Chapter 1: Uses of Accounting Information and the Financial Statements 4 copy

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| 1. | The processing stage of accounting is accomplished by the recording of data.    True    False |

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| 2. | The terms “bookkeeping” and “accounting” are *not* synonymous.    True    False |

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| 3. | A company's management information system is a subsystem of its accounting information system.    True    False |

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| 4. | Accountants focus on the needs for financial information by both internal and external decision makers.    True    False |

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| 5. | Accountants consider money the common unit of measure for all business transactions.    True    False |

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| 6. | Payment to a creditor is an example of a nonexchange business transaction.    True    False |

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| 7. | For accounting purposes, a business and its owner are considered the same entity.    True    False |

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| 8. | Knowledge of the exchange rate is necessary to apply the money measure concept in case of international transactions.    True    False |

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| 9. | For reporting purposes, the personal assets and debts of a business owner should be combined with the assets and debts of the business.    True    False |

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| 10. | Exchange rates for currency change daily according to the supply and demand for each currency.    True    False |

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| 11. | The day-by-day accumulation of interest is considered a transaction involving an exchange of value.    True    False |

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| 12. | Sole proprietorships in the United States generate more business (in terms of receipts) than partnerships and corporations put together.    True    False |

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| 13. | A corporation is an economic unit that is legally separate from its owners.    True    False |

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| 14. | Corporations represent the largest number of businesses in the United States.    True    False |

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| 15. | The liability of corporate stockholders is limited to their percentage share of ownership.    True    False |

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| 16. | The stockholders of a corporation elect the board of directors.    True    False |

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| 17. | In general, one partner acting alone cannot obligate the partnership to another party.    True    False |

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| 18. | A partnership is dissolved when any partner leaves the business or dies.    True    False |

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| 19. | The personal resources of any partner can be called upon to pay the obligations of the partnership.    True    False |

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| 20. | When a corporate stockholder sells his or her shares of stock, the corporation is technically dissolved.    True    False |

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| 21. | The board of directors appoints the audit committee, which in turn performs an independent audit of the company’s records.    True    False |

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| 22. | The articles of incorporation may be found in the corporate charter.    True    False |

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| 23. | Authorized shares of stock refer to the number of shares currently held by the stockholders.    True    False |

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| 24. | Corporate governance is the oversight of a company’s management performance and ethics by its board of directors.    True    False |

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| 25. | The board of directors carries out the day-to-day operations of a corporation.    True    False |

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| 26. | The number of authorized shares of stock may be less than the number of outstanding shares.    True    False |

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| 27. | The management of a corporation is responsible for electing the board of directors.    True    False |

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| 28. | Dividends are an example of an expense.    True    False |

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| 29. | The obligation to provide services to another entity is a type of liability.    True    False |

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| 30. | Net assets equal stockholders’ equity.    True    False |

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| 31. | Stockholders’ equity equals assets minus liabilities.    True    False |

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| 32. | Inventory is an example of a nonmonetary asset.    True    False |

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| 33. | Financial position may be assessed by referring to a balance sheet.    True    False |

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| 34. | *Creditors' equities* is another term for *liabilities*.    True    False |

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| 35. | One way of stating the accounting equation is: Assets - Liabilities = Stockholders’ Equity.    True    False |

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| 36. | The economic resources invested in a business by the owners are represented by stockholders’ equity.    True    False |

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| 37. | Accounts Receivable is an asset that is considered nonmonetary in nature.    True    False |

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| 38. | *Net income* is another term for *revenues*.    True    False |

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| 39. | *Cash* is another term for *stockholders’ equity*.    True    False |

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| 40. | Equity is increased when net income exceeds dividend distributions.    True    False |

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| 41. | Revenues have the effect of increasing stockholders’ equity.    True    False |

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| 42. | The Supplies Inventory account will appear as an expense on the income statement.    True    False |

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| 43. | The statement of retained earnings discloses the dividends distributed during the period.    True    False |

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| 44. | The heading for a balance sheet might include the line “For the Month Ended December 31, 20--.”    True    False |

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| 45. | The balance sheet is also known as the statement of financial position.    True    False |

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| 46. | The statement of cash flows discloses significant events related to the operating, investing, and financing activities of a business.    True    False |

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| 47. | The statement of retained earnings relates the income statement to the balance sheet by showing how the Retained Earnings account changed during the accounting period.    True    False |

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| 48. | The purchase of land with cash would be disclosed on the statement of cash flows.    True    False |

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| 49. | The expenses incurred by an accounting firm would appear on its balance sheet.    True    False |

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| 50. | A proper heading for the income statement could include “For the Year Ended December 31, 20--.”    True    False |

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| 51. | The account ‘Wages Payable’ would appear on the income statement.    True    False |

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| 52. | An increase in expenses will have the effect of reducing stockholders’ equity.    True    False |

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| 53. | Due care means carrying out one's professional responsibilities with competence and diligence.    True    False |

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| 54. | Independence means subordinating personal gain to service and the public trust.    True    False |

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| 55. | The Public Company Accounting Oversight Board (PCAOB) was created to determine the standards that auditors must follow.    True    False |

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| 56. | The board of directors appoints the audit committee, which in turn performs an independent audit of the company's records.    True    False |

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| 57. | Generally accepted accounting principles encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time.    True    False |

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| 58. | The International Accounting Standards Board is the primary and most important determinant of generally accepted accounting principles.    True    False |

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| 59. | Companies whose securities are sold to the general public must adhere to standards established by the Securities and Exchange Commission.    True    False |

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| 60. | The Internal Revenue Service is responsible for issuing accounting standards for state and local governments.    True    False |

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| 61. | Objectivity is the avoidance of all relationships that impair or appear to impair the objectivity of the accountant.    True    False |

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| 62. | Both public accountants and managerial accountants are required to adhere to a code of professional conduct.    True    False |

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| 63. | The Federal Reserve Board is an example of a consumer group.    True    False |

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| 64. | The primary external users of accounting information are investors and management.    True    False |

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| 65. | The Securities and Exchange Commission is an accounting information user with an indirect financial interest in a business.    True    False |

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| 66. | Taxing authorities are considered accounting information users with a direct financial interest in a business.    True    False |

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| 67. | Creditors are those who lend money to others or deliver goods and services before being paid.    True    False |

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| 68. | Net income is a measure of profitability.    True    False |

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| 69. | Financing a business means obtaining funds so the business can begin and continue operating.    True    False |

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| 70. | A business using cash to expand by purchasing land and a building is an example of an operating activity.    True    False |

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| 71. | Less than 20 percent of the U.S. economy is generated by governmental and not-for-profit organizations.    True    False |

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| 72. | Paying taxes to the government is an example of an operating activity.    True    False |

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| 73. | Managerial accounting focuses on internal decision making.    True    False |

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| 74. | Not-for-profit organizations have no obligation to report their financial performance to outside parties.    True    False |

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| 75. | Regulatory agencies are considered information users with an indirect financial interest.    True    False |

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| 76. | Two major goals of business are to achieve profitability and to achieve liquidity.    True    False |

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| 77. | Liquidity means *not* having enough funds on hand to pay debts when they fall due.    True    False |

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| 78. | Financial accounting information is used primarily by management.    True    False |

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| 79. | Accounting ratios are useful as management performance measures.    True    False |

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| 80. | The purchase of equipment is an example of an investing activity.    True    False |

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| 81. | Buying and selling goods and services are examples of operating activities.    True    False |

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| 82. | A major function of financial accounting is to provide the investor with relevant and useful information.    True    False |

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| 83. | The evaluation and interpretation of financial statements and related performance measures is called technical analysis.    True    False |

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| 84. | Responsibility for ethical financial reporting rests solely with the accountant.    True    False |

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| 85. | The intentional preparation of misleading financial statements is referred to as *fraudulent financial reporting.*    True    False |

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| 86. | Misleading financial reports are not considered fraudulent if they are the result of the misapplication of accounting principles.    True    False |

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| 87. | Criminal penalties can be imposed on those who prepare fraudulent financial statements.    True    False |

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| 88. | Staff accountants express their duty to ensure financial reports are not false or misleading in the management report that appears as part of the company’s annual report.    True    False |

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| 89. | The Sarbanes-Oxley Act orders the SEC to hold chief executives and CFOs responsible for the accuracy of their company's financial statements.    True    False |

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| 90. | The correct order of the three stages of accounting is      |  |  | | --- | --- | | A. | communication, processing, and measurement. |  |  |  | | --- | --- | | B. | measurement, communication, and processing. |  |  |  | | --- | --- | | C. | processing, measurement, and communication. |  |  |  | | --- | --- | | D. | measurement, processing, and communication. | |

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| 91. | The communication stage of accounting is accomplished by      |  |  | | --- | --- | | A. | storing data. |  |  |  | | --- | --- | | B. | reporting to decision makers. |  |  |  | | --- | --- | | C. | processing data. |  |  |  | | --- | --- | | D. | recording data. | |

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| 92. | Which of the following is the most appropriate definition of *accounting*?      |  |  | | --- | --- | | A. | Electronic collection, organization, and communication of vast amounts of information |  |  |  | | --- | --- | | B. | The interconnected network of subsystems necessary to operate a business |  |  |  | | --- | --- | | C. | A means of recording transactions and keeping records |  |  |  | | --- | --- | | D. | The measurement, processing, and communication of financial information about an identifiable economic entity | |

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| 93. | The recording of data falls under which stage of accounting?      |  |  | | --- | --- | | A. | Measurement |  |  |  | | --- | --- | | B. | Processing |  |  |  | | --- | --- | | C. | Communication |  |  |  | | --- | --- | | D. | Decision making | |

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| 94. | Which of the following transactions does *not* involve an exchange of value?      |  |  | | --- | --- | | A. | Payment of a debt |  |  |  | | --- | --- | | B. | Purchase of a building on credit |  |  |  | | --- | --- | | C. | Borrowing money |  |  |  | | --- | --- | | D. | Loss from theft | |

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| 95. | An accounting measurement is concerned with all *except* which of the following?      |  |  | | --- | --- | | A. | Money measure |  |  |  | | --- | --- | | B. | Financial position |  |  |  | | --- | --- | | C. | Separate entity |  |  |  | | --- | --- | | D. | Business transaction | |

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| 96. | The personal assets and liabilities of an owner are not shown on the business’s financial statements because of the      |  |  | | --- | --- | | A. | separate entity concept. |  |  |  | | --- | --- | | B. | sole proprietorship concept. |  |  |  | | --- | --- | | C. | financial position concept. |  |  |  | | --- | --- | | D. | objectivity concept. | |

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| 97. | The topic of foreign exchange rates relates most closely to the concept of      |  |  | | --- | --- | | A. | separate entity. |  |  |  | | --- | --- | | B. | money measure. |  |  |  | | --- | --- | | C. | nonexchange transactions. |  |  |  | | --- | --- | | D. | business transactions. | |

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| 98. | All of the following are considered nonexchange transactions *except*      |  |  | | --- | --- | | A. | the day-by-day accumulation of interest. |  |  |  | | --- | --- | | B. | the wear and tear on machinery. |  |  |  | | --- | --- | | C. | the sale of goods and services. |  |  |  | | --- | --- | | D. | losses from fire, flood, and theft. | |

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| 99. | Which of the following transactions involves an exchange of value?      |  |  | | --- | --- | | A. | Accumulation of interest |  |  |  | | --- | --- | | B. | Sale of services |  |  |  | | --- | --- | | C. | Fire damage |  |  |  | | --- | --- | | D. | Wear and tear on machinery | |

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| 100. | Which of the following is *legally* a separate entity from its owner(s)?      |  |  | | --- | --- | | A. | Sole proprietorship only |  |  |  | | --- | --- | | B. | Sole proprietorship and partnership only |  |  |  | | --- | --- | | C. | Corporation only |  |  |  | | --- | --- | | D. | Partnership only | |

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| 101. | Most business enterprises in the United States are      |  |  | | --- | --- | | A. | government units. |  |  |  | | --- | --- | | B. | partnerships. |  |  |  | | --- | --- | | C. | sole proprietorships. |  |  |  | | --- | --- | | D. | corporations. | |

