**Chapter 1**

Accounting in Business

***True / False Questions***

1. Accounting is an information and measurement system that identifies, records, and communicates relevant, reliable, and comparable information about an organization's business activities. 

Answer: True

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry*

*AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C1*

*Topic: Purpose of Accounting*

2. Bookkeeping is the recording of transactions and events and is only part of accounting. 

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C1*

*Topic: What is Accounting?*

3. An accounting information system communicates data to help businesses make better decisions.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C1*

*Topic: What is Accounting?*

4. Managerial accounting is the area of accounting that provides internal reports to assist the decision making needs of internal users.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Uses of Accounting*

5. Internal operating activities include research and development, distribution, and human resources.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Uses of Accounting*

6. The primary objective of financial accounting is to provide general purpose financial statements to help external users analyze and interpret an organization's activities.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Uses of Accounting*

7. External auditors examine financial statements to verify that they are prepared according to generally accepted accounting principles.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Uses of Accounting*

8. External users include lenders, shareholders, customers, and regulators.

Answer: True

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C2*

*Topic: Users of Accounting*

9. Regulators often have legal authority over certain activities of organizations.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Users of Accounting*

10. Internal users include lenders, shareholders, brokers and managers.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C2*

*Topic: Users of Accounting*

11. Opportunities in accounting include auditing, consulting, market research, and tax planning.

Answer: True

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C2*

*Topic: Career Opportunities*

12. Identifying the proper ethical path is easy.

Answer: False

*Blooms: Understand*  
*AACSB: Ethics  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C3*

*Topic: Ethics*

13. The Sarbanes-Oxley Act (SOX) requires each issuer of securities to disclose whether is has adopted a code of ethics for its senior financial officers and the contents of that code.

Answer: True

*Blooms: Remember*  
*AACSB: Ethics  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C3*

*Topic: Ethics*

14. The fraud triangle asserts that there are three factors that must exist for a person to commit fraud; these factors are opportunity, pressure, and rationalization.

Answer: True

*Blooms: Understand*  
*AACSB: Ethics*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 2 Medium   
Learning Objective: 01-C3  
Topic: Ethics*

15. The Sarbanes-Oxley Act (SOX) does not require public companies to apply both accounting oversight and stringent internal controls.

Answer: False

*Blooms: Understand*  
*AACSB: Ethics  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Ethics*

16. A partnership is a business owned by two or more people.

Answer: True

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Business Formation*

17. Owners of a corporation are called shareholders or stockholders.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Business Formation*

18. In the partnership form of business, the owners are called stockholders.

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy*

*Learning Objective: 01-C4*

*Topic: Business Formation*

19. The balance sheet shows a company’s net income or loss due to earnings activities over a period of time.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

20. The Financial Accounting Standards Board is the private group that sets both broad and specific accounting principles.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

21. The business entity principle means that a business will continue operating for an indefinite period of time.

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

22. Generally accepted accounting principles are the basic assumptions, concepts, and guidelines for preparing financial statements.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

23. The business entity assumption means that a business is accounted for separately from other business entities, including its owner or owners.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

24. As a general rule, revenues should not be recognized in the accounting records until it is received in cash.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

25. Specific accounting principles are basic assumptions, concepts, and guidelines for preparing financial statements and arise out of long-used accounting practice.

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

26. General accounting principles arise from long-used accounting practices.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

27. A sole proprietorship is a business owned by one or more persons.

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Business Formation*

28. Unlimited liability is an advantage of a sole proprietorship.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Business Formation*

29. Understanding generally accepted accounting principles is not necessary to use and interpret financial statements.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

30. The International Accounting Standards board (IASB) has the authority to impose its standards on companies around the world.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Global  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

31. Objectivity means that financial information is supported by independent unbiased evidence.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement   
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

32. The idea that a business will continue to operate instead of being closed or sold underlies the going-concern assumption.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

33. According to the cost principle, it is preferable for managers to report an estimate of an asset's value.

Answer: False

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

34. The monetary unit assumption means that all international transactions must be expressed in dollars.

Answer: False

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Global  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

35. The International Accounting Standards Board (IASB) is the government group that establishes reporting requirements for companies that issue stock to the public.

Answer: False

*Blooms: Understand*  
*AACSB: Communications  
AICPA BB: Global  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

36. A limited liability company offers the limited liability of a partnership or proprietorship and the tax treatment of a corporation.

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Business Formation*

37. The Securities and Exchange Commission (SEC) is a government agency that has legal authority to establish GAAP.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

38. The three common forms of business ownership include sole proprietorship, partnership, and non-profit.

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Business Formation*

39. The three major types of business activities are operating, financing, and investing.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities*

40. Planning is defining an organization's ideas, goals, and actions.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Critical Thinking  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities*

41. Strategic management is the process of determining the right mix of operating activities for the type of organization, its plans, and its markets.

Answer: True

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Critical Thinking  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities*

42. Planning activities are the means an organization uses to pay for resources like land, buildings, and equipment to carry out its plans.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Critical Thinking  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C5*

*Topic: Business Activities*

43. Investing activities are the acquiring and disposing of resources that an organization uses to acquire and sell its products or services.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities*

44. Owner financing refers to resources contributed by creditors or lenders.

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities*

45. Revenues are increases in equity from a company's earning activities.

Answer: True

*Blooms: Remember   
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

46. A net loss occurs when revenues exceed expenses.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Critical Thinking  
AICPA FN: Measurement*

*AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: Financial Statements*

47. Net income occurs when revenues exceed expenses.

Answer: True

*Blooms: Understand*   
*AACSB: Analytic  
AICPA BB: Critical Thinking  
AICPA FN: Measurement*

*AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: Financial Statements*

48. Liabilities are the owner's claim on assets.

Answer: False

*Blooms: Remember*  
*AACSB: Communications  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

49. Assets are the resources of a company and are expected to yield future benefits.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

50. Owner’s withdrawals are expenses.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

51. The accounting equation can be restated as: Assets - Equity = Liabilities.

Answer: True

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

52. The accounting equation implies that: Assets + Liabilities = Equity.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

53. Owner's investments are increases in equity from a company's earnings activities.

Answer: False

*Blooms: Remember*  
*AACSB: Analytic  
AICPA BB: Critical Thinking  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

54. Every business transaction leaves the accounting equation in balance.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-P1*

*Topic: Accounting Equation*

55. An external transaction is an exchange of value within an organization.

Answer: False

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry*

*AICPA FN: Measurement  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-P1*

*Topic: Business Transactions*

56. From an accounting perspective, an event is a happening that affects the accounting equation, but cannot be measured.

