***Financial Accounting, 4e* (Kemp)**

**Chapter 1 Business, Accounting, and You**

1.1 Understand the nature of business and the role of accounting in business

1) By taking accounting classes, the student is learning the "language of business."

Answer: TRUE

Diff: 1

Question Type: Concept

2) To manage a business effectively, an owner or manager would benefit greatly from having some knowledge of accounting.

Answer: TRUE

Diff: 1

Question Type: Application

3) Businesses primarily exist to generate sales.

Answer: FALSE

Diff: 1

Question Type: Concept

4) The value of an item is determined by taking the revenue from a sale and deducting the cost of the sale.

Answer: FALSE

Diff: 1

Question Type: Concept

5) Society is considered to be a stakeholder in a business.

Answer: TRUE

Diff: 2

Question Type: Concept

6) Accounting information is used to help managers and decision makers understand risk.

Answer: TRUE

Diff: 1

Question Type: Concept

7) What do we call the result obtained when revenue is less than cost?

A) Loss

B) Profit

C) Value

D) Risk

Answer: A

Diff: 1

Question Type: Concept

8) Which of the following is NOT part of the accounting process as it relates to information?

A) Measuring

B) Recognizing

C) Understanding

D) Reporting

Answer: C

Diff: 1

Question Type: Concept

9) According to the textbook, in order for an organization to be called a business it must:

A) exchange a product with a customer.

B) make money.

C) be a corporation.

D) provide a service.

Answer: A

Diff: 1

Question Type: Concept

10) Which of the following impacts the value of an item to its owner?

A) When the owner expects to receive something in exchange for the item

B) How certain the owner is about what and when they will receive something in exchange for the item

C) What the owner expects to receive in exchange for the item

D) All of the above

Answer: D

Diff: 1

Question Type: Concept

11) When revenue exceeds cost, it is referred to as:

A) loss.

B) profit.

C) value.

D) risk.

Answer: B

Diff: 1

Question Type: Concept

12) Which of the following would NOT be considered a stakeholder in a business?

A) An employee

B) A supplier

C) A regulator

D) All of the above are stakeholders

Answer: D

Diff: 2

Question Type: Concept

13) All of the following would be considered a stakeholder in a business *except*

A) Customers

B) Lenders

C) Competitors

D) Society

Answer: C

Diff: 2

Question Type: Concept

14) The primary goal of any business is to

A) generate revenue.

B) sell products for a profit.

C) create value for its owners.

D) avoid too much debt.

Answer: C

Diff: 2

Question Type: Concept

1.2 Know how a business operates

1) Amounts owed to the business' owners as a result of an initial investment are called liabilities.

Answer: FALSE

Diff: 1

Question Type: Concept

2) Net income and profit are the same thing.

Answer: TRUE

Diff: 1

Question Type: Concept

3) The only way for business to get money is to borrow it.

Answer: FALSE

Diff: 1

Question Type: Concept

4) Business owners expect to be compensated for both time and risk.

Answer: TRUE

Diff: 1

Question Type: Concept

5) Business owners are paid interest on the money they have invested in the business.

Answer: FALSE

Diff: 1

Question Type: Concept

6) Liabilities are defined as:

A) earnings retained in the business.

B) amounts owed to lenders or creditors.

C) stockholders' claims to assets.

D) future economic benefits of a company.

Answer: B

Diff: 1

Question Type: Concept

7) Assets are defined as:

A) earnings retained in the business.

B) amounts owed to others.

C) stockholders' claims to assets.

D) economic resources of a company.

Answer: D

Diff: 1

Question Type: Concept

8) Which of the following does NOT describe Stockholders' Equity?

A) Profits retained in the business

B) Money lent to a business

C) The owners' claim on the assets of a company

D) Money invested in a business by its owners

Answer: B

Diff: 1

Question Type: Concept

9) Which of the following is NOT an asset?

A) Net income

B) Inventory

C) Buildings

D) Cash

Answer: A

Diff: 1

Question Type: Concept

10) Net income is defined as:

A) revenue plus expenses.

B) revenue less assets.

C) expenses less revenue.

D) revenue less expenses.

Answer: D

Diff: 1

Question Type: Concept

11) The expense of using borrowed money for a period of time, is referred to as:

A) net income.

B) revenue.

C) liability.

D) interest.