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| 102. | Transfer of ownership will affect the continuity of a      |  |  | | --- | --- | | A. | corporation. |  |  |  | | --- | --- | | B. | sole proprietorship. |  |  |  | | --- | --- | | C. | partnership. |  |  |  | | --- | --- | | D. | sole proprietorship or partnership. | |

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| 103. | All of the following statements about partnerships are true *except*      |  |  | | --- | --- | | A. | partners must share profits and losses equally. |  |  |  | | --- | --- | | B. | a change in ownership will dissolve the partnership. |  |  |  | | --- | --- | | C. | any partner can enter into a binding agreement with a third party. |  |  |  | | --- | --- | | D. | all partners have unlimited liability. | |

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| 104. | All of the following statements about corporations are true *except*      |  |  | | --- | --- | | A. | they are chartered by the state. |  |  |  | | --- | --- | | B. | ownership is represented by shares of stock. |  |  |  | | --- | --- | | C. | the sale of stock does not dissolve the business. |  |  |  | | --- | --- | | D. | the stockholders have direct control of the business. | |

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| 105. | Which of the following is considered by *accountants* to be a separate entity from its owner(s)?      |  |  | | --- | --- | | A. | Partnership only |  |  |  | | --- | --- | | B. | Sole proprietorship only |  |  |  | | --- | --- | | C. | Corporation only |  |  |  | | --- | --- | | D. | Sole proprietorship, partnership, and corporation | |

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| 106. | Dividends of a corporation are declared by its      |  |  | | --- | --- | | A. | board of directors. |  |  |  | | --- | --- | | B. | officers. |  |  |  | | --- | --- | | C. | stockholders. |  |  |  | | --- | --- | | D. | creditors. | |

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| 107. | The corporate officers are responsible for      |  |  | | --- | --- | | A. | arranging for major bank loans. |  |  |  | | --- | --- | | B. | determining corporate policy. |  |  |  | | --- | --- | | C. | carrying out corporate policy. |  |  |  | | --- | --- | | D. | appointing the board of directors. | |

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| 108. | The board of directors of a corporation is responsible for all of the following *except*      |  |  | | --- | --- | | A. | arranging for major bank loans. |  |  |  | | --- | --- | | B. | authorizing contracts. |  |  |  | | --- | --- | | C. | carrying out the daily operations of the business. |  |  |  | | --- | --- | | D. | declaring dividends. | |

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| 109. | The audit committee is responsible for all of the following *except*      |  |  | | --- | --- | | A. | engaging the company’s independent auditors. |  |  |  | | --- | --- | | B. | assuring that reliable accounting records are kept. |  |  |  | | --- | --- | | C. | auditing the company’s financial statements. |  |  |  | | --- | --- | | D. | ascertaining that the company safeguards its resources. | |

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| 110. | Which of the following is the correct accounting equation?      |  |  | | --- | --- | | A. | Assets = Liabilities + Stockholders’ Equity |  |  |  | | --- | --- | | B. | Assets + Stockholders’ Equity = Liabilities |  |  |  | | --- | --- | | C. | Assets = Liabilities – Stockholders’ Equity |  |  |  | | --- | --- | | D. | Assets + Liabilities = Stockholders’ Equity | |

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| 111. | The best definition of *assets* is the      |  |  | | --- | --- | | A. | cash owned by the company. |  |  |  | | --- | --- | | B. | resources belonging to a company having future benefit to the company. |  |  |  | | --- | --- | | C. | collection of resources belonging to the company and the claims on these resources. |  |  |  | | --- | --- | | D. | owner's investment in the business. | |

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| 112. | Which of the following items has *no* effect on stockholders’ equity?      |  |  | | --- | --- | | A. | Receipt of cash owed to the business (accounts receivable) |  |  |  | | --- | --- | | B. | Sale of a service |  |  |  | | --- | --- | | C. | Payment of an expense |  |  |  | | --- | --- | | D. | Dividend distributions | |

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| 113. | Which of the following accounts is *not* considered an asset?      |  |  | | --- | --- | | A. | Accounts Receivable |  |  |  | | --- | --- | | B. | Inventory |  |  |  | | --- | --- | | C. | Accounts Payable |  |  |  | | --- | --- | | D. | Trademark | |

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| 114. | An example of a monetary asset is      |  |  | | --- | --- | | A. | Accounts Receivable. |  |  |  | | --- | --- | | B. | Copyright. |  |  |  | | --- | --- | | C. | Retained Earnings. |  |  |  | | --- | --- | | D. | Land. | |

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| 115. | A liability would *not* include an obligation to      |  |  | | --- | --- | | A. | transfer assets. |  |  |  | | --- | --- | | B. | hire an employee. |  |  |  | | --- | --- | | C. | pay cash. |  |  |  | | --- | --- | | D. | provide services. | |

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| 116. | Which of the following assets could be described as nonphysical?      |  |  | | --- | --- | | A. | Inventory |  |  |  | | --- | --- | | B. | Cash |  |  |  | | --- | --- | | C. | Trademarks |  |  |  | | --- | --- | | D. | Supplies | |

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| 117. | Sinoyianis Realty Company had the following balance sheet accounts and balances:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $12,000 |  | Common Stock | $10,000 | | Accounts Receivable | 2,000 |  | Equipment | 14,000 | | Building | 16,000 |  | Land | 14,000 | | Cash | 6,000 |  | Retained Earnings | ? | |  |  |  |  |  |   What is the balance of the Retained Earnings account?      |  |  | | --- | --- | | A. | $8,000 |  |  |  | | --- | --- | | B. | $12,000 |  |  |  | | --- | --- | | C. | $28,000 |  |  |  | | --- | --- | | D. | $30,000 | |

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| 118. | Sinoyianis Realty Company had the following balance sheet accounts and balances:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $12,000 |  | Common Stock | $10,000 | | Accounts Receivable | 2,000 |  | Equipment | 14,000 | | Building | 16,000 |  | Land | 14,000 | | Cash | 6,000 |  | Retained Earnings | 30,000 | |  |  |  |  |  |   What is the total of liabilities and stockholders’ equity?      |  |  | | --- | --- | | A. | $26,000 |  |  |  | | --- | --- | | B. | $32,000 |  |  |  | | --- | --- | | C. | $36,000 |  |  |  | | --- | --- | | D. | $52,000 | |

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| 119. | Sinoyianis Realty Company had the following balance sheet accounts and balances:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $12,000 |  | Common Stock | $10,000 | | Accounts Receivable | 2,000 |  | Equipment | 14,000 | | Building | 16,000 |  | Land | 14,000 | | Cash | 6,000 |  | Retained Earnings | 30,000 | |  |  |  |  |  |   If the equipment were sold for $14,000, what would be the total of stockholders’ equity?      |  |  | | --- | --- | | A. | $8,000 |  |  |  | | --- | --- | | B. | $22,000 |  |  |  | | --- | --- | | C. | $36,000 |  |  |  | | --- | --- | | D. | $40,000 | |

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| 120. | Sinoyianis Realty Company had the following balance sheet accounts and balances:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $12,000 |  | Common Stock | $10,000 | | Accounts Receivable | 2,000 |  | Equipment | 14,000 | | Building | 16,000 |  | Land | 14,000 | | Cash | 6,000 |  | Retained Earnings | 30,000 | |  |  |  |  |  |   If $6,000 of Accounts Payable were paid in cash, what would be the balance of the Retained Earnings account?      |  |  | | --- | --- | | A. | $8,000 |  |  |  | | --- | --- | | B. | $28,000 |  |  |  | | --- | --- | | C. | $30,000 |  |  |  | | --- | --- | | D. | $36,000 | |

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| 121. | Sinoyianis Realty Company had the following balance sheet accounts and balances:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $12,000 |  | Common Stock | $ 10,000 | | Accounts Receivable | 2,000 |  | Equipment | 14,000 | | Building | 16,000 |  | Land | 14,000 | | Cash | 6,000 |  | Retained Earnings | 30,000 | |  |  |  |  |  |   If $6,000 of Accounts Payable were paid in cash, what would be the total of liabilities and stockholders’ equity?      |  |  | | --- | --- | | A. | $28,000 |  |  |  | | --- | --- | | B. | $34,000 |  |  |  | | --- | --- | | C. | $46,000 |  |  |  | | --- | --- | | D. | $52,000 | |

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| 122. | Use this information to answer the following question.  Here is the balance sheet for Costello Container Company:   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Costello Container Company** | | | | | | | **Balance Sheet** | | | | | | | **December 31, 2014** | | | | | | | **Assets** | | **Liabilities** | | | | | Cash | $ 8,000 | Accounts payable | |  | $16,000 | | Accounts receivable | 3,000 |  | |  |  | | Land | 14,000 | **Stockholders’ Equity** | | | | | Building | 44,000 | Common stock | |  | 20,000 | | Equipment | 13,000 | Retained earnings | |  | 46,000 | |  |  | Total liabilities and | | |  | | Total assets | $82,000 |  | stockholders’ equity | | $82,000 | |  |  |  |  |  |  |   If the balance in the Cash account were used to buy more equipment, then the total assets would      |  |  | | --- | --- | | A. | remain unchanged. |  |  |  | | --- | --- | | B. | increase by $8,000. |  |  |  | | --- | --- | | C. | decrease by $8,000. |  |  |  | | --- | --- | | D. | increase by $21,000. | |

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| 123. | Use this information to answer the following question. Here is the balance sheet for Costello Container Company:   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Costello Container Company** | | | | | | | **Balance Sheet** | | | | | | | **December 31, 2014** | | | | | | | **Assets** | | **Liabilities** | | | | | Cash | $ 8,000 | Accounts payable | |  | $16,000 | | Accounts receivable | 3,000 |  | |  |  | | Land | 14,000 | **Stockholders' Equity** | | | | | Building | 44,000 | Common stock | |  | 20,000 | | Equipment | 13,000 | Retained earnings | |  | 46,000 | |  |  | Total liabilities and | | |  | | Total assets | $82,000 |  | stockholders’ equity | | $82,000 | |  |  |  |  |  |  |   If the balance in the Cash account were used to pay part of Accounts Payable, then total liabilities and stockholders’ equity would      |  |  | | --- | --- | | A. | decrease by $8,000. |  |  |  | | --- | --- | | B. | increase by $8,000. |  |  |  | | --- | --- | | C. | increase by $16,000. |  |  |  | | --- | --- | | D. | decrease by $16,000. | |

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| 124. | Use this information to answer the following question.  Here is the balance sheet for Costello Container Company:   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Costello Container Company** | | | | | | | **Balance Sheet** | | | | | | | **December 31, 2014** | | | | | | | **Assets** | | **Liabilities** | | | | | Cash | $ 8,000 | Accounts payable | |  | $16,000 | | Accounts receivable | 3,000 |  | |  |  | | Land | 14,000 | **Stockholders’ Equity** | | | | | Building | 44,000 | Common stock | |  | 20,000 | | Equipment | 13,000 | Retained earnings | |  | 46,000 | |  |  | Total liabilities and | | |  | | Total assets | $82,000 |  | stockholders’ equity | | $82,000 | |  |  |  |  |  |  |   If the equipment were sold for $13,000, then the Retained Earnings account would      |  |  | | --- | --- | | A. | increase by $37,000. |  |  |  | | --- | --- | | B. | increase by $13,000. |  |  |  | | --- | --- | | C. | decrease by $13,000. |  |  |  | | --- | --- | | D. | stay the same. | |

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| 125. | Which of the following represents the proper order of financial statement preparation?      |  |  | | --- | --- | | A. | Statement of cash flows, balance sheet, income statement, statement of retained earnings |  |  |  | | --- | --- | | B. | Statement of retained earnings, income statement, statement of cash flows, balance sheet |  |  |  | | --- | --- | | C. | Balance sheet, statement of cash flows, statement of retained earnings, income statement |  |  |  | | --- | --- | | D. | Income statement, statement of retained earnings, balance sheet, statement of cash flows | |