Answer: False

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making*

*AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic: Business Transactions*

57. Owner's equity is increased when cash is received from customers in payment of previously recorded accounts receivable.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Critical Thinking  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-P1*

*Topic: Accounting Transaction Analysis*

58. An owner's investment in a business always creates an asset (cash), a liability (note payable), and owner's equity (investment.)

Answer: False

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Critical Thinking  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-P1*

*Topic: Accounting Transaction Analysis*

59. Return on assets is often stated in ratio form as the amount of average total assets divided by income.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A2*

*Topic: Return on Assets*

60. Return on assets is also known as return on investment.

Answer: True

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Resource Management   
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-A2*

*Topic: Return on Assets*

61. Return on assets is useful to decision makers for evaluating management, analyzing and forecasting profits, and in planning activities.

Answer: True

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Resource Management  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-A2*

*Topic: Return on Assets*

62. Arrow’s net income of $117 million and average assets of $1,400 million results in a return on assets of 8.36%.

Answer: True

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback:* Return on Assets = Net Income/Average Assets

Return on Assets = $117 million/$1,400 million = 8.36%

63. Return on assets reflects the effectiveness of a company’s ability to generate profit through productive use of its assets.

Answer: True

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Resource Management   
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A2*

*Topic: Return on Assets*

64. Risk is the uncertainty about the return we expect to earn.

Answer: True

*Blooms: Remember*  
*AACSB: Reflective Thinking  
AICPA BB: Industry  
AICPA FN: Risk Analysis  
Difficulty: 1 Easy  
Learning Objective: 01-A3*

*Topic: Risk and Return*

65. Generally the lower the risk, the lower the return that can be expected.

Answer: True

*Blooms: Understand*  
*AACSB: Reflective Thinking  
AICPA BB: Industry  
AICPA FN: Risk Analysis  
Difficulty: 2 Medium  
Learning Objective: 01-A3*

*Topic: Risk and Return*

66. U. S. Government Treasury bonds provide high return and low risk to investors.

Answer: False

*Blooms: Understand*  
*AACSB: Reflective Thinking*

*AICPA BB: Industry  
AICPA BB: Critical Thinking  
AICPA FN: Risk Analysis  
Difficulty: 2 Medium  
Learning Objective: 01-A3*

*Topic: Risk and Return*

67. The four basic financial statements include the balance sheet, income statement, statement of owner's equity, and statement of cash flows.

Answer: True

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

68. An income statement reports on investing and financing activities.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2  
Topic: Financial Statements*

69. A balance sheet covers a period of time such as a month or year.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

70. The income statement displays revenues earned and expenses incurred over a specified period of time due to earnings activities.

Answer: True

*Blooms: Remember*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

71. The statement of cash flows shows the net effect of revenues and expenses for a reporting period.

Answer: False

*Blooms: Remember*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

72. The income statement shows the financial position of a business on a specific date.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

73. The first section of the income statement reports cash flows from operating activities.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

74. The balance sheet is based on the accounting equation.

Answer: True

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

*Topic: Accounting Equation*

75. Investing activities involve the buying and selling of assets such as land and equipment that are held for long-term use in the business.

Answer: True

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium   
Learning Objective: 01-P2*

*Topic: Financial Statements*

76. Operating activities include long-term borrowing and repaying cash from lenders, and cash investments or withdrawals by the owner.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

77. The purchase of supplies appears on the statement of cash flows as an investing activity because it involves the purchase of assets.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

78. The income statement reports on operating activities at a point in time.

Answer: False

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

79. The statement of cash flows identifies cash flows separated into operating, investing, and financing activities over a period of time.

Answer: True

*Blooms: Remember*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

80. Ending capital reported on the statement of owner’s equity is calculated by adding owner investments and net losses and subtracting net incomes and withdrawals.

Answer: False

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry*

*AICPA BB: Critical Thinking  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

***Multiple Choice Questions***

81. Accounting is an information and measurement system that does all of the following *except*:   
A. Identifies business activities.  
B. Records business activities.  
C. Communicates business activities.  
D. Does not use technology to improve accuracy in reporting.  
E. Helps people make better decisions.

Answer: D

*Blooms: Understand  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C1*

*Topic: Purpose of Accounting*

82. Technology:  
A. Has replaced accounting.  
B. Has not changed the work that accountants do.  
C. Has closely linked accounting with consulting, planning, and other financial services.  
D. In accounting has replaced the need for decision makers.  
E. In accounting is only available to large corporations.

Answer: C

*Blooms: Understand*  
*AACSB: Technology  
AICPA BB: Industry  
AICPA FN: Leveraging Technology  
Difficulty: 2 Medium  
Learning Objective: 01-C1*

*Topic: What is Accounting?*

83. The primary objective of financial accounting is:   
A. To serve the decision-making needs of internal users.  
B. To provide financial statements to help external users analyze an organization's activities.  
C. To monitor and control company activities.  
D. To provide information on both the costs and benefits of looking after products and services.  
E. To know what, when, and how much to produce.

Answer: B

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Uses of Accounting*

84. The area of accounting aimed at serving the decision making needs of internal users is:   
A. Financial accounting.  
B. Managerial accounting.  
C. External auditing.  
D. SEC reporting.  
E. Bookkeeping.

Answer: B

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Uses of Accounting*

85. External users of accounting information include all of the following *except*:   
A. Shareholders.  
B. Customers.  
C. Purchasing managers.  
D. Government regulators.  
E. Creditors.

Answer: C

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C2*

*Topic: Users of Accounting*

86. All of the following regarding a Certified Public Accountant are true *except*:   
A. Must meet education and experience requirements.  
B. Must pass an examination.  
C. Must exhibit ethical character.  
D. May also be a Certified Management Accountant.  
E. Cannot hold any certificate other than a CPA.

Answer: E

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy*

*Learning Objective: 01-C2*

*Topic: Career Opportunities*

87. Ethical behavior requires:   
A. That auditors' pay not depend on the success of the client's business.  
B. Auditors to invest in businesses they audit.  
C. Analysts to report information favorable to their companies.  
D. Managers to use accounting information to benefit themselves.  
E. That auditors' pay depend on the success of the client's business.

Answer: A

*Blooms: Understand*  
*AACSB: Ethics  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C3*

*Topic: Ethics*

88. Social responsibility:   
A. Is a concern for the impact of our actions on society.  
B. Is a code that helps in dealing with confidential information.  
C. Is required by the SEC.  
D. Requires that all businesses conduct social audits.  
E. Is limited to large companies.