Answer: D

Diff: 1

Question Type: Concept

12) What do we call amounts of money borrowed from lenders?

A) Asset

B) Liability

C) Expense

D) Revenue

Answer: B

Diff: 1

Question Type: Concept

13) Stockholder's Equity represents:

A) an initial investment of cash by the owners.

B) a fair distribution of wealth in the firm.

C) retention of profits by a firm.

D) all of the above.

E) A and C only.

Answer: E

Diff: 2

Question Type: Concept

14) The cost of money is above all else a function of

A) interest rates.

B) risk.

C) exchange rates.

D) rate of return.

Answer: B

Diff: 2

Question Type: Concept

1.3 Know the different types and forms of businesses

1) All businesses are operated to generate a profit.

Answer: FALSE

Diff: 1

Question Type: Concept

2) A business may be either a for-profit business or a not-for-profit business.

Answer: TRUE

Diff: 1

Question Type: Concept

3) A business with one owner is called a sole proprietorship and it must be a service business.

Answer: FALSE

Diff: 1

Question Type: Concept

4) Lowe's and Home Depot would be examples of corporate merchandising businesses.

Answer: TRUE

Diff: 1

Question Type: Application

5) Dental offices and law firms are service businesses.

Answer: TRUE

Diff: 1

Question Type: Application

6) Shareholders must pay income tax on the dividends they have received from a corporation.

Answer: TRUE

Diff: 1

Question Type: Application

7) A limited liability company (LLC) is a legal entity like a corporation, but the income is taxed like a sole proprietorship or partnership.

Answer: TRUE

Diff: 1

Question Type: Application

8) A tax preparation business is primarily a:

A) merchandising operation.

B) service operation.

C) not-for-profit operation.

D) manufacturing operation.

Answer: B

Diff: 1

Question Type: Application

9) Which of the following types of organization would primarily sell goods?

A) Merchandising business

B) Service business

C) Manufacturing business

D) Both Merchandising and Manufacturing businesses sell goods.

Answer: D

Diff: 1

Question Type: Concept

10) Which of the following types of organizations would produce goods?

A) Merchandising business

B) Service business

C) Manufacturing business

D) Both merchandising and manufacturing businesses produce goods.

Answer: C

Diff: 1

Question Type: Concept

11) Which of the following is a disadvantage of the corporate form of business?

A) Ease of raising capital

B) Double taxation

C) Limited resources

D) Limited liability

Answer: B

Diff: 1

Question Type: Concept

12) Which of the following is an advantage of a sole proprietorship?

A) Ease of formation

B) Limited liability of owner

C) Ease of raising capital

D) Unlimited life

Answer: A

Diff: 1

Question Type: Concept

13) Which type of organization has stockholders?

A) Partnerships

B) Sole proprietorships

C) Corporations

D) Limited liability companies

Answer: C

Diff: 1

Question Type: Concept

14) Which of the following business forms is similar to a corporation in regard to owner liability?

A) All businesses are the same with regard to owner liability.

B) Limited liability company

C) Sole proprietorship

D) Partnership

Answer: B

Diff: 1

Question Type: Concept

15) Which of the following do NOT pay taxes on the business income through their individual owners?

A) S-corporation

B) Sole proprietorship

C) Partnership

D) Corporation

Answer: D

Diff: 1

Question Type: Concept

16) One of the newer forms of business is a:

A) corporation.

B) sole proprietorship.

C) partnership.

D) limited liability company.

Answer: D

Diff: 1

Question Type: Concept

17) Lowe's would primarily be considered a:

A) manufacturing business.

B) merchandising business.

C) service business.

D) not-for-profit business.

Answer: B

Diff: 1

Question Type: Application

18) Which would NOT be an example of a for-profit business?

A) Toys 'R Us

B) Red Robin

C) Petsmart

D) Red Cross

Answer: D

Diff: 1

Question Type: Application

19) Which type of organization is NOT considered a not-for-profit?

A) Charities

B) Churches

C) Chinese restaurant

D) All of the above are not-for-profits.

Answer: C

Diff: 1

Question Type: Application

20) A hybrid business entity with characteristics of both a corporation and a partnership is called:

A) S-Corporation.

B) P-Corporation.

C) LLC.

D) CP.

Answer: C

Diff: 1

Question Type: Concept

21) Syd's Coffee sells bagged coffee to grocery stores for resale—what type of business is this?