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| 126. | All of the following items would appear on the balance sheet *except*      |  |  | | --- | --- | | A. | Dividends. |  |  |  | | --- | --- | | B. | Common Stock. |  |  |  | | --- | --- | | C. | Accounts Receivable. |  |  |  | | --- | --- | | D. | Patents. | |

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| 127. | Which of the following financial statements is concerned with the enterprise at a point in time?      |  |  | | --- | --- | | A. | Statement of retained earnings |  |  |  | | --- | --- | | B. | Income statement |  |  |  | | --- | --- | | C. | Statement of cash flows |  |  |  | | --- | --- | | D. | Balance sheet | |

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| 128. | The net income figure appears in all the following financial statements *except* the      |  |  | | --- | --- | | A. | statement of cash flows. |  |  |  | | --- | --- | | B. | income statement. |  |  |  | | --- | --- | | C. | statement of retained earnings. |  |  |  | | --- | --- | | D. | balance sheet. | |

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| 129. | The statement of cash flows would disclose the distribution of dividends to stockholders      |  |  | | --- | --- | | A. | in the financing activities section. |  |  |  | | --- | --- | | B. | in the investing activities section. |  |  |  | | --- | --- | | C. | in the operating activities section. |  |  |  | | --- | --- | | D. | nowhere on the statement. | |

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| 130. | The statement of cash flows would disclose the purchase of a building for cash      |  |  | | --- | --- | | A. | nowhere on the statement. |  |  |  | | --- | --- | | B. | in the operating activities section. |  |  |  | | --- | --- | | C. | in the investing activities section. |  |  |  | | --- | --- | | D. | in the financing activities section. | |

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| 131. | The Public Company Accounting Oversight Board was created by the      |  |  | | --- | --- | | A. | Sarbanes-Oxley Act. |  |  |  | | --- | --- | | B. | GASB. |  |  |  | | --- | --- | | C. | IRS. |  |  |  | | --- | --- | | D. | IASB. | |

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| 132. | The authoritative body currently responsible for establishing accounting practice is the      |  |  | | --- | --- | | A. | Internal Revenue Service. |  |  |  | | --- | --- | | B. | Financial Accounting Standards Board. |  |  |  | | --- | --- | | C. | American Institute of Certified Public Accountants. |  |  |  | | --- | --- | | D. | Federal Reserve Board. | |

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| 133. | An audit is an examination of a company’s      |  |  | | --- | --- | | A. | financial statements. |  |  |  | | --- | --- | | B. | accounting systems. |  |  |  | | --- | --- | | C. | accounting controls. |  |  |  | | --- | --- | | D. | all of these. | |

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| 134. | Generally accepted accounting principles      |  |  | | --- | --- | | A. | are changing continually. |  |  |  | | --- | --- | | B. | are sound in theory but rarely used in practice. |  |  |  | | --- | --- | | C. | have eliminated all weaknesses in accounting practice. |  |  |  | | --- | --- | | D. | are accounting rules formulated by the Internal Revenue Service. | |

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| 135. | The purpose of an audit is to      |  |  | | --- | --- | | A. | determine whether or not a company is a good investment. |  |  |  | | --- | --- | | B. | comply with income tax regulations. |  |  |  | | --- | --- | | C. | determine whether or not a company is a good credit risk. |  |  |  | | --- | --- | | D. | ascertain that the financial statements follow GAAP. | |

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| 136. | An auditor maintains no direct financial interest in the company he or she is auditing. The principle being followed is      |  |  | | --- | --- | | A. | independence. |  |  |  | | --- | --- | | B. | integrity. |  |  |  | | --- | --- | | C. | objectivity. |  |  |  | | --- | --- | | D. | due care. | |

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| 137. | Carrying out professional responsibilities with competence and diligence is called      |  |  | | --- | --- | | A. | integrity. |  |  |  | | --- | --- | | B. | independence. |  |  |  | | --- | --- | | C. | objectivity. |  |  |  | | --- | --- | | D. | due care. | |

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| 138. | All of the following are broad principles underlying the accountant's code of professional ethics *except*      |  |  | | --- | --- | | A. | objectivity. |  |  |  | | --- | --- | | B. | integrity. |  |  |  | | --- | --- | | C. | loyalty. |  |  |  | | --- | --- | | D. | independence. | |

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| 139. | The development of international accounting standards is the primary function of the      |  |  | | --- | --- | | A. | IRS. |  |  |  | | --- | --- | | B. | AICPA. |  |  |  | | --- | --- | | C. | IASB. |  |  |  | | --- | --- | | D. | PCAOB. | |

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| 140. | Which of the following is a regulatory agency?      |  |  | | --- | --- | | A. | IASB |  |  |  | | --- | --- | | B. | SEC |  |  |  | | --- | --- | | C. | FASB |  |  |  | | --- | --- | | D. | GASB | |

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| 141. | Which of the following is an example of an investing activity?      |  |  | | --- | --- | | A. | Purchasing a building |  |  |  | | --- | --- | | B. | Paying off a loan |  |  |  | | --- | --- | | C. | Employing workers |  |  |  | | --- | --- | | D. | Producing goods and services | |

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| 142. | Which of the following is an example of a financing activity?      |  |  | | --- | --- | | A. | Paying taxes to the government |  |  |  | | --- | --- | | B. | Selling equipment |  |  |  | | --- | --- | | C. | Obtaining a bank loan |  |  |  | | --- | --- | | D. | Purchasing land | |

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| 143. | A company's ability to attract and hold investment capital ultimately depends on its      |  |  | | --- | --- | | A. | budgeting. |  |  |  | | --- | --- | | B. | planning. |  |  |  | | --- | --- | | C. | liquidity. |  |  |  | | --- | --- | | D. | profitability. | |

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| 144. | The group of users of accounting information charged with achieving the goals of the business is its      |  |  | | --- | --- | | A. | auditors. |  |  |  | | --- | --- | | B. | creditors. |  |  |  | | --- | --- | | C. | managers. |  |  |  | | --- | --- | | D. | investors. | |

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| 145. | The following users of accounting information have an indirect financial interest in the business *except*      |  |  | | --- | --- | | A. | regulatory agency. |  |  |  | | --- | --- | | B. | creditor. |  |  |  | | --- | --- | | C. | taxing authority. |  |  |  | | --- | --- | | D. | labor union. | |

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| 146. | Which of the following groups uses accounting information primarily to help protect the public?      |  |  | | --- | --- | | A. | Management |  |  |  | | --- | --- | | B. | Regulatory agencies |  |  |  | | --- | --- | | C. | Taxing authorities |  |  |  | | --- | --- | | D. | Economic planners | |

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| 147. | The following users of accounting information have a direct financial interest in a business *except*      |  |  | | --- | --- | | A. | a creditor. |  |  |  | | --- | --- | | B. | a financial adviser. |  |  |  | | --- | --- | | C. | management. |  |  |  | | --- | --- | | D. | an investor. | |

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| 148. | Companies listed on the stock exchanges must file financial statements with the      |  |  | | --- | --- | | A. | Financial Accounting Standards Board. |  |  |  | | --- | --- | | B. | American Institute of Certified Public Accountants. |  |  |  | | --- | --- | | C. | Securities and Exchange Commission. |  |  |  | | --- | --- | | D. | Internal Revenue Service. | |

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| 149. | Which of the following is an agency of the U.S. government?      |  |  | | --- | --- | | A. | IASB |  |  |  | | --- | --- | | B. | SEC |  |  |  | | --- | --- | | C. | FASB |  |  |  | | --- | --- | | D. | AICPA | |

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| 150. | Those who lend money or deliver goods and services before being paid are called      |  |  | | --- | --- | | A. | investors. |  |  |  | | --- | --- | | B. | debtors. |  |  |  | | --- | --- | | C. | underwriters. |  |  |  | | --- | --- | | D. | creditors. | |

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| 151. | The purchase of land is an example of a(n)      |  |  | | --- | --- | | A. | investing activity. |  |  |  | | --- | --- | | B. | operating activity. |  |  |  | | --- | --- | | C. | capital activity. |  |  |  | | --- | --- | | D. | financing activity. | |

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| 152. | Which of the following is an example of an operating activity?      |  |  | | --- | --- | | A. | Obtaining capital from owners |  |  |  | | --- | --- | | B. | Selling goods and services to customers |  |  |  | | --- | --- | | C. | Purchasing equipment |  |  |  | | --- | --- | | D. | Selling land | |

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| 153. | The Sarbanes-Oxley Act of 2002 came, in part, as a result of the      |  |  | | --- | --- | | A. | Enron scandal. |  |  |  | | --- | --- | | B. | WorldCom scandal. |  |  |  | | --- | --- | | C. | Target scandal. |  |  |  | | --- | --- | | D. | Enron and WorldCom scandals. | |

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| 154. | The intentional preparation of misleading financial statements, known as fraudulent financial reporting, can result from all of the following *except*      |  |  | | --- | --- | | A. | the misapplication of accounting principles. |  |  |  | | --- | --- | | B. | the manipulation of inventory records. |  |  |  | | --- | --- | | C. | fictitious sales or orders. |  |  |  | | --- | --- | | D. | recording a revenue that has been earned but not yet received. | |

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| 155. | All of the following statements are true about the Sarbanes-Oxley Act *except*      |  |  | | --- | --- | | A. | it applies to publicly traded companies. |  |  |  | | --- | --- | | B. | it shields chief executives from criminal penalties. |  |  |  | | --- | --- | | C. | it orders the SEC to draw up certain rules. |  |  |  | | --- | --- | | D. | its primary goal is to regulate financial reporting and the accounting profession. | |

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| 156. | Which of the following physically prepare and audit financial reports?      |  |  | | --- | --- | | A. | Accountants |  |  |  | | --- | --- | | B. | Managers |  |  |  | | --- | --- | | C. | Chief executives |  |  |  | | --- | --- | | D. | Board of directors | |

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| 157. | Which of the following are required to swear that financial reports are accurate and complete?      |  |  | | --- | --- | | A. | Accountants |  |  |  | | --- | --- | | B. | Managers |  |  |  | | --- | --- | | C. | Chief executives |  |  |  | | --- | --- | | D. | Board of directors | |

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| 158. | Which of the following might be motivation for fraudulently covering up a financial weakness?      |  |  | | --- | --- | | A. | To obtain a loan |  |  |  | | --- | --- | | B. | To meet stockholder expectations |  |  |  | | --- | --- | | C. | To obtain bonus compensation |  |  |  | | --- | --- | | D. | All of these are possible motivations | |

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| 159. | Fraudulent financial reporting at Enron resulted in      |  |  | | --- | --- | | A. | thousands of people losing their jobs. |  |  |  | | --- | --- | | B. | thousands of people losing their pensions and investment incomes. |  |  |  | | --- | --- | | C. | prison sentences and fines for corporate executives. |  |  |  | | --- | --- | | D. | all of these choices. | |

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| 160. | The Sarbanes-Oxley Act of 2002 applies to all *except*      |  |  | | --- | --- | | A. | quarterly statements. |  |  |  | | --- | --- | | B. | annual reports. |  |  |  | | --- | --- | | C. | internal management reports. |  |  |  | | --- | --- | | D. | none of these are exceptions. | |

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| 161. | Why would it be less risky for an individual to incorporate his or her business rather than to operate it as a sole proprietorship or partnership? |

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| 162. | On the right side of the accounting equation are two types of claims against resources. Explain what they are and give an example of an item that would increase each. Which type of claim has priority? |

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| 163. | Which four types of transactions affect stockholders' equity, and how do they affect it? |

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| 164. | How does the statement of retained earnings relate to the income statement and the balance sheet? |

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| 165. | What is independence, and why is it important for a CPA to maintain it when conducting an audit? |

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| 166. | What is the responsibility of the independent auditor? Who is responsible for the content of the published financial statements? |

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| 167. | Distinguish between profitability and liquidity. |

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| 168. | Explain why each of the following persons or groups would be interested in seeing the financial statements of a company. Also state whether each has a direct or indirect financial interest.  a.      Potential investor b.      Internal Revenue Service c.      A labor union d.      Securities and Exchange Commission e.      Potential creditor f.      Management g.      Economic planners |