Answer: A

*Blooms: Understand*  
*AACSB: Ethics  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C3*

*Topic: Ethics*

89. All of the following are true regarding ethics *except*:   
A. Ethics are beliefs that separate right from wrong.  
B. Ethics rules are often set for CPAs.  
C. Ethics do not affect the operations or outcome of a company.  
D. Are critical in accounting.  
E. Ethics can be hard to apply.

Answer: C

*Blooms: Understand*  
*AACSB: Ethics  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C3*

*Topic: Ethics*

90. The accounting concept that requires financial statement information to be supported by independent, unbiased evidence other than someone's belief or opinion is:   
A. Business entity assumption.  
B. Monetary unit assumption.  
C. Going-concern assumption.  
D. Time-period assumption.  
E. Objectivity

Answer: E

*Blooms: Remember*

*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

91. A corporation:   
A. Is a business legally separate from its owners.  
B. Is controlled by the FASB.  
C. Has shareholders who have unlimited liability for the acts of the corporation.  
D. Is the same as a limited liability partnership.  
E. Is not subject to double taxation.

Answer: A

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Business Formation*

92. The group that attempts to create more harmony among the accounting practices of different countries is the:   
A. AICPA.  
B. IASB.  
C. CAP.  
D. SEC.  
E. FASB.

Answer: B

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Global  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

93. The private group that currently has the authority to establish generally accepted accounting principles in the United States is the:   
A. APB.  
B. FASB.  
C. AAA.  
D. AICPA.  
E. SEC.

Answer: B

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

94. The accounting assumption that requires every business to be accounted for separately from other business entities, including its owner or owners is known as the:   
A. Time-period assumption.  
B. Business entity assumption.  
C. Going-concern assumption.  
D. Revenue recognition principle.  
E. Cost principle.

Answer: B

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

95. The rule that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue, is the:   
A. Going-concern assumption.  
B. Business entity assumption.  
C. Objectivity principle.  
D. Cost Principle.  
E. Monetary unit assumption.

Answer: A

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

96. If a parcel of land that was originally acquired for $85,000 is offered for sale at $150,000, is assessed for tax purposes at $95,000, is recognized by its purchasers as easily being worth $140,000, and is sold for $137,000, the land should be recorded in the purchaser's books at:   
A. $95,000.  
B. $137,000.  
C. $138,500.  
D. $140,000.  
E. $150,000.

Answer: B

*Blooms: Apply  
AACSB: Communication*

*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

97. To include the personal assets and transactions of a business's owner in the records and reports of the business would be in conflict with the:   
A. Objectivity principle.  
B. Monetary unit assumption.  
C. Business entity assumption.  
D. Going-concern assumption.  
E. Revenue recognition principle.

Answer: C

*Blooms: Understand*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

98. The accounting principle that requires accounting information to be based on actual cost and requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange, is the:   
A. Accounting equation.  
B. Cost principle.  
C. Going-concern assumption.  
D. Realization principle.  
E. Business entity assumption.

Answer: B

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement*

*AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

99. The rule that (1) requires revenue to be recognized at the time it is earned, (2) allows the inflow of assets associated with revenue to be in a form other than cash, and (3) measures the amount of revenue as the cash plus the cash equivalent value of any noncash assets received from customers in exchange for goods or services, is called the:   
A. Going-concern assumption.  
B. Cost principle.  
C. Revenue recognition principle.  
D. Objectivity principle.  
E. Business entity assumption.

Answer: C

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal*

*AICPA FN: Measurement  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

100. The question of when revenue should be recognized on the income statement (according to GAAP) is addressed by the:   
A. Revenue recognition principle.  
B. Going-concern assumption.  
C. Objectivity principle.  
D. Business entity assumption.  
E. Cost principle.

Answer: A

*Blooms: Remember*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Legal*

*AIPCA FN: Measurement  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

101. The International Accounting Standards Board (IASB):   
A. Hopes to create harmony among accounting practices of different countries.  
B. Is the government group that establishes reporting requirements for companies that issue stock to the public.  
C. Has the authority to impose its standards on companies.  
D. Is the only source of generally accepted accounting principles (GAAP).  
E. Only applies to companies that are members of the European Union.

Answer: A

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Global  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

102. The Maxim Company acquired a building for $500,000. Maxim had the building appraised, and found that the building was easily worth $575,000. The seller had paid $300,000 for the building 6 years ago. Which accounting principle would require Maxim to record the building on its records at $500,000?   
A. Monetary unit assumption.  
B. Going-concern assumption.  
C. Cost principle.  
D. Business entity assumption.  
E. Revenue recognition principle.

Answer: C

*Blooms: Apply*  
*AACSB: Communication*

*AACSB: Analytic*

*AICPA BB: Industry  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

103. On December 15 of the current year, Myers Legal Services signed a $50,000 contract with a client to provide legal services to the client in the following year. Which accounting principle would require Myers Legal Services to record the legal fees revenue in the following year and not the year the cash was received?   
A. Monetary unit assumption.  
B. Going-concern assumption.  
C. Cost principle.  
D. Business entity assumption.  
E. Revenue recognition principle.

Answer: E

*Blooms: Apply*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

104. Marian Mosely is the owner of Mosely Accounting Services. Which accounting principle requires Marian to keep her personal financial information separate from the financial information of Mosely Accounting Services?   
A. Monetary unit assumption.  
B. Going-concern assumption.  
C. Cost principle.  
D. Business entity assumption.  
E. Matching principle.

Answer: D

*Blooms: Apply*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

105. A limited partnership:   
A. Includes a general partner with unlimited liability.  
B. Is subject to double taxation.  
C. Has owners called stockholders.  
D. Is the same as a corporation.  
E. May only have two partners.

Answer: A

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Business Formation*

106. A partnership:   
A. Is also called a sole proprietorship.  
B. Has unlimited liability for its partners.  
C. Has to have a written agreement in order to be legal.  
D. Is a legal organization separate from its owners.  
E. Has owners called shareholders.

Answer: B

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: Medium  
Learning Objective: 01-C4*

*Topic: Business Formation*

107. Which of the following accounting principles would require that all goods and services purchased be recorded at cost?   
A. Going-concern assumption.  
B. Matching principle.  
C. Cost principle.  
D. Business entity assumption.  
E. Consideration assumption.

Answer: C

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

108. Which of the following accounting principles prescribes that a company record its expenses incurred to generate the revenue reported?   
A. Going-concern assumption.  
B. Matching principle.  
C. Cost principle.  
D. Business entity assumption.  
E. Consideration assumption.