A) Service business

B) Wholesale business

C) Retail business

D) None of the above

Answer: B

Diff: 1

Question Type: Application

22) Elle Wolfe is the owner of Sassycat Groomers, a pet grooming facility. She reports the business income on her personal tax return. What type and legal form of business would Sassycat be considered?

A) Retail & Sole proprietorship

B) Service & Corporation

C) Merchandising & Partnership

D) Service & Sole proprietorship

Answer: D

Diff: 1

Question Type: Application

23) Macy's and Kohls are examples of:

A) merchandising - specifically wholesale businesses.

B) manufacturing businesses.

C) merchandising - specifically retail businesses.

D) service and manufacturing businesses.

Answer: C

Diff: 1

Question Type: Application

24) Illusions, Inc. produces high-end mirrors, which are sold in specialty boutiques throughout the country. What type and legal form of business is Illusions, Inc. ?

A) Manufacturing & Corporation

B) Merchandising & Corporation

C) Retail & Sole proprietorship

D) Service & Sole proprietorship

Answer: A

Diff: 1

Question Type: Application

1.4 Know the key accounting principles and concepts

1) Accounting is important because the process "keeps score" of the financial aspects of a business.

Answer: TRUE

Diff: 1

Question Type: Concept

2) The main role of accounting is to compile reports to determine the profit made by a company over a period of time.

Answer: FALSE

Diff: 2

Question Type: Concept

3) Generally Accepted Accounting Principles (GAAP) are the rules and guidelines governing accounting.

Answer: TRUE

Diff: 1

Question Type: Concept

4) Due to the globalization of business, U.S. companies are no longer required to follow GAAP.

Answer: FALSE

Diff: 1

Question Type: Concept

5) The business entity concept requires that the owner's personal assets be separated from business assets.

Answer: TRUE

Diff: 1

Question Type: Concept

6) Financial information that is verifiable violates the principle of objectivity.

Answer: FALSE

Diff: 1

Question Type: Concept

7) According to the cost principle, if an appraised value is known - it should be used for recording purposes.

Answer: FALSE

Diff: 1

Question Type: Concept

8) Accountants should be highly ethical and must do everything they can to prevent fraud.

Answer: TRUE

Diff: 1

Question Type: Concept

9) Neil owns a sporting goods store. In his accounting records, he included his personal computer and all of his personal sporting gear. Neil is violating what principle of accounting?

A) Going concern

B) Cost

C) Reliability

D) Business entity

Answer: D

Diff: 2

Question Type: Application

10) Simon lists his building at current replacement value, rather than the price he paid for the building. What principle is Simon violating?

A) Going concern

B) Cost

C) Reliability

D) Business entity

Answer: B

Diff: 2

Question Type: Application

11) Gwen owns an antique store. In her accounting records, she includes her car—which is solely used for personal purposes. Which principle is Gwen violating?

A) Personal property

B) Cost

C) Reliability

D) Business entity

Answer: D

Diff: 2

Question Type: Application

12) Amber owns Serenity Spa Resort. In her accounting records, she lists the buildings at their current market value. Which principle is Amber violating?

A) Reliability

B) Cost

C) Business entity

D) None of the above

Answer: B

Diff: 2

Question Type: Application

13) Flowers Forever recorded their delivery van at its current replacement value, rather than the price paid for the van. What principle did they violate?

A) Cost

B) Objectivity

C) Reliability

D) Going concern

Answer: A

Diff: 2

Question Type: Application

14) The owner of Sassycat Designs wrote a company check to pay her personal credit card bill. What accounting principle did she violate?

A) Cost

B) Reliability

C) Business entity

D) No principle is violated—the bank account belongs to her, so it's okay to write checks.

Answer: C

Diff: 2

Question Type: Application

15) FASB is made up of how many members?

A) 3

B) 5

C) 7

D) 9

Answer: C

Diff: 1

Question Type: Concept

16) GAAP is the acronym for generally accepted \_\_\_\_\_\_\_\_ principles.

A) auditing

B) accounting

C) averaging

D) associated

Answer: B

Diff: 1

Question Type: Concept

17) Considering the reliability principle - what would a bank statement represent?

A) Objective evidence

B) Market value confirmation

C) Current interest rates

D) Subjective evidence

Answer: A

Diff: 1

Question Type: Application

18) In the financial accounting records, most assets should be reported at:

A) current replacement cost.