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| 169. | List five possible users of a set of financial statements and state what each would be interested in learning from its review. |

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| 170. | Indicate by letter (a–g) the agency that applies to each statement.      |  |  |  | | --- | --- | --- | | 1. The accounting profession’s main organization of certified public accountants | IRS | \_\_\_\_ | | 2. Responsible for interpreting and enforcing tax laws | GASB | \_\_\_\_ | | 3. Developer of international accounting standards | IASB | \_\_\_\_ | | 4. Establishes accounting standards for state and local governments | IMA | \_\_\_\_ | | 5. Current authoritative body for developing GAAP | SEC | \_\_\_\_ | | 6. Primary professional association of managerial accountants | FASB | \_\_\_\_ | | 7. Protector of the investing public | AICPA | \_\_\_\_ | |

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| 171. | Newberry Company's stockholders' equity equals one-fourth of the company's total assets. The company's liabilities are $309,000. What is the amount of the company's stockholders’ equity? |

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| 172. | Chin Company's stockholders’ equity equals one-third of the company's total assets. The company's liabilities are $120,000. What is the amount of the company's stockholders’ equity? |

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| 173. | Garcia Company's stockholders’ equity equals one-half of the company's total assets. The company's liabilities are $140,000. What is the amount of the company's stockholders’ equity? |

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| 174. | Following are the total assets and liabilities at the beginning and end of the year for Hagedorn Company:   |  |  |  | | --- | --- | --- | |  | **Assets** | **Liabilities** | | Beginning of the year | $ 70,000 | $45,000 | | End of the year | 108,000 | 40,000 | |  |  |  |   Determine the net income or loss for the year in each of the following situations: a.      There were no additional stock issues and no dividends were paid during the year. b.      Additional stock was issued for $20,000 and dividends of $12,000 were paid during the year. |

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| 175. | At the beginning of the year, Shannon Company's assets were $150,000 and its stockholders’ equity was $100,000. During the year, assets decreased $30,000 and liabilities increased $15,000. What was the stockholders’ equity at the end of the year? |

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| 176. | At the beginning of the year, Pullman Company's assets were $270,000 and its stockholders’ equity was $201,000. During the year, assets decreased by $35,000 and liabilities increased by $10,000. What was stockholders’ equity at the end of the year? |

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| 177. | Use the following information to calculate at or for the year ended December 31, 2014:  (a) net income, (b) retained earnings, (c) total liabilities and stockholders’ equity, and (d) accounts receivable.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Cash | $32,000 |  | Common Stock | $30,000 | | Accounts Receivable | ? |  | Retained Earnings, Dec. 31, 2013 | 61,000 | | Supplies | 1,000 |  | Retained Earnings, Dec. 31, 2014 | ? | | Land | 70,000 |  | Dividends | 16,000 | | Accounts Payable | 12,000 |  | Commissions Earned | 40,000 | | Notes Payable | 14,000 |  | Wages Expense | 14,000 | |  |  |  | Rent Expense | 6,000 | |  |  |  |  |  | |

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| 178. | Use the following information to calculate at or for the year ended December 31, 2014: (a) net income, (b) retained earnings, (c) total assets, and (d) cash.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Cash | $       ? |  | Common Stock | $10,000 | | Accounts Receivable | 8,000 |  | Retained Earnings, Dec. 31, 2013 | 16,000 | | Inventories | 22,000 |  | Retained Earnings, Dec. 31, 2014 | ? | | Accounts Payable | 7,000 |  | Dividends | 6,000 | | Salaries Payable | 1,000 |  | Commissions Earned | 20,000 | |  |  |  | Salaries Expense | 4,000 | |  |  |  | Utilities Expense | 2,000 | |  |  |  |  |  | |  |  |  |  |  | |

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| 179. | Kyle Biehl, an attorney, bills his clients at a rate of $100 per hour. At the beginning of July, clients owed him $8,000, of which he collected $5,600 during the month. In July, Kyle billed clients for 160 hours of work. By the end of July, 60 of these hours were unpaid.  Kyle has one employee, Marcia Medvid, who is paid $20 per hour. During July, Marcia worked 170 hours, of which 16 hours will be paid in August. The rest were paid in July along with wages for 8 hours worked the last day of June.  Show calculations as you determine the following for the month of July: a.      Amount of revenue earned b.      Wages expense incurred c.      Cash received from clients d.      Cash paid to Marcia Medvid |

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| 180. | Upshaw Company had a balance of $160,000 in Retained Earnings on December 31, 2013. During 2014, the company reported a net income of $84,000 after taxes, and dividends of $32,000 were paid. Prepare the company's statement of retained earnings for the year ended December 31, 2014. |

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| 181. | Feldman Company had a balance of $360,000 in Retained Earnings on December 31, 2013. During 2014, the company reported a net income of $48,000, and dividends of $36,000 were paid. Prepare the company's statement of retained earnings for the year ended December 31, 2014. |

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| 182. | Use the following accounts and information to prepare, in good form, an income statement, statement of retained earnings, and balance sheet for McCollum Enterprises for the year ended December 31, 2014.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $ 4,800 |  | Insurance Expense | $  1,000 | | Accounts Receivable | 600 |  | Land | 39,000 | | Buildings | 52,000 |  | Notes Payable | 6,000 | | Cash | 26,200 |  | Rent Expense | 3,600 |  |  | | Commissions Earned | 19,000 |  | Retained Earnings | 64,400 | | Common Stock | 40,000 |  | Salaries Expense | 8,400 | | Dividends | 3,000 |  | Supplies | 400 | |  |  |  |  |  |  |  | |

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| 183. | Use the following accounts and information to prepare, in good form, an income statement, statement of retained earnings, and balance sheet for Day Industries for the month ended July 31, 2014.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $ 3,100 |  | Land | $35,000 | | Accounts Receivable | 1,400 |  | Notes Payable | 3,300 | | Buildings | 22,000 |  | Rent Expense | 2,400 | | Cash | 15,600 |  | Retained Earnings, June 30, 2014 | 57,900 | | Commissions Earned | 12,700 |  | Salaries Expense | 10,000 | | Common Stock | 20,000 |  | Supplies | 400 | | Dividends | 8,000 |  |  |  | | Insurance Expense | 2,200 |  |  |  | |  |  |  |  |  | |

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| 184. | Use the following accounts and balances to prepare a balance sheet for England Company at December 31, 2014:   |  |  | | --- | --- | | Accounts Payable | $10,000 | | Accounts Receivable | 6,400 | | Cash | 4,800 | | Common stock | 10,000 | | Equipment | 13,200 | | Retained earnings | ? | |  |  | |

Chapter 1: Uses of Accounting Information and the Financial Statements 4 copy Key

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| 1. | The processing stage of accounting is accomplished by the recording of data.    **FALSE** |

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| 2. | The terms “bookkeeping” and “accounting” are *not* synonymous.    **TRUE** |

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| 3. | A company's management information system is a subsystem of its accounting information system.    **FALSE** |

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| 4. | Accountants focus on the needs for financial information by both internal and external decision makers.    **TRUE** |

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| 5. | Accountants consider money the common unit of measure for all business transactions.    **TRUE** |

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| 6. | Payment to a creditor is an example of a nonexchange business transaction.    **FALSE** |

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| 7. | For accounting purposes, a business and its owner are considered the same entity.    **FALSE** |

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| 8. | Knowledge of the exchange rate is necessary to apply the money measure concept in case of international transactions.    **TRUE** |

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| 9. | For reporting purposes, the personal assets and debts of a business owner should be combined with the assets and debts of the business.    **FALSE** |

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| --- | --- |
| 10. | Exchange rates for currency change daily according to the supply and demand for each currency.    **TRUE** |

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| 11. | The day-by-day accumulation of interest is considered a transaction involving an exchange of value.    **FALSE** |

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| 12. | Sole proprietorships in the United States generate more business (in terms of receipts) than partnerships and corporations put together.    **FALSE** |

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| 13. | A corporation is an economic unit that is legally separate from its owners.    **TRUE** |

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| --- | --- |
| 14. | Corporations represent the largest number of businesses in the United States.    **FALSE** |

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| 15. | The liability of corporate stockholders is limited to their percentage share of ownership.    **FALSE** |

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| 16. | The stockholders of a corporation elect the board of directors.    **TRUE** |

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| 17. | In general, one partner acting alone cannot obligate the partnership to another party.    **FALSE** |

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| 18. | A partnership is dissolved when any partner leaves the business or dies.    **TRUE** |

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| 19. | The personal resources of any partner can be called upon to pay the obligations of the partnership.    **TRUE** |

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| 20. | When a corporate stockholder sells his or her shares of stock, the corporation is technically dissolved.    **FALSE** |

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| 21. | The board of directors appoints the audit committee, which in turn performs an independent audit of the company’s records.    **FALSE** |

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| --- | --- |
| 22. | The articles of incorporation may be found in the corporate charter.    **TRUE** |

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| 23. | Authorized shares of stock refer to the number of shares currently held by the stockholders.    **FALSE** |

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| --- | --- |
| 24. | Corporate governance is the oversight of a company’s management performance and ethics by its board of directors.    **TRUE** |

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| --- | --- |
| 25. | The board of directors carries out the day-to-day operations of a corporation.    **FALSE** |

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| 26. | The number of authorized shares of stock may be less than the number of outstanding shares.    **FALSE** |

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| 27. | The management of a corporation is responsible for electing the board of directors.    **FALSE** |

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| 28. | Dividends are an example of an expense.    **FALSE** |

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| 29. | The obligation to provide services to another entity is a type of liability.    **TRUE** |

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| --- | --- |
| 30. | Net assets equal stockholders’ equity.    **TRUE** |

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| --- | --- |
| 31. | Stockholders’ equity equals assets minus liabilities.    **TRUE** |

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| --- | --- |
| 32. | Inventory is an example of a nonmonetary asset.    **TRUE** |

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| 33. | Financial position may be assessed by referring to a balance sheet.    **TRUE** |

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| 34. | *Creditors' equities* is another term for *liabilities*.    **TRUE** |

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| 35. | One way of stating the accounting equation is: Assets - Liabilities = Stockholders’ Equity.    **TRUE** |

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| --- | --- |
| 36. | The economic resources invested in a business by the owners are represented by stockholders’ equity.    **TRUE** |

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| 37. | Accounts Receivable is an asset that is considered nonmonetary in nature.    **FALSE** |

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| 38. | *Net income* is another term for *revenues*.    **FALSE** |

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| 39. | *Cash* is another term for *stockholders’ equity*.    **FALSE** |

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| 40. | Equity is increased when net income exceeds dividend distributions.    **TRUE** |

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| 41. | Revenues have the effect of increasing stockholders’ equity.    **TRUE** |

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| 42. | The Supplies Inventory account will appear as an expense on the income statement.    **FALSE** |

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| 43. | The statement of retained earnings discloses the dividends distributed during the period.    **TRUE** |

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| 44. | The heading for a balance sheet might include the line “For the Month Ended December 31, 20--.”    **FALSE** |

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| 45. | The balance sheet is also known as the statement of financial position.    **TRUE** |

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| 46. | The statement of cash flows discloses significant events related to the operating, investing, and financing activities of a business.    **TRUE** |

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| 47. | The statement of retained earnings relates the income statement to the balance sheet by showing how the Retained Earnings account changed during the accounting period.    **TRUE** |

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| 48. | The purchase of land with cash would be disclosed on the statement of cash flows.    **TRUE** |

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| 49. | The expenses incurred by an accounting firm would appear on its balance sheet.    **FALSE** |

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| 50. | A proper heading for the income statement could include “For the Year Ended December 31, 20--.”    **TRUE** |

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| 51. | The account ‘Wages Payable’ would appear on the income statement.    **FALSE** |

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| 52. | An increase in expenses will have the effect of reducing stockholders’ equity.    **TRUE** |

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| 53. | Due care means carrying out one's professional responsibilities with competence and diligence.    **TRUE** |