Answer: B

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

109. Revenue is properly recognized:   
A. When the customer's order is received.  
B. Only if the transaction creates an account receivable.  
C. At the end of the accounting period.  
D. Upon completion of the sale or when services have been performed and the business obtains the right to collect the sales price.  
E. When cash from a sale is received.

Answer: D

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

110. If a parcel of land that was originally purchased for $85,000 is offered for sale at $150,000, is assessed for tax purposes at $95,000, is recognized by its purchasers as easily being worth $140,000, and is sold for $137,000, the land account transaction amount to handle the sale of the land in the seller's books is:   
A. $85,000 increase.  
B. $85,000 decrease.  
C. $137,000 increase.  
D. $137,000 decrease.  
E. $140,000 decrease.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

111. If a parcel of land that was originally purchased for $85,000 is offered for sale at $150,000, is assessed for tax purposes at $95,000, is recognized by its purchasers as easily being worth $140,000, and is sold for $137,000. What is the effect of the sale on the accounting equation for the seller?   
A. Assets increase $52,000; owner's equity increases $52,000.  
B. Assets increase $85,000; owner's equity increases $85,000.  
C. Assets increase $137,000; owner's equity increases $137,000.  
D. Assets increase $140,000; owner's equity increases $140,000.  
E. Assets decrease $85,000; owner's equity decreases $85,000.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard*

*Learning Objective: 01-C4  
Learning Objective: 01-P1*

*Topic: Business Transactions*

*Topic: Generally Accepted Accounting Principles*

*Feedback: Assets = Liabilities + Owner’s Equity*

*Assets would increase by $137,000 in Cash since that is the sales price.*

*Assets would also decrease by $85,000 in the Land account as that is the amount recorded on the books for the asset. Therefore, the net increase in Assets is $52,000.*

*There is no effect to Liabilities for this problem.*

*Owner’s Equity will also increase by $52,000 for the Gain on Sale of the Land.*

112. If a parcel of land that was originally purchased for $85,000 is offered for sale at $150,000, is assessed for tax purposes at $95,000, is recognized by its purchasers as easily being worth $140,000, and is sold for $137,000. At the time of the sale, assume that the seller still owed $30,000 to TrustOne Bank on the land that was purchased for $85,000. Immediately after the sale, the seller paid off the loan to TrustOne Bank. What is the effect of the sale and the payoff of the loan on the accounting equation?   
A. Assets increase $52,000; owner's equity increases $22,000; liabilities decrease $30,000  
B. Assets increase $52,000; owner's equity increases $30,000; liabilities decrease $30,000  
C. Assets increase $22,000; owner's equity increases $52,000; liabilities decrease $30,000  
D. Assets decrease $30,000; owner's equity decreases $30,000; liabilities decrease $30,000  
E. Assets decrease $55,000; owner's equity decreases $55,000; liabilities decrease $30,000

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard*

*Learning Objective: 01-C4  
Learning Objective: 01-P1*

*Topic: Business Transactions*

*Topic: Generally Accepted Accounting Principles*

*Feedback: Assets = Liabilities + Owner’s Equity*

*Assets would increase by $137,000 in Cash since that is the sales price.*

*Assets would also decrease by $85,000 in the Land account as that is the amount recorded on the books for the asset.*

*Assets would also decrease by $30,000 in Cash for the amount paid to TrustOne Bank. Therefore, the net increase in Assets is $22,000.*

*Liabilities will decrease by $30,000 for the payment of the loan to TrustOne Bank.*

*Owner’s Equity will then need to increase by $52,000 for the Gain on Sale of the Land.*

113. An example of a financing activity is:   
A. Buying office supplies.  
B. Obtaining a long-term loan.  
C. Buying office equipment.  
D. Selling inventory.  
E. Buying land.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

114. An example of an operating activity is:   
A. Paying wages.  
B. Purchasing office equipment.  
C. Borrowing money from a bank.  
D. Selling stock.  
E. Paying off a loan.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2  
Topic: Financial Statements*

115. Operating activities:   
A. Are the means organizations use to pay for resources like land, buildings and equipment.  
B. Involve using resources to research, develop, purchase, produce, distribute and market products and services.  
C. Involve acquiring and disposing of resources that a business uses to acquire and sell its products or services.  
D. Are also called asset management.  
E. Are also called strategic management.

Answer: B

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium*

*Learning Objective: 01-C5  
Learning Objective: 01-P2*

*Topic: Financial Statements*

*Topic: Business Activities*

116. An example of an investing activity is:   
A. Paying wages of employees.  
B. Withdrawals by the owner.  
C. Purchase of land.  
D. Selling inventory.  
E. Contribution from owner.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

117. Net Income:   
A. Decreases equity.  
B. Represents the amount of assets owners put into a business.  
C. Equals assets minus liabilities.  
D. Is the excess of revenues over expenses.  
E. Represents owners' claims against assets.

Answer: D

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy*

*Learning Objective: 01-A1  
Learning Objective: 01-P2*

*Topic: Accounting Equation*

*Topic: Financial Statements*

118. If equity is $300,000 and liabilities are $192,000, then assets equal:   
A. $108,000.  
B. $192,000.  
C. $300,000.  
D. $492,000.  
E. $792,000.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

*Feedback: Assets = Liabilities + Owner’s Equity*

*Assets = $192,000 + $300,000= $492,000*

119. Resources that are expected to yield future benefits are:   
A. Assets.  
B. Revenues.  
C. Liabilities.  
D. Owner's Equity.  
E. Expenses.

Answer: A

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

120. Increases in equity from a company's earnings activities are:   
A. Assets.  
B. Revenues.  
C. Liabilities.  
D. Owner's Equity.  
E. Expenses.

Answer: B

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

121. The difference between a company's assets and its liabilities, or net assets is:   
A. Net income.  
B. Expense.  
C. Equity.  
D. Revenue.  
E. Net loss.

Answer: C

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

122. Creditors' claims on the assets of a company are called:   
A. Net losses.  
B. Expenses.  
C. Revenues.  
D. Equity.  
E. Liabilities.

Answer: E

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

123. Decreases in equity that represent costs of assets or services used to earn revenues are called:   
A. Liabilities.  
B. Equity.  
C. Withdrawals.  
D. Expenses.  
E. Owner's Investment.

Answer: D

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

124. The description of the relation between a company's assets, liabilities, and equity, which is expressed as Assets = Liabilities + Equity, is known as the:   
A. Income statement equation.  
B. Accounting equation.  
C. Business equation.  
D. Return on equity ratio.  
E. Net income.

