Downing Company.

##### Solution CE 3

DOWNING COMPANY

Statement of Cash Flows

For the Year Ended December 31, 2015

##### ——————————————————————————————————————————

Cash flows from operating activities

Cash receipts from customers $930,000

Cash payments for expenses (640,000)

Net cash provided by operating activities 290,000

Cash flows from investing activities

Purchase of equipment (150,000)

Cash flows from financing activities

Sale of common stock $420,000

Payment of cash dividends (30,000) 390,000

Net increase in cash 530,000

Cash at the beginning of the period 50,000

Cash at the end of the period $580,000

LO5 BT: AP Difficulty: Hard TOT: 15 min. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Reporting