B) current market value.

C) historical cost.

D) inflation-adjusted cost.

Answer: C

Diff: 1

Question Type: Concept

19) GAAP tries to ensure that accounting information is:

A) accurate, relevant, and factual.

B) relevant, understandable, and reliable.

C) understandable, realizable, and error-free.

D) reliable, historical, and accurate.

Answer: B

Diff: 1

Question Type: Concept

20) The \_\_\_\_\_\_\_\_ issues pronouncements that are guidelines for accounting practice.

A) GAAP

B) SEC

C) FASB

D) IRS

Answer: C

Diff: 1

Question Type: Concept

21) The guidelines that describe the rules of accounting are called:

A) GAAS.

B) GAAP.

C) FASB.

D) SEC.

Answer: B

Diff: 1

Question Type: Concept

22) When an owner combines their personal assets with the assets of their business, what concept or principle of accounting is being violated?

A) Going concern

B) Objectivity

C) Business entity

D) Cost

Answer: C

Diff: 1

Question Type: Concept

23) Taking an inventory of goods on hand would be representative of what accounting concept or principle?

A) Going concern

B) Objectivity

C) Business entity

D) Cost

Answer: B

Diff: 1

Question Type: Concept

24) Which accounting concept or principle specifically states that we should record transactions that can be verified?

A) Going-concern concept

B) Cost principle

C) Reliability principle

D) Business entity concept

Answer: C

Diff: 1

Question Type: Concept

25) IFRS stands for:

A) Internal Financial Report Standards.

B) International Financial Reports Study.

C) Internal Financial Reports Study.

D) International Financial Reporting Standards.

Answer: D

Diff: 1

Question Type: Concept

26) What is an example of objective evidence?

A) Bank statements

B) Cancelled checks

C) Purchase receipts

D) All of the above

E) None of the above

Answer: D

Diff: 2

Question Type: Application

1.5 Know how accounting functions in a business

1) Cash accounting recognizes business transactions when they occur.

Answer: FALSE

Diff: 1

Question Type: Concept

2) Cash accounting recognizes business transactions when cash is received or paid.

Answer: TRUE

Diff: 1

Question Type: Concept

3) Accrual accounting recognizes business transactions when they occur.

Answer: TRUE

Diff: 1

Question Type: Concept

4) Accrual accounting recognizes business transactions when cash is received or paid.

Answer: FALSE

Diff: 1

Question Type: Concept

5) The fundamental accounting equation is Assets plus Liabilities equals Stockholders' Equity.

Answer: FALSE

Diff: 1

Question Type: Concept

6) Liabilities are obligations owed to third parties.

Answer: TRUE

Diff: 1

Question Type: Concept

7) Stockholders' Equity consists of Retained Earnings and Common Stock.

Answer: TRUE

Diff: 1

Question Type: Concept

8) Assets consist of revenues, expenses, and dividends.

Answer: FALSE

Diff: 1

Question Type: Concept

9) A transaction is a business event that does NOT have an impact on the finances of a company.

Answer: FALSE

Diff: 1

Question Type: Concept

10) Payment of expenses will decrease an asset and increase stockholders' equity.

Answer: FALSE

Diff: 1

Question Type: Application

11) Purchasing supplies on account will increase both assets and liabilities.

Answer: TRUE

Diff: 1

Question Type: Application

12) Payment of cash dividends will decrease an asset and increase stockholders' equity.

Answer: FALSE

Diff: 1

Question Type: Application

13) Which of the following events would be recorded in the financial accounting records of Green Pastures Lawn Service, Inc.?

A) Green Pastures mows 125 lawns.

B) Green Pastures buys 5 new lawn mowers from Discount Lawn Equipment, Inc.

C) Discount Lawn Equipment, Inc. sells 2 mowers to Green Pasture's competitor, Best Lawns, Inc.

D) Events A and B should both be recorded in the financial accounting records of Green Pastures.

Answer: D

Diff: 1

Question Type: Application

14) The method of accounting that recognizes a transaction when cash is received or paid is:

A) financial accounting.

B) cash accounting.

C) cost accounting.

D) accrual accounting.

Answer: B

Diff: 1

Question Type: Concept

15) The method of accounting that recognizes a transaction when it occurs is:

A) financial accounting.

B) cash accounting.

C) cost accounting.

D) accrual accounting.