Answer: B

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

125. Revenues are:   
A. The same as net income.  
B. The excess of expenses over assets.  
C. Resources owned or controlled by a company  
D. The increase in equity from a company’s earning activities.  
E. The costs of assets or services used.

Answer: D

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

126. If assets are $99,000 and liabilities are $32,000, then equity equals:   
A. $32,000.  
B. $67,000.  
C. $99,000.  
D. $131,000.  
E. $198,000.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Critical Thinking  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

*Feedback: Assets = Liabilities + Owner’s Equity*

*$99,000 = $32,000 + Owner’s Equity; Owner’s Equity = $67,000*

127. Another name for equity is:   
A. Net income.  
B. Expenses.  
C. Net assets.  
D. Revenue.  
E. Net loss.

Answer: C

*Blooms: Understand*

*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement   
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

128. The excess of expenses over revenues for a period is:   
A. Net assets.  
B. Equity.  
C. Net loss.  
D. Net income.  
E. A liability.

Answer: C

*Blooms: Remember*

*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

129. A payment to an owner is called a(n):   
A. Liability.  
B. Withdrawal.  
C. Expense.  
D. Contribution.  
E. Investment.

Answer: B

*Blooms: Remember*

*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

130. Distributions of assets by a business to its owners are called:   
A. Withdrawals.  
B. Expenses.  
C. Assets.  
D. Retained earnings.  
E. Net Income.

Answer: A

*Blooms: Remember*

*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

131. The assets of a company total $700,000; the liabilities, $200,000. What are the claims of the owners?   
A. $900,000.  
B. $700,000.  
C. $500,000.  
D. $200,000.  
E. It is impossible to determine unless the amount of this owners' investment is known.

Answer: C

*Blooms: Apply*

*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

*Feedback: Assets = Liabilities + Owner’s Equity*

*$700,000 = $200,000 + Owner’s Equity (or Claims of the Owners); Owner’s Equity = $500,000*

132. On June 30 of the current year, the assets and liabilities of Phoenix, Inc. are as follows: Cash $20,500; Accounts Receivable, $7,250; Supplies, $650; Equipment, $12,000; Accounts Payable, $9,300. What is the amount of owner's equity as of June 30 of the current year?   
A. $8,300  
B. $13,050  
C. $20,500  
D. $31,100  
E. $40,400

Answer: D

*Blooms: Apply*

*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

*Feedback: Assets = Liabilities + Owner’s Equity*

*Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + Owner’s Equity*

*$20,500 + $7,250 + $650 + $12,000 = $9,300 + Owner’s Equity*

*$40,400= $9,300 + Owner’s Equity; Owner’s Equity = $31,100*

133. Assets created by selling goods and services on credit are:   
A. Accounts payable.  
B. Accounts receivable.  
C. Liabilities.  
D. Expenses.  
E. Equity.

Answer: B

*Blooms: Remember*

*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

134. An exchange of value between two entities is called:   
A. The accounting equation.  
B. Recordkeeping or bookkeeping.  
C. An external transaction.  
D. An asset.  
E. Net Income.

Answer: C

*Blooms: Remember*

*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-P1*

*Topic: Business Transactions*

135. Photometer Company paid off $30,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?   
A. Assets, $30,000 increase; liabilities, no effect; equity, $30,000 increase.  
B. Assets, $30,000 decrease; liabilities, $30,000 decrease; equity, no effect.  
C. Assets, $30,000 decrease; liabilities, $30,000 increase; equity, no effect.  
D. Assets, no effect; liabilities, $30,000 decrease; equity, $30,000 increase.  
E. Assets, $30,000 decrease; liabilities, no effect; equity $30,000 decrease.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Business Transactions*

*Topic: Accounting Equation*

*Feedback: Assets = Liabilities + Owner’s Equity*

*Assets would decrease by $30,000 in Cash due to the payment of the accounts payable.*

*Liabilities would also decrease by $30,000 in Accounts Payable due to the payment of an obligation.*

*There is no effect on Owner’s Equity.*

136. How would the accounting equation of Boston Company be affected by the billing of a client for $10,000 of consulting work completed?   
A. +$10,000 accounts receivable, -$10,000 accounts payable.  
B. +$10,000 accounts receivable, +$10,000 accounts payable.  
C. +$10,000 accounts receivable, +$10,000 cash.  
D. +$10,000 accounts receivable, +$10,000 revenue.  
E. +$10,000 accounts receivable, -$10,000 revenue.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

137. Zion Company has assets of $600,000, liabilities of $250,000, and equity of $350,000. It buys office equipment on credit for $75,000. What would be the effects of this transaction on the accounting equation?   
A. Assets increase by $75,000 and expenses increase by $75,000.  
B. Assets increase by $75,000 and expenses decrease by $75,000.  
C. Liabilities increase by $75,000 and expenses decrease by $75,000.  
D. Assets decrease by $75,000 and expenses decrease by $75,000.  
E. Assets increase by $75,000 and liabilities increase by $75,000.

Answer: E

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

*Feedback: Assets = Liabilities + Owner’s Equity*

*$600,000 = $250,000 + $350,000*

*Assets increase by $75,000 (Equipment) due to the purchase.*

*Liabilities also increase by $75,000 (Accounts Payable) due to the purchase on credit.*

138. Viscount Company collected $42,000 cash on its accounts receivable. The effects of this transaction as reflected in the accounting equation are:   
A. Total assets decrease and equity increases.  
B. Both total assets and total liabilities decrease.  
C. Total assets, total liabilities, and equity are unchanged.  
D. Both total assets and equity are unchanged and liabilities increase.  
E. Total assets increase and equity decreases.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

139. If the liabilities of a business increased $75,000 during a period of time and the owner's equity in the business decreased $30,000 during the same period, the assets of the business must have:   
A. Decreased $105,000.  
B. Decreased $45,000.  
C. Increased $30,000.  
D. Increased $45,000.  
E. Increased $105,000.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

*Feedback: Assets = Liabilities + Owner’s Equity*

*Change in Assets = Change in Liabilities + Change in Owner’s Equity*

*Change in Assets = Increase of $75,000 + Decrease of $30,000*

*Change in Assets = Increase of $45,000*

140. If the assets of a business increased $89,000 during a period of time and its liabilities increased $67,000 during the same period, equity in the business must have:   
A. Increased $22,000.  
B. Decreased $22,000.  
C. Increased $89,000.  
D. Decreased $156,000.  
E. Increased $156,000.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