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| 54. | Independence means subordinating personal gain to service and the public trust.    **FALSE** |

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| 55. | The Public Company Accounting Oversight Board (PCAOB) was created to determine the standards that auditors must follow.    **TRUE** |

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| 56. | The board of directors appoints the audit committee, which in turn performs an independent audit of the company's records.    **FALSE** |

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| 57. | Generally accepted accounting principles encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time.    **TRUE** |

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| 58. | The International Accounting Standards Board is the primary and most important determinant of generally accepted accounting principles.    **FALSE** |

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| 59. | Companies whose securities are sold to the general public must adhere to standards established by the Securities and Exchange Commission.    **TRUE** |

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| 60. | The Internal Revenue Service is responsible for issuing accounting standards for state and local governments.    **FALSE** |

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| 61. | Objectivity is the avoidance of all relationships that impair or appear to impair the objectivity of the accountant.    **FALSE** |

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| 62. | Both public accountants and managerial accountants are required to adhere to a code of professional conduct.    **TRUE** |

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| 63. | The Federal Reserve Board is an example of a consumer group.    **FALSE** |

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| 64. | The primary external users of accounting information are investors and management.    **FALSE** |

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| 65. | The Securities and Exchange Commission is an accounting information user with an indirect financial interest in a business.    **TRUE** |

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| 66. | Taxing authorities are considered accounting information users with a direct financial interest in a business.    **FALSE** |

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| 67. | Creditors are those who lend money to others or deliver goods and services before being paid.    **TRUE** |

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| 68. | Net income is a measure of profitability.    **TRUE** |

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| 69. | Financing a business means obtaining funds so the business can begin and continue operating.    **TRUE** |

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| 70. | A business using cash to expand by purchasing land and a building is an example of an operating activity.    **FALSE** |

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| 71. | Less than 20 percent of the U.S. economy is generated by governmental and not-for-profit organizations.    **FALSE** |

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| --- | --- |
| 72. | Paying taxes to the government is an example of an operating activity.    **TRUE** |

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| --- | --- |
| 73. | Managerial accounting focuses on internal decision making.    **TRUE** |

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| 74. | Not-for-profit organizations have no obligation to report their financial performance to outside parties.    **FALSE** |

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| --- | --- |
| 75. | Regulatory agencies are considered information users with an indirect financial interest.    **TRUE** |

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| 76. | Two major goals of business are to achieve profitability and to achieve liquidity.    **TRUE** |

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| 77. | Liquidity means *not* having enough funds on hand to pay debts when they fall due.    **FALSE** |

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| 78. | Financial accounting information is used primarily by management.    **FALSE** |

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| 79. | Accounting ratios are useful as management performance measures.    **TRUE** |

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| 80. | The purchase of equipment is an example of an investing activity.    **TRUE** |

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| 81. | Buying and selling goods and services are examples of operating activities.    **TRUE** |

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| 82. | A major function of financial accounting is to provide the investor with relevant and useful information.    **TRUE** |

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| 83. | The evaluation and interpretation of financial statements and related performance measures is called technical analysis.    **FALSE** |

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| 84. | Responsibility for ethical financial reporting rests solely with the accountant.    **FALSE** |

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| 85. | The intentional preparation of misleading financial statements is referred to as *fraudulent financial reporting.*    **TRUE** |

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| 86. | Misleading financial reports are not considered fraudulent if they are the result of the misapplication of accounting principles.    **FALSE** |

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| 87. | Criminal penalties can be imposed on those who prepare fraudulent financial statements.    **TRUE** |

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| 88. | Staff accountants express their duty to ensure financial reports are not false or misleading in the management report that appears as part of the company’s annual report.    **FALSE** |

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| 89. | The Sarbanes-Oxley Act orders the SEC to hold chief executives and CFOs responsible for the accuracy of their company's financial statements.    **TRUE** |

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| 90. | The correct order of the three stages of accounting is      |  |  | | --- | --- | | A. | communication, processing, and measurement. |  |  |  | | --- | --- | | B. | measurement, communication, and processing. |  |  |  | | --- | --- | | C. | processing, measurement, and communication. |  |  |  | | --- | --- | | **D.** | measurement, processing, and communication. | |

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| 91. | The communication stage of accounting is accomplished by      |  |  | | --- | --- | | A. | storing data. |  |  |  | | --- | --- | | **B.** | reporting to decision makers. |  |  |  | | --- | --- | | C. | processing data. |  |  |  | | --- | --- | | D. | recording data. | |

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| 92. | Which of the following is the most appropriate definition of *accounting*?      |  |  | | --- | --- | | A. | Electronic collection, organization, and communication of vast amounts of information |  |  |  | | --- | --- | | B. | The interconnected network of subsystems necessary to operate a business |  |  |  | | --- | --- | | C. | A means of recording transactions and keeping records |  |  |  | | --- | --- | | **D.** | The measurement, processing, and communication of financial information about an identifiable economic entity | |

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| 93. | The recording of data falls under which stage of accounting?      |  |  | | --- | --- | | **A.** | Measurement |  |  |  | | --- | --- | | B. | Processing |  |  |  | | --- | --- | | C. | Communication |  |  |  | | --- | --- | | D. | Decision making | |

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| 94. | Which of the following transactions does *not* involve an exchange of value?      |  |  | | --- | --- | | A. | Payment of a debt |  |  |  | | --- | --- | | B. | Purchase of a building on credit |  |  |  | | --- | --- | | C. | Borrowing money |  |  |  | | --- | --- | | **D.** | Loss from theft | |

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| 95. | An accounting measurement is concerned with all *except* which of the following?      |  |  | | --- | --- | | A. | Money measure |  |  |  | | --- | --- | | **B.** | Financial position |  |  |  | | --- | --- | | C. | Separate entity |  |  |  | | --- | --- | | D. | Business transaction | |

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| 96. | The personal assets and liabilities of an owner are not shown on the business’s financial statements because of the      |  |  | | --- | --- | | **A.** | separate entity concept. |  |  |  | | --- | --- | | B. | sole proprietorship concept. |  |  |  | | --- | --- | | C. | financial position concept. |  |  |  | | --- | --- | | D. | objectivity concept. | |

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| 97. | The topic of foreign exchange rates relates most closely to the concept of      |  |  | | --- | --- | | A. | separate entity. |  |  |  | | --- | --- | | **B.** | money measure. |  |  |  | | --- | --- | | C. | nonexchange transactions. |  |  |  | | --- | --- | | D. | business transactions. | |

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| 98. | All of the following are considered nonexchange transactions *except*      |  |  | | --- | --- | | A. | the day-by-day accumulation of interest. |  |  |  | | --- | --- | | B. | the wear and tear on machinery. |  |  |  | | --- | --- | | **C.** | the sale of goods and services. |  |  |  | | --- | --- | | D. | losses from fire, flood, and theft. | |

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| 99. | Which of the following transactions involves an exchange of value?      |  |  | | --- | --- | | A. | Accumulation of interest |  |  |  | | --- | --- | | **B.** | Sale of services |  |  |  | | --- | --- | | C. | Fire damage |  |  |  | | --- | --- | | D. | Wear and tear on machinery | |

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| 100. | Which of the following is *legally* a separate entity from its owner(s)?      |  |  | | --- | --- | | A. | Sole proprietorship only |  |  |  | | --- | --- | | B. | Sole proprietorship and partnership only |  |  |  | | --- | --- | | **C.** | Corporation only |  |  |  | | --- | --- | | D. | Partnership only | |

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| 101. | Most business enterprises in the United States are      |  |  | | --- | --- | | A. | government units. |  |  |  | | --- | --- | | B. | partnerships. |  |  |  | | --- | --- | | **C.** | sole proprietorships. |  |  |  | | --- | --- | | D. | corporations. | |

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| 102. | Transfer of ownership will affect the continuity of a      |  |  | | --- | --- | | A. | corporation. |  |  |  | | --- | --- | | B. | sole proprietorship. |  |  |  | | --- | --- | | C. | partnership. |  |  |  | | --- | --- | | **D.** | sole proprietorship or partnership. | |

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| 103. | All of the following statements about partnerships are true *except*      |  |  | | --- | --- | | **A.** | partners must share profits and losses equally. |  |  |  | | --- | --- | | B. | a change in ownership will dissolve the partnership. |  |  |  | | --- | --- | | C. | any partner can enter into a binding agreement with a third party. |  |  |  | | --- | --- | | D. | all partners have unlimited liability. | |

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| 104. | All of the following statements about corporations are true *except*      |  |  | | --- | --- | | A. | they are chartered by the state. |  |  |  | | --- | --- | | B. | ownership is represented by shares of stock. |  |  |  | | --- | --- | | C. | the sale of stock does not dissolve the business. |  |  |  | | --- | --- | | **D.** | the stockholders have direct control of the business. | |

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| 105. | Which of the following is considered by *accountants* to be a separate entity from its owner(s)?      |  |  | | --- | --- | | A. | Partnership only |  |  |  | | --- | --- | | B. | Sole proprietorship only |  |  |  | | --- | --- | | C. | Corporation only |  |  |  | | --- | --- | | **D.** | Sole proprietorship, partnership, and corporation | |

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| 106. | Dividends of a corporation are declared by its      |  |  | | --- | --- | | **A.** | board of directors. |  |  |  | | --- | --- | | B. | officers. |  |  |  | | --- | --- | | C. | stockholders. |  |  |  | | --- | --- | | D. | creditors. | |

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| 107. | The corporate officers are responsible for      |  |  | | --- | --- | | A. | arranging for major bank loans. |  |  |  | | --- | --- | | B. | determining corporate policy. |  |  |  | | --- | --- | | **C.** | carrying out corporate policy. |  |  |  | | --- | --- | | D. | appointing the board of directors. | |

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| 108. | The board of directors of a corporation is responsible for all of the following *except*      |  |  | | --- | --- | | A. | arranging for major bank loans. |  |  |  | | --- | --- | | B. | authorizing contracts. |  |  |  | | --- | --- | | **C.** | carrying out the daily operations of the business. |  |  |  | | --- | --- | | D. | declaring dividends. | |

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| 109. | The audit committee is responsible for all of the following *except*      |  |  | | --- | --- | | A. | engaging the company’s independent auditors. |  |  |  | | --- | --- | | B. | assuring that reliable accounting records are kept. |  |  |  | | --- | --- | | **C.** | auditing the company’s financial statements. |  |  |  | | --- | --- | | D. | ascertaining that the company safeguards its resources. | |

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| 110. | Which of the following is the correct accounting equation?      |  |  | | --- | --- | | **A.** | Assets = Liabilities + Stockholders’ Equity |  |  |  | | --- | --- | | B. | Assets + Stockholders’ Equity = Liabilities |  |  |  | | --- | --- | | C. | Assets = Liabilities – Stockholders’ Equity |  |  |  | | --- | --- | | D. | Assets + Liabilities = Stockholders’ Equity | |

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| 111. | The best definition of *assets* is the      |  |  | | --- | --- | | A. | cash owned by the company. |  |  |  | | --- | --- | | **B.** | resources belonging to a company having future benefit to the company. |  |  |  | | --- | --- | | C. | collection of resources belonging to the company and the claims on these resources. |  |  |  | | --- | --- | | D. | owner's investment in the business. | |

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| 112. | Which of the following items has *no* effect on stockholders’ equity?      |  |  | | --- | --- | | **A.** | Receipt of cash owed to the business (accounts receivable) |  |  |  | | --- | --- | | B. | Sale of a service |  |  |  | | --- | --- | | C. | Payment of an expense |  |  |  | | --- | --- | | D. | Dividend distributions | |

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| 113. | Which of the following accounts is *not* considered an asset?      |  |  | | --- | --- | | A. | Accounts Receivable |  |  |  | | --- | --- | | B. | Inventory |  |  |  | | --- | --- | | **C.** | Accounts Payable |  |  |  | | --- | --- | | D. | Trademark | |