Answer: D

Diff: 1

Question Type: Concept

16) Most businesses use:

A) cash accounting.

B) accrual accounting.

C) cash and accrual accounting.

D) profit accounting.

Answer: B

Diff: 1

Question Type: Concept

17) Which of the following is considered an asset?

A) Accounts Payable

B) Sales

C) Accounts Receivable

D) Common Stock

Answer: C

Diff: 1

Question Type: Concept

18) Consider Accounts Receivable and Accounts Payable. Which of the following statements is TRUE?

A) Accounts Receivable is a liability and Accounts Payable is an asset.

B) Accounts Receivable is an asset and Accounts Payable is an asset.

C) Accounts Receivable is an asset and Accounts Payable is a liability.

D) Accounts Receivable is a liability and Accounts Payable is a liability.

Answer: C

Diff: 1

Question Type: Concept

19) Liabilities represent:

A) items owned by the company.

B) economic resources of the company.

C) earnings kept in the business.

D) amounts owed to third parties.

Answer: D

Diff: 2

Question Type: Concept

20) A business pays off a note payable. What effect does this have on the accounting equation?

A) Assets increase, Liabilities decrease, and Stockholders' Equity remains the same.

B) Assets decrease, Liabilities remain the same, and Stockholders' Equity increases.

C) Assets decrease, Liabilities decrease, and Stockholders' Equity remains the same.

D) Assets increase, Liabilities remain the same, and Stockholders' Equity increases.

Answer: C

Diff: 3

Question Type: Application

21) A business purchases a computer for cash. What effect does this have on the accounting equation?

A) Stockholders' Equity and Assets increase.

B) There is no change in Total Assets.

C) Assets increase and Liabilities decrease

D) Stockholders' Equity and Liabilities increase.

Answer: B

Diff: 3

Question Type: Application

22) Revenues, expenses and dividends are all a part of:

A) Assets.

B) Retained Earnings.

C) Liabilities.

D) Common Stock.

Answer: B

Diff: 2

Question Type: Concept

23) Cash and Accounts Receivable are both a part of:

A) Assets.

B) Retained Earnings.

C) Liabilities.

D) Common Stock.

Answer: A

Diff: 2

Question Type: Concept

24) Ronald opens his business by investing $12,000. How does this affect the accounting equation?

A) Increase in Assets; increase in Stockholders' Equity.

B) Increase in Liabilities; increase in Stockholders' Equity.

C) Decrease in Assets; increase in Stockholders' Equity.

D) Increase in Assets; decrease in Stockholders' Equity.

Answer: A

Diff: 2

Question Type: Application

25) Trina borrowed money for her business from a local bank. What accounts will be affected?

A) Cash and Accounts Payable

B) Cash and Notes Payable

C) Accounts Payable and Revenue

D) Accounts Receivable and Revenue

Answer: B

Diff: 2

Question Type: Application

26) An increase in revenues would have which of the following effects on the accounting equation?

A) Decrease Stockholders' Equity

B) Increase Common Stock

C) Increase Liabilities

D) Increase Stockholders' Equity

Answer: D

Diff: 2

Question Type: Application

27) Which of the following is a written promise to pay?

A) Account receivable

B) Account payable

C) Note payable

D) Dividend payable

Answer: C

Diff: 1

Question Type: Concept

28) A company has Liabilities of $23,700 and Stockholders' Equity of $56,800. How much does the company have in Assets?

A) $56,800

B) $33,100

C) $80,500

D) $23,700

Answer: C

Diff: 2

Question Type: Application

29) A company has $129,000 in Assets and $65,000 in Liabilities. How much does the company have in Stockholders' Equity?

A) $194,000

B) $129,000

C) $65,000

D) $64,000

Answer: D

Diff: 2

Question Type: Application

30) A company has $79,000 in Assets and $26,000 in Liabilities. How much does the company have in Stockholders' Equity?

A) $26,000

B) $53,000

C) $105,000

D) $79,000

Answer: B

Diff: 2

Question Type: Application

31) A company has $72,000 in Assets and $23,000 of Stockholders' Equity. How much does the company have in Liabilities?

A) $23,000

B) $49,000

C) $95,000

D) Cannot be determined from the given information

Answer: B

Diff: 2

Question Type: Application

32) A company has $83,000 in Liabilities and $118,000 in Stockholders' Equity. What is the value of the company's Assets?