*Feedback: Assets = Liabilities + Owner’s Equity*

*Change in Assets = Change in Liabilities + Change in Owner’s Equity*

*Increase of $89,000 = Increase of $67,000 + Change in Owner’s Equity*

*Change in Owner’s Equity = Increase of $22,000*

141. If the liabilities of a company increased $74,000 during a period of time and equity in the company decreased $19,000 during the same period, what was the effect on the assets?   
A. Assets would have increased $55,000.  
B. Assets would have decreased $55,000.  
C. Assets would have increased $19,000.  
D. Assets would have decreased $19,000.  
E. None of these.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

*Feedback: Assets = Liabilities + Owner’s Equity*

*Change in Assets = Change in Liabilities + Change in Owner’s Equity*

*Change in Assets = Increase of $74,000 + Decrease of $19,000*

*Change in Assets = Increase of $55,000*

142. If a company paid $38,000 of its accounts payable in cash, what was the effect on the assets, liabilities, and equity?   
A. Assets would decrease $38,000, liabilities would decrease $38,000, and equity would decrease $38,000.  
B. Assets would decrease $38,000, liabilities would decrease $38,000, and equity would increase $38,000.  
C. Assets would decrease $38,000, liabilities would decrease $38,000, and equity would not change.  
D. There would be no effect on the accounts because the accounts are affected by the same amount.  
E. None of these.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

*Feedback: Assets = Liabilities + Owner’s Equity*

*Assets will decrease by $38,000 in Cash due to the payment of the debt.*

*Liabilities will decrease by $38,000 in Accounts payable due to the payment of the debt.*

*Owner’s Equity would not be affected by this transaction.*

143. If assets are $365,000 and equity is $120,000, then liabilities are:   
A. $120,000.  
B. $245,000.  
C. $365,000.  
D. $485,000.  
E. $610,000.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

*Feedback: Assets = Liabilities + Owner’s Equity*

*$365,000 = Liabilities + $120,000*

*Liabilities = $245,000*

144. Reston had income of $150 million and average invested assets of $1,800 million. Its return on assets is:   
A. 8.3%.  
B. 83.3%.  
C. 12%.  
D. 120%.  
E. 16.7%.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback: Return on Assets = Net Income/Average Assets*

*Return on Assets = $150 million/$1,800 million = 0.833 = 8.3%*

145. Nick’s had income of $350 million and average invested assets of $2,000 million. Its ROA is:   
A. 1.8%.  
B. 35%.  
C. 17.5%.  
D. 5.7%.  
E. 3.5%.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback: Return on Assets = Net Income/Average Assets*

*Return on Assets = $350 million/$2,000 million = 0.175 = 17.5%*

146. FastLane has net income of $18,955, and assets at the beginning of the year of $200,000. Assets at the end of the year total $246,000. Compute its return on assets.   
A. 7.7%.  
B. 8.5%.  
C. 9.5%.  
D. 11.8%.  
E. 13.0%.

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback: Return on Assets = Net Income/Average Assets*

*Return on Assets =$18,955/[($200,000 + $246,000)/2]*

*Return on Assets = $18,955/$223,000 = 0.085 = 8.5%*

147. Harris Co. has a net income of $43,000, assets at the beginning of the year are $250,000 and assets at the end of the year are $300,000. Compute its return on assets.   
A. 8.4%  
B. 17.2%  
C. 14.3%  
D. 15.6%  
E. 1.5%

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback: Return on Assets = Net Income/Average Assets*

*Return on Assets =$43,000/[($250,000 + $300,000)/2]*

*Return on Assets = $43,000/$275,000 = 0.15636 = 15.6%*

148. U. S. government bonds are:   
A. High-risk and high-return investments.  
B. Low-risk and low-return investments.  
C. High-risk and low-return investments.  
D. Low-risk and high-return investments.  
E. High risk and no-return investments.

Answer: B

*Blooms: Understand  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Risk Analysis  
Difficulty: 2 Medium  
Learning Objective: 01-A3*

*Topic: Risk and Return*

149. Risk is:   
A. Net income divided by average total assets.  
B. The reward for investment.  
C. The uncertainty about the expected return to be earned.  
D. Unrelated to expected return.  
E. Derived from the idea of getting something back from an investment.

Answer: C

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Risk Analysis  
Difficulty: 1 Easy  
Learning Objective: 01-A3*

*Topic: Risk and Return*

150. The statement of cash flows reports all of the following *except*:   
A. Cash flows from operating activities.  
B. Cash flows from investing activities.  
C. Cash flows from financing activities.  
D. The net increase or decrease in assets for the period reported.  
E. The net increase or decrease in cash for the period reported.

Answer: D

*Blooms: Understand  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

151. The basic financial statements include all of the following *except*:   
A. Balance Sheet.  
B. Income Statement.  
C. Statement of Owner's Equity.  
D. Statement of Cash Flows.  
E. Trial Balance.

Answer: E

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

152. The statement of owner's equity:   
A. Reports how equity changes at a point in time.  
B. Reports how equity changes over a period of time.  
C. Reports on cash flows for operating, financing, and investing activities over a period of time.  
D. Reports on cash flows for operating, financing, and investing activities at a point in time.  
E. Reports on amounts for assets, liabilities, and equity at a point in time.

Answer: B

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy*

*Learning Objective: 01-P2*

*Topic: Financial Statements*

153. The financial statement that reports whether the business earned a profit and also lists the revenues and expenses is called the:   
A. Balance sheet.  
B. Statement of owner's equity.  
C. Statement of cash flows.  
D. Income statement.  
E. Statement of financial position.

Answer: D

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

154. A balance sheet lists:   
A. The types and amounts of the revenues and expenses of a business.  
B. Only the information about what happened to equity during a time period.  
C. The types and amounts of assets, liabilities, and equity of a business as of a specific date.  
D. The inflows and outflows of cash during the period.  
E. The assets and liabilities of a company but not the owner's equity.

Answer: C

*Blooms: Remember  
AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

155. A financial statement providing information that helps users understand a company's financial status, and which lists the types and amounts of assets, liabilities, and equity as of a specific date, is called a(n):   
A. Balance sheet.  
B. Income statement.  
C. Statement of cash flows.  
D. Statement of owner's equity.  
E. Financial Status Statement.

Answer: A

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

156. The financial statement that identifies where a company's cash came from and where it went during the period is the:   
A. Statement of financial position.  
B. Statement of cash flows.  
C. Balance sheet.  
D. Income statement.  
E. Statement of changes in owner's equity.