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| 114. | An example of a monetary asset is      |  |  | | --- | --- | | **A.** | Accounts Receivable. |  |  |  | | --- | --- | | B. | Copyright. |  |  |  | | --- | --- | | C. | Retained Earnings. |  |  |  | | --- | --- | | D. | Land. | |

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| 115. | A liability would *not* include an obligation to      |  |  | | --- | --- | | A. | transfer assets. |  |  |  | | --- | --- | | **B.** | hire an employee. |  |  |  | | --- | --- | | C. | pay cash. |  |  |  | | --- | --- | | D. | provide services. | |

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| 116. | Which of the following assets could be described as nonphysical?      |  |  | | --- | --- | | A. | Inventory |  |  |  | | --- | --- | | B. | Cash |  |  |  | | --- | --- | | **C.** | Trademarks |  |  |  | | --- | --- | | D. | Supplies | |

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| 117. | Sinoyianis Realty Company had the following balance sheet accounts and balances:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $12,000 |  | Common Stock | $10,000 | | Accounts Receivable | 2,000 |  | Equipment | 14,000 | | Building | 16,000 |  | Land | 14,000 | | Cash | 6,000 |  | Retained Earnings | ? | |  |  |  |  |  |   What is the balance of the Retained Earnings account?      |  |  | | --- | --- | | A. | $8,000 |  |  |  | | --- | --- | | B. | $12,000 |  |  |  | | --- | --- | | C. | $28,000 |  |  |  | | --- | --- | | **D.** | $30,000 | |

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| 118. | Sinoyianis Realty Company had the following balance sheet accounts and balances:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $12,000 |  | Common Stock | $10,000 | | Accounts Receivable | 2,000 |  | Equipment | 14,000 | | Building | 16,000 |  | Land | 14,000 | | Cash | 6,000 |  | Retained Earnings | 30,000 | |  |  |  |  |  |   What is the total of liabilities and stockholders’ equity?      |  |  | | --- | --- | | A. | $26,000 |  |  |  | | --- | --- | | B. | $32,000 |  |  |  | | --- | --- | | C. | $36,000 |  |  |  | | --- | --- | | **D.** | $52,000 | |

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| 119. | Sinoyianis Realty Company had the following balance sheet accounts and balances:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $12,000 |  | Common Stock | $10,000 | | Accounts Receivable | 2,000 |  | Equipment | 14,000 | | Building | 16,000 |  | Land | 14,000 | | Cash | 6,000 |  | Retained Earnings | 30,000 | |  |  |  |  |  |   If the equipment were sold for $14,000, what would be the total of stockholders’ equity?      |  |  | | --- | --- | | A. | $8,000 |  |  |  | | --- | --- | | B. | $22,000 |  |  |  | | --- | --- | | C. | $36,000 |  |  |  | | --- | --- | | **D.** | $40,000 | |

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| 120. | Sinoyianis Realty Company had the following balance sheet accounts and balances:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $12,000 |  | Common Stock | $10,000 | | Accounts Receivable | 2,000 |  | Equipment | 14,000 | | Building | 16,000 |  | Land | 14,000 | | Cash | 6,000 |  | Retained Earnings | 30,000 | |  |  |  |  |  |   If $6,000 of Accounts Payable were paid in cash, what would be the balance of the Retained Earnings account?      |  |  | | --- | --- | | A. | $8,000 |  |  |  | | --- | --- | | B. | $28,000 |  |  |  | | --- | --- | | **C.** | $30,000 |  |  |  | | --- | --- | | D. | $36,000 | |

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| 121. | Sinoyianis Realty Company had the following balance sheet accounts and balances:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $12,000 |  | Common Stock | $ 10,000 | | Accounts Receivable | 2,000 |  | Equipment | 14,000 | | Building | 16,000 |  | Land | 14,000 | | Cash | 6,000 |  | Retained Earnings | 30,000 | |  |  |  |  |  |   If $6,000 of Accounts Payable were paid in cash, what would be the total of liabilities and stockholders’ equity?      |  |  | | --- | --- | | A. | $28,000 |  |  |  | | --- | --- | | B. | $34,000 |  |  |  | | --- | --- | | **C.** | $46,000 |  |  |  | | --- | --- | | D. | $52,000 | |

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| 122. | Use this information to answer the following question.  Here is the balance sheet for Costello Container Company:   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Costello Container Company** | | | | | | | **Balance Sheet** | | | | | | | **December 31, 2014** | | | | | | | **Assets** | | **Liabilities** | | | | | Cash | $ 8,000 | Accounts payable | |  | $16,000 | | Accounts receivable | 3,000 |  | |  |  | | Land | 14,000 | **Stockholders’ Equity** | | | | | Building | 44,000 | Common stock | |  | 20,000 | | Equipment | 13,000 | Retained earnings | |  | 46,000 | |  |  | Total liabilities and | | |  | | Total assets | $82,000 |  | stockholders’ equity | | $82,000 | |  |  |  |  |  |  |   If the balance in the Cash account were used to buy more equipment, then the total assets would      |  |  | | --- | --- | | **A.** | remain unchanged. |  |  |  | | --- | --- | | B. | increase by $8,000. |  |  |  | | --- | --- | | C. | decrease by $8,000. |  |  |  | | --- | --- | | D. | increase by $21,000. | |

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| 123. | Use this information to answer the following question. Here is the balance sheet for Costello Container Company:   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Costello Container Company** | | | | | | | **Balance Sheet** | | | | | | | **December 31, 2014** | | | | | | | **Assets** | | **Liabilities** | | | | | Cash | $ 8,000 | Accounts payable | |  | $16,000 | | Accounts receivable | 3,000 |  | |  |  | | Land | 14,000 | **Stockholders' Equity** | | | | | Building | 44,000 | Common stock | |  | 20,000 | | Equipment | 13,000 | Retained earnings | |  | 46,000 | |  |  | Total liabilities and | | |  | | Total assets | $82,000 |  | stockholders’ equity | | $82,000 | |  |  |  |  |  |  |   If the balance in the Cash account were used to pay part of Accounts Payable, then total liabilities and stockholders’ equity would      |  |  | | --- | --- | | **A.** | decrease by $8,000. |  |  |  | | --- | --- | | B. | increase by $8,000. |  |  |  | | --- | --- | | C. | increase by $16,000. |  |  |  | | --- | --- | | D. | decrease by $16,000. | |

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| 124. | Use this information to answer the following question.  Here is the balance sheet for Costello Container Company:   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Costello Container Company** | | | | | | | **Balance Sheet** | | | | | | | **December 31, 2014** | | | | | | | **Assets** | | **Liabilities** | | | | | Cash | $ 8,000 | Accounts payable | |  | $16,000 | | Accounts receivable | 3,000 |  | |  |  | | Land | 14,000 | **Stockholders’ Equity** | | | | | Building | 44,000 | Common stock | |  | 20,000 | | Equipment | 13,000 | Retained earnings | |  | 46,000 | |  |  | Total liabilities and | | |  | | Total assets | $82,000 |  | stockholders’ equity | | $82,000 | |  |  |  |  |  |  |   If the equipment were sold for $13,000, then the Retained Earnings account would      |  |  | | --- | --- | | A. | increase by $37,000. |  |  |  | | --- | --- | | B. | increase by $13,000. |  |  |  | | --- | --- | | C. | decrease by $13,000. |  |  |  | | --- | --- | | **D.** | stay the same. | |

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| 125. | Which of the following represents the proper order of financial statement preparation?      |  |  | | --- | --- | | A. | Statement of cash flows, balance sheet, income statement, statement of retained earnings |  |  |  | | --- | --- | | B. | Statement of retained earnings, income statement, statement of cash flows, balance sheet |  |  |  | | --- | --- | | C. | Balance sheet, statement of cash flows, statement of retained earnings, income statement |  |  |  | | --- | --- | | **D.** | Income statement, statement of retained earnings, balance sheet, statement of cash flows | |

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| 126. | All of the following items would appear on the balance sheet *except*      |  |  | | --- | --- | | **A.** | Dividends. |  |  |  | | --- | --- | | B. | Common Stock. |  |  |  | | --- | --- | | C. | Accounts Receivable. |  |  |  | | --- | --- | | D. | Patents. | |

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| 127. | Which of the following financial statements is concerned with the enterprise at a point in time?      |  |  | | --- | --- | | A. | Statement of retained earnings |  |  |  | | --- | --- | | B. | Income statement |  |  |  | | --- | --- | | C. | Statement of cash flows |  |  |  | | --- | --- | | **D.** | Balance sheet | |

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| 128. | The net income figure appears in all the following financial statements *except* the      |  |  | | --- | --- | | A. | statement of cash flows. |  |  |  | | --- | --- | | B. | income statement. |  |  |  | | --- | --- | | C. | statement of retained earnings. |  |  |  | | --- | --- | | **D.** | balance sheet. | |

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| 129. | The statement of cash flows would disclose the distribution of dividends to stockholders      |  |  | | --- | --- | | **A.** | in the financing activities section. |  |  |  | | --- | --- | | B. | in the investing activities section. |  |  |  | | --- | --- | | C. | in the operating activities section. |  |  |  | | --- | --- | | D. | nowhere on the statement. | |

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| 130. | The statement of cash flows would disclose the purchase of a building for cash      |  |  | | --- | --- | | A. | nowhere on the statement. |  |  |  | | --- | --- | | B. | in the operating activities section. |  |  |  | | --- | --- | | **C.** | in the investing activities section. |  |  |  | | --- | --- | | D. | in the financing activities section. | |

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| 131. | The Public Company Accounting Oversight Board was created by the      |  |  | | --- | --- | | **A.** | Sarbanes-Oxley Act. |  |  |  | | --- | --- | | B. | GASB. |  |  |  | | --- | --- | | C. | IRS. |  |  |  | | --- | --- | | D. | IASB. | |

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| 132. | The authoritative body currently responsible for establishing accounting practice is the      |  |  | | --- | --- | | A. | Internal Revenue Service. |  |  |  | | --- | --- | | **B.** | Financial Accounting Standards Board. |  |  |  | | --- | --- | | C. | American Institute of Certified Public Accountants. |  |  |  | | --- | --- | | D. | Federal Reserve Board. | |

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| 133. | An audit is an examination of a company’s      |  |  | | --- | --- | | A. | financial statements. |  |  |  | | --- | --- | | B. | accounting systems. |  |  |  | | --- | --- | | C. | accounting controls. |  |  |  | | --- | --- | | **D.** | all of these. | |

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| 134. | Generally accepted accounting principles      |  |  | | --- | --- | | **A.** | are changing continually. |  |  |  | | --- | --- | | B. | are sound in theory but rarely used in practice. |  |  |  | | --- | --- | | C. | have eliminated all weaknesses in accounting practice. |  |  |  | | --- | --- | | D. | are accounting rules formulated by the Internal Revenue Service. | |

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| 135. | The purpose of an audit is to      |  |  | | --- | --- | | A. | determine whether or not a company is a good investment. |  |  |  | | --- | --- | | B. | comply with income tax regulations. |  |  |  | | --- | --- | | C. | determine whether or not a company is a good credit risk. |  |  |  | | --- | --- | | **D.** | ascertain that the financial statements follow GAAP. | |

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| 136. | An auditor maintains no direct financial interest in the company he or she is auditing. The principle being followed is      |  |  | | --- | --- | | **A.** | independence. |  |  |  | | --- | --- | | B. | integrity. |  |  |  | | --- | --- | | C. | objectivity. |  |  |  | | --- | --- | | D. | due care. | |

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| 137. | Carrying out professional responsibilities with competence and diligence is called      |  |  | | --- | --- | | A. | integrity. |  |  |  | | --- | --- | | B. | independence. |  |  |  | | --- | --- | | C. | objectivity. |  |  |  | | --- | --- | | **D.** | due care. | |

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| 138. | All of the following are broad principles underlying the accountant's code of professional ethics *except*      |  |  | | --- | --- | | A. | objectivity. |  |  |  | | --- | --- | | B. | integrity. |  |  |  | | --- | --- | | **C.** | loyalty. |  |  |  | | --- | --- | | D. | independence. | |