A) $35,000

B) $118,000

C) $201,000

D) Not enough information provided

Answer: C

Diff: 2

Question Type: Application

33) If Total Assets remain the same and Total Stockholders' Equity increases, Liabilities will:

A) increase by the same amount.

B) decrease by the same amount.

C) remain the same.

D) increase by a different amount.

Answer: B

Diff: 2

Question Type: Application

34) A company purchases supplies for cash. What is the net result on the accounting equation?

A) Total Assets will increase and total Liabilities will decrease.

B) Total Assets will increase and Stockholders' Equity will increase.

C) Total Assets will not change.

D) Total Liabilities will increase.

Answer: C

Diff: 2

Question Type: Application

35) Illusions, Inc. provided $27,000 worth of services for cash. Which of the following best describes the effect on the expanded accounting equation?

A) Total Assets and total Liabilities will increase.

B) Total Assets and total Revenue will increase.

C) Total Liabilities will increase and total Revenue will decrease.

D) Total Assets will decrease and total Liabilities will increase.

Answer: B

Diff: 2

Question Type: Application

36) In the expanded accounting equation, revenues minus expenses are part of:

A) Assets.

B) Retained Earnings.

C) Liabilities.

D) Dividends.

Answer: B

Diff: 1

Question Type: Concept

37) A net loss will:

A) decrease Retained Earnings.

B) increase Retained Earnings.

C) force the company into bankruptcy.

D) force the company to pay dividends.

Answer: A

Diff: 1

Question Type: Application

38) Juan invested $7,000 into his business. He would:

A) increase Cash and increase Stockholders' Equity.

B) decrease Cash and increase Stockholders' Equity.

C) increase Liabilities and increase Stockholders' Equity.

D) increase Cash only.

Answer: A

Diff: 1

Question Type: Application

39) The payment of cash dividends would have which of the following effects on the accounting equation?

A) Increase Liabilities

B) Decrease Stockholders' Equity

C) Increase Assets

D) Increase Stockholders' Equity

Answer: B

Diff: 2

Question Type: Application

40) Payment of expenses would have which of the following effects on the accounting equation?

A) Increase Liabilities

B) Decrease Stockholders' Equity

C) Increase Assets

D) Increase Stockholders' Equity

Answer: B

Diff: 2

Question Type: Application

41) Amounts owed to a company by its customers are classified as:

A) payables.

B) dividends.

C) cash.

D) receivables.

Answer: D

Diff: 1

Question Type: Concept

42) Crispy's is famous for their cupcakes. Crispy'sTotal Assets were $350,000 and Total Liabilities were $135,500. How much was Crispy's Stockholders' Equity?

A) $485,500

B) $350,000

C) $214,500

D) Some other number

Answer: C

Diff: 1

Question Type: Application

43) Tumbler, Inc. purchased office supplies on account for $50,000. How would this transaction affect Tumbler's accounting equation?

A) Increase Assets and Stockholders' Equity by $50,000

B) Increase Liabilities and Stockholders' Equity by $50,000

C) Increase Assets by $50,000 and decrease Liabilities by $50,000

D) Increase Assets by $50,000 and increase Liabilities by $50,000

Answer: D

Diff: 2

Question Type: Application

44) How would the purchase of a computer on account affect the accounting equation?

A) Assets increase; Liabilities decrease.

B) Assets increase; Stockholder Equity increases.

C) Assets increase; Liabilities increase.

D) Assets decrease; Liabilities increase.

Answer: C

Diff: 2

Question Type: Concept

45) Beginning Retained Earnings are $78,000; sales are $30,300; expenses are $84,000 and dividends paid are $4,500. How much is the net income or loss for the company?

A) $25,800

B) ($53,700)

C) ($58,200)

D) $0

Answer: B

Diff: 2

Question Type: Application

46) Beginning Retained Earnings are $35,000; sales are $52,000; expenses are $44,500 and dividends paid are $3,000. How much is the net income or loss for the company?

A) $7,500

B) $17,000

C) $9,500

D) ($7,500)

Answer: A

Diff: 2

Question Type: Application

47) Beginning Retained Earnings are $87,000; sales are $31,800; expenses are $37,000; and dividends paid are $3,700. How much is the amount in ending Retained Earnings?