Answer: B

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

157. The financial statement that shows the beginning balance of owner's equity; the changes in equity that resulted from new investments by the owner, net income (or net loss); withdrawals; and the ending balance, is the:   
A. Statement of financial position.  
B. Statement of cash flows.  
C. Balance sheet.  
D. Income statement.  
E. Statement of owner's equity.

Answer: E

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

158. Cash investments by owners are listed on which of the following statements?   
A. Balance sheet.  
B. Income statement.  
C. Statement of owner's equity only.  
D. Statement of cash flows only.  
E. Statement of owner's equity and statement of cash flows.

Answer: E

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

159. Accounts payable appear on which of the following statements?   
A. Balance sheet.  
B. Income statement.  
C. Statement of owner's equity.  
D. Statement of cash flows.  
E. Transaction statement.

Answer: A

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

160. The income statement reports all of the following *except*:   
A. Revenues earned by a business.  
B. Expenses incurred by a business.  
C. Assets owned by a business.  
D. Net income or loss earned by a business.  
E. The time period over which the earnings occurred.

Answer: C

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

161. Use the following information as of December 31 to determine equity.   
  
Liabilities……………… $141,000  
Cash…………………… 57,000  
Equipment…………….. 206,000  
Buildings........................ 175,000  
    
A. $57,000.  
B. $141,000.  
C. $297,000.  
D. $438,000.  
E. $579,000.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard*

*Learning Objective: 01-A1  
Learning Objective: 01-P2*

*Topic: Accounting Equation*

*Topic: Financial Statements*

*Feedback: Assets = Liabilities + Owner’s Equity*

*Cash + Equipment + Buildings = Liabilities + Owner’s Equity*

*$57,000 + $206,000 + $175,000 = $141,000 + Owner’s Equity*

*$438,000 = $141,000 + Owner’s Equity; Owner’s Equity = $297,000*

162. Determine the net income of a company for which the following information is available for the month of May.

|  |  |
| --- | --- |
| Employee salaries expense.... | $180,000 |
| Interest expense.................... | 10,000 |
| Rent expense........................ | 20,000 |
| Consulting revenue............... | 400,000 |

A. $190,000.  
B. $210,000.  
C. $230,000.  
D. $400,000.  
E. $610,000.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

*Feedback: Net Income = Revenues – Expenses*

*Net Income = Consulting Revenue – Employee Salaries Expense – Interest Expense – Rent Expense*

*Net Income = $400,000 - $180,000 - $10,000 - $20,000; Net Income = $190,000*

163. A company acquires equipment for $75,000 cash. This represents a(n):  
A. Operating activity.  
B. Investing activity.  
C. Financing activity.  
D. Revenue activity.  
E. Expense activity.

Answer: B

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2  
Topic: Financial Statements*

164. A company borrows $125,000 from the Eastside Bank and receives the loan proceeds in cash. This represents a(n):   
A. Revenue activity.  
B. Operating activity.  
C. Expense activity.  
D. Investing activity.  
E. Financing activity.

Answer: E

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

165. Flash had cash inflows from operations $62,500; cash outflows from investing activities of $47,000; and cash inflows from financing of $25,000. The net change in cash was:   
A. $40,500 increase.  
B. $40,500 decrease.  
C. $134,500 decrease.  
D. $134,000 increase.  
E. $9,500 increase.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN:3 Reporting  
Difficulty: Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

*Feedback: Net Change in Cash = Cash Flows from Operating Activities + Cash Flows from Investing*

*Activities + Cash Flows from Financing Activities*

*Net Change in Cash = $62,500 + ($47,000) + $25,000; Net Change in Cash = $40,500*

166. Flash has beginning equity of $257,000, net income of $51,000, withdrawals of $40,000 and investments by owners of $6,000. Its ending equity is:   
A. $223,000.  
B. $240,000.  
C. $268,000.  
D. $274,000.  
E. $208,000.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

*Feedback: Ending Equity = Beginning Equity + Investments by Owners + Net Income – Withdrawals*

*Ending Equity = $257,000 +$6,000 + $51,000 - $40,000; Ending Equity = $274,000*

167. Rent expense that is paid with cash appears on which of the following statements?   
A. Balance sheet.  
B. Income statement.  
C. Statement of owner's equity.  
D. Income statement and statement of cash flows.  
E. Statement of cash flows only.

Answer: D

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

168. A company's balance sheet shows: cash $22,000, accounts receivable $16,000, office equipment $50,000, and accounts payable $17,000. What is the amount of owner's equity?   
A. $17,000.  
B. $29,000.  
C. $71,000.  
D. $88,000.  
E. $105,000.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P1*

*Learning Objective: 01-P2*

*Topic: Accounting Equation*

*Topic: Financial Statements*

*Feedback: Assets = Liabilities + Owner’s Equity*

*Cash + Accounts Receivable + Office Equipment = Accounts Payable + Owner’s Equity*

*$22,000 + $16,000 + $50,000 = $17,000 + Owner’s Equity*

*$88,000 = $17,000 + Owner’s Equity; Owner’s Equity = $71,000*

169. A company reported total equity of $145,000 at the beginning of the year. The company reported $210,000 in revenues and $165,000 in expenses for the year. Liabilities at the end of the year totaled $92,000. What are the total assets of the company at the end of the year?  
A. $45,000.  
B. $92,000.  
C. $98,000.  
D. $210,000.  
E. $282,000.

Answer: E

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P1*

*Learning Objective: 01-P2*

*Topic: Accounting Equation*

*Topic: Financial Statements*

*Feedback: Assets = Liabilities + Owner’s Equity*

*Assets = $92,000 + (Beginning Equity + Revenues – Expenses)*

*Assets = $92,000 + ($145,000 + $210,000 - $165,000)*

*Assets = $92,000 + $190,000; Assets = $282,000*

170. Flash reported net income of $17,500 for the past year. At the beginning of the year the company had $200,000 in assets and $50,000 in liabilities. By the end of the year, assets had increased to $300,000 and liabilities were $75,000. Calculate its return on assets:   
A. 8.8%  
B. 7.0%  
C. 5.8%  
D. 35.0%  
E. 23.3%

Answer: B

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback: Return on Assets = Net Income/Average Assets*

*Return on Assets =$17,500/[($200,000 + $300,000)/2]*

*Return on Assets = $17,500/$250,000 = 0.07 = 7.0%*

171. Quick Computer Service had revenues of $80,000 and expenses of $50,000 for the year. Its assets at the beginning of the year were $400,000. At the end of the year assets were worth $450,000. Calculate its return on assets.  
A. 7.1%  
B. 7.5%  
C. 6.7%  
D. 20.0%  
E. 18.8%