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| 139. | The development of international accounting standards is the primary function of the      |  |  | | --- | --- | | A. | IRS. |  |  |  | | --- | --- | | B. | AICPA. |  |  |  | | --- | --- | | **C.** | IASB. |  |  |  | | --- | --- | | D. | PCAOB. | |

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| 140. | Which of the following is a regulatory agency?      |  |  | | --- | --- | | A. | IASB |  |  |  | | --- | --- | | **B.** | SEC |  |  |  | | --- | --- | | C. | FASB |  |  |  | | --- | --- | | D. | GASB | |

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| 141. | Which of the following is an example of an investing activity?      |  |  | | --- | --- | | **A.** | Purchasing a building |  |  |  | | --- | --- | | B. | Paying off a loan |  |  |  | | --- | --- | | C. | Employing workers |  |  |  | | --- | --- | | D. | Producing goods and services | |

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| 142. | Which of the following is an example of a financing activity?      |  |  | | --- | --- | | A. | Paying taxes to the government |  |  |  | | --- | --- | | B. | Selling equipment |  |  |  | | --- | --- | | **C.** | Obtaining a bank loan |  |  |  | | --- | --- | | D. | Purchasing land | |

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| 143. | A company's ability to attract and hold investment capital ultimately depends on its      |  |  | | --- | --- | | A. | budgeting. |  |  |  | | --- | --- | | B. | planning. |  |  |  | | --- | --- | | C. | liquidity. |  |  |  | | --- | --- | | **D.** | profitability. | |

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| 144. | The group of users of accounting information charged with achieving the goals of the business is its      |  |  | | --- | --- | | A. | auditors. |  |  |  | | --- | --- | | B. | creditors. |  |  |  | | --- | --- | | **C.** | managers. |  |  |  | | --- | --- | | D. | investors. | |

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| 145. | The following users of accounting information have an indirect financial interest in the business *except*      |  |  | | --- | --- | | A. | regulatory agency. |  |  |  | | --- | --- | | **B.** | creditor. |  |  |  | | --- | --- | | C. | taxing authority. |  |  |  | | --- | --- | | D. | labor union. | |

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| 146. | Which of the following groups uses accounting information primarily to help protect the public?      |  |  | | --- | --- | | A. | Management |  |  |  | | --- | --- | | **B.** | Regulatory agencies |  |  |  | | --- | --- | | C. | Taxing authorities |  |  |  | | --- | --- | | D. | Economic planners | |

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| 147. | The following users of accounting information have a direct financial interest in a business *except*      |  |  | | --- | --- | | A. | a creditor. |  |  |  | | --- | --- | | **B.** | a financial adviser. |  |  |  | | --- | --- | | C. | management. |  |  |  | | --- | --- | | D. | an investor. | |

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| 148. | Companies listed on the stock exchanges must file financial statements with the      |  |  | | --- | --- | | A. | Financial Accounting Standards Board. |  |  |  | | --- | --- | | B. | American Institute of Certified Public Accountants. |  |  |  | | --- | --- | | **C.** | Securities and Exchange Commission. |  |  |  | | --- | --- | | D. | Internal Revenue Service. | |

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| 149. | Which of the following is an agency of the U.S. government?      |  |  | | --- | --- | | A. | IASB |  |  |  | | --- | --- | | **B.** | SEC |  |  |  | | --- | --- | | C. | FASB |  |  |  | | --- | --- | | D. | AICPA | |

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| 150. | Those who lend money or deliver goods and services before being paid are called      |  |  | | --- | --- | | A. | investors. |  |  |  | | --- | --- | | B. | debtors. |  |  |  | | --- | --- | | C. | underwriters. |  |  |  | | --- | --- | | **D.** | creditors. | |

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| 151. | The purchase of land is an example of a(n)      |  |  | | --- | --- | | **A.** | investing activity. |  |  |  | | --- | --- | | B. | operating activity. |  |  |  | | --- | --- | | C. | capital activity. |  |  |  | | --- | --- | | D. | financing activity. | |

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| 152. | Which of the following is an example of an operating activity?      |  |  | | --- | --- | | A. | Obtaining capital from owners |  |  |  | | --- | --- | | **B.** | Selling goods and services to customers |  |  |  | | --- | --- | | C. | Purchasing equipment |  |  |  | | --- | --- | | D. | Selling land | |

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| 153. | The Sarbanes-Oxley Act of 2002 came, in part, as a result of the      |  |  | | --- | --- | | A. | Enron scandal. |  |  |  | | --- | --- | | B. | WorldCom scandal. |  |  |  | | --- | --- | | C. | Target scandal. |  |  |  | | --- | --- | | **D.** | Enron and WorldCom scandals. | |

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| 154. | The intentional preparation of misleading financial statements, known as fraudulent financial reporting, can result from all of the following *except*      |  |  | | --- | --- | | A. | the misapplication of accounting principles. |  |  |  | | --- | --- | | B. | the manipulation of inventory records. |  |  |  | | --- | --- | | C. | fictitious sales or orders. |  |  |  | | --- | --- | | **D.** | recording a revenue that has been earned but not yet received. | |

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| 155. | All of the following statements are true about the Sarbanes-Oxley Act *except*      |  |  | | --- | --- | | A. | it applies to publicly traded companies. |  |  |  | | --- | --- | | **B.** | it shields chief executives from criminal penalties. |  |  |  | | --- | --- | | C. | it orders the SEC to draw up certain rules. |  |  |  | | --- | --- | | D. | its primary goal is to regulate financial reporting and the accounting profession. | |

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| 156. | Which of the following physically prepare and audit financial reports?      |  |  | | --- | --- | | **A.** | Accountants |  |  |  | | --- | --- | | B. | Managers |  |  |  | | --- | --- | | C. | Chief executives |  |  |  | | --- | --- | | D. | Board of directors | |

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| 157. | Which of the following are required to swear that financial reports are accurate and complete?      |  |  | | --- | --- | | A. | Accountants |  |  |  | | --- | --- | | B. | Managers |  |  |  | | --- | --- | | **C.** | Chief executives |  |  |  | | --- | --- | | D. | Board of directors | |

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| 158. | Which of the following might be motivation for fraudulently covering up a financial weakness?      |  |  | | --- | --- | | A. | To obtain a loan |  |  |  | | --- | --- | | B. | To meet stockholder expectations |  |  |  | | --- | --- | | C. | To obtain bonus compensation |  |  |  | | --- | --- | | **D.** | All of these are possible motivations | |

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| 159. | Fraudulent financial reporting at Enron resulted in      |  |  | | --- | --- | | A. | thousands of people losing their jobs. |  |  |  | | --- | --- | | B. | thousands of people losing their pensions and investment incomes. |  |  |  | | --- | --- | | C. | prison sentences and fines for corporate executives. |  |  |  | | --- | --- | | **D.** | all of these choices. | |

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| 160. | The Sarbanes-Oxley Act of 2002 applies to all *except*      |  |  | | --- | --- | | A. | quarterly statements. |  |  |  | | --- | --- | | B. | annual reports. |  |  |  | | --- | --- | | **C.** | internal management reports. |  |  |  | | --- | --- | | D. | none of these are exceptions. | |

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| 161. | Why would it be less risky for an individual to incorporate his or her business rather than to operate it as a sole proprietorship or partnership?     With a sole proprietorship or partnership, the owner or owners have unlimited liability. That is, they may be required to use personal assets to satisfy business debts. The liability of a corporate shareholder, however, is limited to his or her investment in the business. |

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| 162. | On the right side of the accounting equation are two types of claims against resources. Explain what they are and give an example of an item that would increase each. Which type of claim has priority?     The two types of claims against resources are creditors’ equities (liabilities) and stockholders’ equity. Liabilities are a business’s obligations to pay cash, transfer assets, or provide services to other entities in the future. Examples might include accounts payable, notes payable, or wages payable. Stockholders’ equity represents the claims by the owners and is what would be left if all liabilities were paid. Examples include additional investments through stock issues or net income. Creditors have rights over stockholders. |

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| 163. | Which four types of transactions affect stockholders' equity, and how do they affect it?     Revenues and owner investments increase stockholders’ equity, whereas expenses and dividends decrease stockholders’ equity. |

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| 164. | How does the statement of retained earnings relate to the income statement and the balance sheet?     The statement of retained earnings provides a link between the income statement and the balance sheet. Specifically, it takes the net income or loss figure from the income statement and uses it (along with dividends) to arrive at the retained earnings balance to be presented on the balance sheet. |

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| 165. | What is independence, and why is it important for a CPA to maintain it when conducting an audit?     Independence means having no financial or other compromising ties with the company under audit. To give the public confidence in their work, CPAs must maintain their independence whenever they conduct an audit. |

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| 166. | What is the responsibility of the independent auditor? Who is responsible for the content of the published financial statements?     The responsibility of the independent auditor is to express an opinion about the financial statements of the company being audited. Company’s management is responsible for the content of the published financial statements. |

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| 167. | Distinguish between profitability and liquidity.     Profitability is the ability to earn enough income to attract and hold investment capital, whereas liquidity means having enough funds on hand to pay debts when they fall due. |

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| 168. | Explain why each of the following persons or groups would be interested in seeing the financial statements of a company. Also state whether each has a direct or indirect financial interest.  a.      Potential investor b.      Internal Revenue Service c.      A labor union d.      Securities and Exchange Commission e.      Potential creditor f.      Management g.      Economic planners     a.      To help determine if the prospects for a profitable investment is good relative to other investment opportunities (direct interest) b.      To help determine the tax that should be levied against the company (indirect interest) c.      To give the labor union negotiators a basis for negotiating for higher wages and benefits (indirect interest) d.      To help determine if the investing public is being given accurate and complete information (indirect interest) e.      To help determine if the creditor should extend credit to the company (direct interest) f.      To help the company achieve goals such as profitability and liquidity (neither direct nor indirect) g.      To set economic policies and judge economic programs (indirect interest) |

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| 169. | List five possible users of a set of financial statements and state what each would be interested in learning from its review.     Possible users and their reasons for interest could be: •      Existing creditors who would be concerned about being repaid on time •      Possible creditors who are considering extending credit or making loans to the company and being repaid in a timely fashion •      Current stockholders who want to follow and manage their investment •      Individuals or corporations considering an investment in the company •      College students who would use the statements to learn about financial statement analysis •      Managers of the company who would use the statements to evaluate their areas of operations and make decisions to improve them •      Government bodies such as the SEC, which would review the financial statements to ensure conformity to laws that protect the general public •      Labor unions involved with the company, which would review the statements to evaluate present profitability as part of preparing for contract negotiations |

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| 170. | Indicate by letter (a–g) the agency that applies to each statement.      |  |  |  | | --- | --- | --- | | 1. The accounting profession’s main organization of certified public accountants | IRS | **2** | | 2. Responsible for interpreting and enforcing tax laws | GASB | **4** | | 3. Developer of international accounting standards | IASB | **3** | | 4. Establishes accounting standards for state and local governments | IMA | **6** | | 5. Current authoritative body for developing GAAP | SEC | **7** | | 6. Primary professional association of managerial accountants | FASB | **5** | | 7. Protector of the investing public | AICPA | **1** | |

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| 171. | Newberry Company's stockholders' equity equals one-fourth of the company's total assets. The company's liabilities are $309,000. What is the amount of the company's stockholders’ equity?     Assets = Liabilities + Equity  A = 3/4 A + 1/4 A 3/4 A = $309,000 A = $309,000 ÷ 0.75 = $412,000 Equity = $412,000 - $309,000 = $103,000 |

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| 172. | Chin Company's stockholders’ equity equals one-third of the company's total assets. The company's liabilities are $120,000. What is the amount of the company's stockholders’ equity?     Assets = Liabilities + Equity  A = 2/3 A + 1/3 A 2/3 A = $120,000 A = $120,000 ´ 3/2 = $180,000 Equity = $180,000 - $120,000 =$60,000 |