A) $78,100

B) $83,300

C) $118,800

D) $87,000

Answer: A

Diff: 2

Question Type: Application

48) Beginning Retained Earnings are $356,000; sales are $529,000; expenses are $44,400; and dividends paid are $3,000. How much is the amount in ending Retained Earnings?

A) $356,000

B) $353,000

C) $840,600

D) $837,600

Answer: D

Diff: 2

Question Type: Application

49) Which of the following is a FALSE statement?

A) Revenues provide inward flows of assets.

B) Revenue is categorized as an asset.

C) Revenue is categorized as part of Retained Earnings.

D) Revenues are generated from the sale of goods and services.

Answer: B

Diff: 1

Question Type: Concept

50) Which of the following is a TRUE statement?

A) Purchasing office equipment for cash is a shift of Assets.

B) Buying something on account decreases total Liabilities.

C) Retained Earnings do not include payments of dividends.

D) Paying off an account increases the total of Assets.

Answer: A

Diff: 1

Question Type: Concept

51) Rapid Repair buys a new machine for its shop on credit. The effect on the accounting equation is to:

A) increase Liabilities and increase Assets.

B) decrease Liabilities and increase Assets.

C) increase Assets and increase Stockholders' Equity.

D) increase Liabilities and decrease Stockholders' Equity.

Answer: A

Diff: 1

Question Type: Application

52) Fiona's Flowers buys a new van for the business using cash. The effect on the accounting equation is to:

A) Increase assets and decrease liabilities

B) Shift liabilities to stockholders' equity.

C) Decrease assets.

D) No effect.

Answer: D

Diff: 1

Question Type: Application

1.6 Understand and be able to prepare basic financial statements

1) Financial statements are historical reports of what has taken place financially in a business.

Answer: TRUE

Diff: 1

Question Type: Concept

2) The Income Statement details how cash changed over an accounting period or cycle.

Answer: FALSE

Diff: 1

Question Type: Concept

3) The Balance Sheet presents changes to assets and liabilities over a period of time.

Answer: FALSE

Diff: 1

Question Type: Concept

4) The Statement of Retained Earnings is prepared to determine the final amount of Retained Earnings shown on the Balance Sheet.

Answer: TRUE

Diff: 1

Question Type: Concept

5) The Income Statement is the first financial statement prepared.

Answer: TRUE

Diff: 1

Question Type: Concept

6) Financial statements are prepared primarily for internal company use.

Answer: FALSE

Diff: 1

Question Type: Concept

7) The Statement of Cash Flows is used to report sources and uses of cash for a specific date.

Answer: FALSE

Diff: 1

Question Type: Concept

8) The Statement of Cash Flows is used to report sources and uses of cash for a given period of time.

Answer: TRUE

Diff: 1

Question Type: Concept

9) Purchasing equipment is considered an operating activity on the Statement of Cash Flows.

Answer: FALSE

Diff: 1

Question Type: Application

10) If a business is planning on growth, it will generally issue additional dividends to shareholders.

Answer: FALSE

Diff: 1

Question Type: Concept

11) Which of the following is TRUE regarding revenue and profit?

A) The terms *revenue* and *profit* mean the same thing.

B) Both revenue and profit are found on the Income Statement.

C) Profit equals liabilities plus Stockholders' Equity.

D) Revenue is found on the Balance Sheet and profit is found on the Income Statement.

Answer: B

Diff: 1

Question Type: Concept

12) The first financial statement that is prepared is the:

A) Statement of Cash Flows.

B) Income Statement.

C) Statement of Retained Earnings.

D) Balance Sheet.

Answer: B

Diff: 1

Question Type: Concept

13) The net income figure is needed to prepare:

A) a Balance Sheet.

B) a Statement of Retained Earnings.

C) a Statement of Liabilities.

D) some other report.

Answer: B

Diff: 1

Question Type: Application

14) A Statement of Cash Flows is usually prepared:

A) first.

B) second.

C) third.

D) last.

Answer: D

Diff: 1

Question Type: Concept

15) Net income or loss is originally shown on the:

A) Statement of Cash Flows.

B) Balance Sheet.

C) Statement of Retained Earnings.

D) Income Statement.

Answer: D

Diff: 1

Question Type: Concept

16) Which of the following financial statements illustrates the accounting equation?

A) Statement of Retained Earnings

B) Income Statement

C) Balance Sheet

D) Statement of Cash Flows

Answer: C

Diff: 2

Question Type: Concept

17) Beginning Retained Earnings for the period would be shown on the:

A) Statement of Retained Earnings.