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| 173. | Garcia Company's stockholders’ equity equals one-half of the company's total assets. The company's liabilities are $140,000. What is the amount of the company's stockholders’ equity?     Assets = Liabilities + Equity  A = 1/2 A + 1/2 A 1/2 A = $140,000 A = $140,000 ´ 2 = $280,000 Equity = $280,000 - $140,000 = $140,000 |

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| 174. | Following are the total assets and liabilities at the beginning and end of the year for Hagedorn Company:   |  |  |  | | --- | --- | --- | |  | **Assets** | **Liabilities** | | Beginning of the year | $ 70,000 | $45,000 | | End of the year | 108,000 | 40,000 | |  |  |  |   Determine the net income or loss for the year in each of the following situations: a.      There were no additional stock issues and no dividends were paid during the year. b.      Additional stock was issued for $20,000 and dividends of $12,000 were paid during the year.     a.      [($108,000 – $40,000) – ($70,000 – $45,000)] = $43,000 b.      [($108,000 – $40,000) – ($70,000 – $45,000) – $20,000 + $12,000] = $35,000 |

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| 175. | At the beginning of the year, Shannon Company's assets were $150,000 and its stockholders’ equity was $100,000. During the year, assets decreased $30,000 and liabilities increased $15,000. What was the stockholders’ equity at the end of the year?     [($150,000 – $30,000) – ($50,000 + $15,000)] = $55,000 |

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| 176. | At the beginning of the year, Pullman Company's assets were $270,000 and its stockholders’ equity was $201,000. During the year, assets decreased by $35,000 and liabilities increased by $10,000. What was stockholders’ equity at the end of the year?     [($270,000 – $35,000) – ($69,000 + $10,000)] = $156,000 |

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| 177. | Use the following information to calculate at or for the year ended December 31, 2014:  (a) net income, (b) retained earnings, (c) total liabilities and stockholders’ equity, and (d) accounts receivable.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Cash | $32,000 |  | Common Stock | $30,000 | | Accounts Receivable | ? |  | Retained Earnings, Dec. 31, 2013 | 61,000 | | Supplies | 1,000 |  | Retained Earnings, Dec. 31, 2014 | ? | | Land | 70,000 |  | Dividends | 16,000 | | Accounts Payable | 12,000 |  | Commissions Earned | 40,000 | | Notes Payable | 14,000 |  | Wages Expense | 14,000 | |  |  |  | Rent Expense | 6,000 | |  |  |  |  |  |       |  | | --- | | a.      $40,000 - $14,000 - $6,000 = $20,000 b.      $61,000 + $20,000 - $16,000 = $65,000 c.      $12,000 + $14,000 + $30,000 + 65,000 = $121,000 d.      $121,000 - $32,000 - $1,000 - $70,000 = $18,000 | |  | |

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| 178. | Use the following information to calculate at or for the year ended December 31, 2014: (a) net income, (b) retained earnings, (c) total assets, and (d) cash.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Cash | $       ? |  | Common Stock | $10,000 | | Accounts Receivable | 8,000 |  | Retained Earnings, Dec. 31, 2013 | 16,000 | | Inventories | 22,000 |  | Retained Earnings, Dec. 31, 2014 | ? | | Accounts Payable | 7,000 |  | Dividends | 6,000 | | Salaries Payable | 1,000 |  | Commissions Earned | 20,000 | |  |  |  | Salaries Expense | 4,000 | |  |  |  | Utilities Expense | 2,000 | |  |  |  |  |  | |  |  |  |  |  |      a.      $20,000 - $4,000 - $2,000 = $14,000 b.      $16,000 + $14,000 - $6,000 = $24,000 c.      Total Assets = Total Liabilities and Stockholders’ Equity            = $7,000 + $1,000 + $10,000 + $24,000 = $42,000 d.      $42,000 - $8,000 - $22,000 = $12,000 |

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| 179. | Kyle Biehl, an attorney, bills his clients at a rate of $100 per hour. At the beginning of July, clients owed him $8,000, of which he collected $5,600 during the month. In July, Kyle billed clients for 160 hours of work. By the end of July, 60 of these hours were unpaid.  Kyle has one employee, Marcia Medvid, who is paid $20 per hour. During July, Marcia worked 170 hours, of which 16 hours will be paid in August. The rest were paid in July along with wages for 8 hours worked the last day of June.  Show calculations as you determine the following for the month of July: a.      Amount of revenue earned b.      Wages expense incurred c.      Cash received from clients d.      Cash paid to Marcia Medvid      |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | a. | Revenue earned from clients: | | | |  | |  |  | 160 hours ´ $100 = $16,000 | | |  | |  |  | | | |  | | b. | Wages expense incurred for Marcia Medvid: | | | |  | |  |  | 170 hours ´ $20 = $3,400 | | |  | |  |  | | | |  | | c. | Cash received from clients during July: | | | |  | |  |  | Received from clients previously billed | | | $ 5,600 | |  |  | Received from clients billed in July: | | |  | |  |  |  | | (160 hours – 60 hours) ´ $100 | 10,000 | |  |  | Total | | | $15,600 | |  |  | | | |  | | d. | Cash paid to Marcia Medvid: | | | |  | |  |  | Paid for June work (8 hours ´ $20) | | | $    160 | |  |  | Paid for July work: | | |  | |  |  |  | (170 hours – 16 hours) ´ $20 | | 3,080 | |  |  | Total | | | $ 3,240 | |  |  |  |  |  |  | |

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| 180. | Upshaw Company had a balance of $160,000 in Retained Earnings on December 31, 2013. During 2014, the company reported a net income of $84,000 after taxes, and dividends of $32,000 were paid. Prepare the company's statement of retained earnings for the year ended December 31, 2014.        |  |  | | --- | --- | | **Upshaw Company** | | | **Statement of Retained Earnings** | | | **For the Year Ended December 31, 2014** | | | Retained earnings, December 31, 2013 | $160,000 | | Net income for the year | 84,000 | | Subtotal | $244,000 | | Less dividends | 32,000 | | Retained earnings, December 31, 2014 | $212,000 | |  |  | |

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| 181. | Feldman Company had a balance of $360,000 in Retained Earnings on December 31, 2013. During 2014, the company reported a net income of $48,000, and dividends of $36,000 were paid. Prepare the company's statement of retained earnings for the year ended December 31, 2014.        |  |  | | --- | --- | | **Feldman Company** | | | **Statement of Retained Earnings** | | | **For the Year Ended December 31, 2014** | | | Retained earnings, December 31, 2014 | $360,000 | | Net income for the year | 48,000 | | Subtotal | $408,000 | | Less dividends | 36,000 | | Retained earnings, December 31, 2014 | $372,000 | |  |  | |

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| 182. | Use the following accounts and information to prepare, in good form, an income statement, statement of retained earnings, and balance sheet for McCollum Enterprises for the year ended December 31, 2014.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $ 4,800 |  | Insurance Expense | $  1,000 | | Accounts Receivable | 600 |  | Land | 39,000 | | Buildings | 52,000 |  | Notes Payable | 6,000 | | Cash | 26,200 |  | Rent Expense | 3,600 |  |  | | Commissions Earned | 19,000 |  | Retained Earnings | 64,400 | | Common Stock | 40,000 |  | Salaries Expense | 8,400 | | Dividends | 3,000 |  | Supplies | 400 | |  |  |  |  |  |  |  |         |  |  |  |  | | --- | --- | --- | --- | | **McCollum Enterprises** | | | | | **Income Statement** | | | | | **For the Year Ended December 31, 2014** | | | | | Revenues: | | | | |  | Commissions earned |  | $19,000 | | Expenses: | | | | |  | Insurance expense | $1,000 |  | |  | Rent expense | 3,600 |  | |  | Salaries expense | 8,400 | 13,000 | | Net income | |  | $ 6,000 | |  |  |  |  |      |  |  | | --- | --- | | **McCollum Enterprises** | | | **Statement of Retained Earnings** | | | **For the Year Ended December 31, 2014** | | | Retained earnings, December 31, 2013 | $64,400 | | Net income for the year | 6,000 | | Subtotal | $70,400 | | Less dividends | 3,000 | | Retained earnings, December 31, 2014 | $67,400 | |  |  |      |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **McCollum Enterprises** | | | | | | | | **Balance Sheet** | | | | | | | | **December 31, 2014** | | | | | | | | **Assets** | | **Liabilities** | | | | | | Cash | $ 26,200 |  | | Accounts payable | $ 4,800 |  | | Accounts receivable | 600 |  | | Notes payable | 6,000 |  | | Supplies | 400 |  | | Total liabilities |  | $ 10,800 | | Land | 39,000 |  | |  |  |  | | Buildings | 52,000 | **Stockholders’ Equity** | | | | | |  |  |  | | Common stock |  | 40,000 | |  |  |  | | Retained earnings |  | 67,400 | |  |  | Total liabilities and | | | |  | | Total assets | $118,200 |  | stockholders’ equity | | | $118,200 | |  |  |  |  |  |  |  | |

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| 183. | Use the following accounts and information to prepare, in good form, an income statement, statement of retained earnings, and balance sheet for Day Industries for the month ended July 31, 2014.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | Accounts Payable | $ 3,100 |  | Land | $35,000 | | Accounts Receivable | 1,400 |  | Notes Payable | 3,300 | | Buildings | 22,000 |  | Rent Expense | 2,400 | | Cash | 15,600 |  | Retained Earnings, June 30, 2014 | 57,900 | | Commissions Earned | 12,700 |  | Salaries Expense | 10,000 | | Common Stock | 20,000 |  | Supplies | 400 | | Dividends | 8,000 |  |  |  | | Insurance Expense | 2,200 |  |  |  | |  |  |  |  |  |         |  |  |  |  | | --- | --- | --- | --- | | **Day Industries** | | | | | **Income Statement** | | | | | **For the Month Ended July 31, 2014** | | | | | Revenues: | | | | |  | Commissions earned |  | $12,700 | | Expenses: | | | | |  | Insurance expense | $ 2,200 |  | |  | Rent expense | 2,400 |  | |  | Salaries expense | 10,000 | 14,600 | | Net loss | |  | $(1,900) | |  |  |  |  |      |  |  | | --- | --- | | **Day Industries** | | | **Statement of Retained Earnings** | | | **For the Month Ended July 31, 2014** | | | Retained earnings, June 30, 2014 | $57,900 | | Net loss for the month | (1,900) | | Subtotal | $56,000 | | Less dividends | 8,000 | | Retained earnings, July 31, 2014 | $48,000 | |  |  |      |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Day Industries** | | | | | | | | **Balance Sheet** | | | | | | | | **July 31, 2014** | | | | | | | | **Assets** | | **Liabilities** | | | | | | Cash | $ 15,600 |  | | Accounts payable | $ 3,100 |  | | Accounts receivable | 1,400 |  | | Notes payable | 3,300 |  | | Supplies | 400 |  | | Total liabilities |  | $ 6,400 | | Land | 35,000 |  | |  |  |  | | Buildings | 22,000 | **Stockholders’ Equity** | | | | | |  |  |  | | Common stock |  | 20,000 | |  |  |  | | Retained earnings |  | 48,000 | |  |  | Total liabilities and | | | |  | | Total assets | $74,400 |  | stockholders’ equity | | | $74,400 | |  |  |  |  |  |  |  | |

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| 184. | Use the following accounts and balances to prepare a balance sheet for England Company at December 31, 2014:   |  |  | | --- | --- | | Accounts Payable | $10,000 | | Accounts Receivable | 6,400 | | Cash | 4,800 | | Common stock | 10,000 | | Equipment | 13,200 | | Retained earnings | ? | |  |  |         |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **England Company** | | | | | | | **Balance Sheet** | | | | | | | **December 31, 2014** | | | | | | | **Assets** | | **Liabilities** | | | | | Cash | $ 4,800 | Accounts payable | |  | $10,000 | | Accounts receivable | 6,400 |  | |  |  | | Equipment | 13,200 | **Stockholders’ Equity** | | | | |  |  | Common stock     Retained earnings | |  | 10,000   4,400 | |  |  | Total liabilities and | | |  | | Total assets | $24,400 |  | stockholders’ equity | | $24,400 | |  |  |  |  |  |  | |