B) Income Statement.

C) Balance Sheets.

D) Statement of Cash Flows.

Answer: A

Diff: 1

Question Type: Concept

18) Of the financial statements, which is dated as of a specific date?

A) Statement of Cash Flows

B) Income Statement

C) Balance Sheet

D) Statement of Retained Earnings

Answer: C

Diff: 1

Question Type: Concept

19) Which of the financial statements includes a listing of assets owned by the company?

A) Statement of Cash Flows

B) Income Statement

C) Balance Sheet

D) Statement of Retained Earnings

Answer: C

Diff: 1

Question Type: Concept

20) The correct order for the preparation of financial statements is:

1. Statement of Cash Flows

2. Income Statement

3. Balance Sheet

4. Statement of Retained Earnings

A) 4, 3, 2, 1.

B) 1, 2, 3, 4.

C) 2, 3, 4, 1.

D) 2, 4, 3, 1.

Answer: D

Diff: 1

Question Type: Concept

21) The Statement of Retained Earnings is used to report:

A) accumulated dividends paid out to shareholders.

B) accumulated net profits not paid out in dividends.

C) beginning and ending cash balances.

D) beginning and ending revenues for the period.

Answer: B

Diff: 1

Question Type: Concept

22) The Balance Sheet is used to report:

A) results of operations for a specific date.

B) the financial position on a specific date.

C) results of operations for a specific period.

D) the financial position for a specific period.

Answer: B

Diff: 1

Question Type: Concept

23) The Income Statement is used to report:

A) results of operations for a specific date.

B) the financial position on a specific date.

C) results of operations for a specific period.

D) the financial position for a specific period.

Answer: C

Diff: 1

Question Type: Concept

24) Which of the following would be reported in the Investing Activities section of the Statement of Cash Flows?

A) Sale of common stock

B) Purchase of equipment

C) Payment of dividends

D) Both A and C would be in this section.

Answer: B

Diff: 1

Question Type: Concept

25) Information for the Alaska Alehouse's first month of operations is presented below:

|  |  |
| --- | --- |
| Revenues | $22,000 |
| Expenses | 6,000 |
| Retained Earnings 1/31/16 | 5,000 |

How much did Alaska Alehouse pay out in dividends?

A) $0

B) $11,000

C) $5,000

D) Cannot be determined from given information

Answer: B

Diff: 2

Question Type: Application

26) Information for Sassycat Inc.'s first year of operations is presented below:

|  |  |
| --- | --- |
| Revenues | $70,000 |
| Retained Earnings 12/31/20XX | 14,000 |
| Dividends | 7,000 |

What was Sassycat's net income for the year?

A) $21,000

B) $49,000

C) $70,000

D) Cannot be determined from the information given.

Answer: A

Diff: 2

Question Type: Application

27) Information for Bach Corporation's first year of operations is presented below:

|  |  |
| --- | --- |
| Expenses | $50,000 |
| Retained Earnings 12/31/20XX | 20,000 |
| Dividends | 10,000 |

What was Bach's net income for the year?

A) $20,000

B) $30,000

C) $60,000

D) Cannot be determined from the information given.

Answer: B

Diff: 2

Question Type: Application

28) Select balance sheet data for Snow, Inc. is presented below:

|  |  |  |
| --- | --- | --- |
|  | Jan 31, 20XX | Feb 28, 20XX |
| Assets | $116,000 | $192,000 |
| Liabilities | 47,000 | 53,000 |
| Common Stock | 14,000 | 14,000 |

Snow did not pay any dividends during this period. What is the net income for February?

A) $14,000

B) $70,000

C) $55,000

D) Cannot be determined from the information given.

Answer: B

Diff: 3

Question Type: Application

29) Select balance sheet data for Snow, Inc. is presented below:

|  |  |  |
| --- | --- | --- |
|  | Jan 31, 20XX | Feb 28, 20XX |
| Assets | $115,000 | $166,000 |
| Liabilities | 48,000 | 84,000 |
| Common Stock | 8,000 | 8,000 |

Snow paid $3,000 in dividends during this period. What is the net income for February?

A) $8,000

B) $115,000

C) $18,000

D) Cannot be determined from the information given.

Answer: C

Diff: 3

Question Type: Application