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A2*

*Topic: Return on Assets*

*Feedback: Return on Assets = Net Income/Average Assets*

*Return on Assets = Revenues – Expenses/Average Assets*

*Return on Assets = ($80,000 - $50,000)/[($400,000 + $450,000)/2]*

*Return on Assets = $30,000/$425,000 = 0.0705 =7.1%*

172. Della's Donuts had cash inflows from operating activities of $27,000; cash outflows from investing activities of $22,000, and cash outflows from financing activities of $12,000. Calculate the net increase or decrease in cash.  
A. $61,000 increase.  
B. $37,000 increase.  
C. $7,000 decrease.  
D. $7,000 increase.  
E. $34,000 decrease.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

*Feedback: Net Increase/(Decrease) in Cash = Cash Flows from Operating Activities + Cash Flows*

*from Investing Activities + Cash Flows from Financing Activities*

*Net Increase/(Decrease) in Cash = $27,000 + ($22,000) +($12,000)*

*Net Increase/(Decrease) in Cash = ($7,000)*

173. Della's Donuts owner made investments of $50,000 and withdrawals of $20,000. The company has revenues of $83,000 and expenses of $64,000. Calculate its net income.   
A. $30,000.  
B. $83,000.  
C. $64,000.  
D. $19,000.  
E. $49,000.

Answer: D

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P1  
Learning Objective: 01-P2*

*Topic: Accounting Equation*

*Topic: Financial Statements*

*Feedback: Net Income = Revenues – Expenses*

*Net Income = $83,000 - $64,000; Net Income = $19,000*

174. Cool Tours had beginning equity of $72,000; revenues of $90,000, expenses of $65,000, and withdrawals by owners of $9,000. Calculate the ending equity.  
A. $88,000.  
B. $25,000.  
C. $97,000.  
D. $38,000.  
E. $47,000.

Answer: A

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P1*

*Learning Objective: 01-P2*

*Topic: Accounting Equation*

*Topic: Financial Statements*

*Feedback: Ending Equity = Beginning Equity + Revenues – Expenses – Withdrawals by Owners*

*Ending Equity = $72,000 + $90,000 - $65,000 - $9,000*

*Ending Equity = $88,000*

175. A company's balance sheet shows: cash $24,000, accounts receivable $30,000, equipment $50,000, and equity $72,000. What is the amount of liabilities?   
A. $104,000.  
B. $76,000.  
C. $32,000.  
D. $68,000.  
E. $176,000.

Answer: C

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P1*

*Learning Objective: 01-P2*

*Topic: Accounting Equation*

*Topic: Financial Statements*

*Feedback: Assets = Liabilities + Owner’s Equity*

*Cash + Accounts Receivable + Equipment = Liabilities + Equity*

*$24,000 + $30,000 + $50,000 = Liabilities + $72,000*

*$104,000 = Liabilities + $72,000; Liabilities = $32,000*

***Matching Questions***

176. Match the following terms with the appropriate definition.

a. Investing activities  
b. Ethics  
c. Recordkeeping  
d. Internal users  
e. Accounting  
f. Financing activities  
g. Social responsibility  
h. Operating activities  
i. External users

\_\_\_\_ 1. An information and measurement system that identifies, records and communicates relevant reliable and comparable information about an organization's business activities.  
\_\_\_\_ 2. The part of accounting that involves recording transactions and events, either electronically or manually.  
\_\_\_\_ 3. Persons using accounting information who are not directly involved in the running of the organization.  
\_\_\_\_ 4. Persons using accounting information who are directly involved in managing the organization.  
\_\_\_\_ 5. The use of resources to research, develop, purchase, produce, distribute, and market products and services.  
\_\_\_\_ 6. The acquisition and disposing of resources that an organization uses to acquire and sell products and services.  
\_\_\_\_ 7. Provide the means organizations use to pay for resources such as land, buildings, and equipment to carry out plans.  
\_\_\_\_ 8. Beliefs that distinguish right from wrong.  
 \_\_\_\_ 9. Concern for the impact of actions on society.

Answer:  
1. E; 2. C; 3. I; 4. D; 5. H; 6. A; 7. F; 8. B; 9. G

*Blooms: Remember*  
*AACSB: Communication*

*AACSB: Ethics  
AICPA BB: Industry*

*AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C1*

*Learning Objective: 01-C2*

*Learning Objective: 01-C3*

*Learning Objective: 01-C4*

*Topic: What is Accounting?*

*Topic: Users of Accounting*

*Topic: Ethics*

*Topic: Business Activities*

177. Match each of the following terms with the most appropriate definition.

a. Return on assets  
b. Financial accounting  
c. Expenses  
d. Risk  
e. Liabilities  
f. Planning  
g. Net income  
h. Managerial accounting  
  
\_\_\_\_ 1. The uncertainty about the expected return to be earned.  
\_\_\_\_ 2. Area of accounting aimed at serving the decision making needs of internal users.  
\_\_\_\_ 3. A financial ratio useful in evaluating management, analyzing and forecasting profits, and planning activities.  
\_\_\_\_ 4. Creditor's claims on a company's assets.  
\_\_\_\_ 5. Costs of assets or services used to earn revenues.  
\_\_\_\_ 6. Defining the idea, goals, and actions of an organization.  
\_\_\_\_ 7. Area of accounting aimed at serving external users.  
\_\_\_\_ 8. The excess of revenue over expenses.

Answer:

1. D; 2. H; 3. A; 4. E; 5. C; 6. F; 7. B; 8. G

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry*

*AICPA BB: Legal  
AICPA FN: Reporting*

*AICPA FN: Risk Analysis  
Difficulty: 1 Easy  
Learning Objective: 01-C1*

*Learning Objective: 01-C2*

*Learning Objective: 01-A1*

*Learning Objective: 01-A2  
Learning Objective: 01-A3*

*Topic: Purpose of Accounting*

*Topic: Uses of Accounting*

*Topic: Accounting Equation*

*Topic: Return on Assets*

*Topic: Risk and Return*

178. The following is a list of selected users of accounting information. Match the appropriate user to the following information needs.  
  
a. Suppliers  
b. Lenders  
c. Shareholders  
d. Production Managers  
e. Employees  
  
\_\_\_\_ 1. Monitor costs and ensure quality.  
\_\_\_\_ 2. Judge the soundness of a customer before making sales on credit.  
\_\_\_\_ 3. Assessing employment opportunities.  
\_\_\_\_ 4. Measuring risk and return of loans.  
\_\_\_\_ 5. Assessing the risk and return of acquiring shares.

Answer:  
1. D; 2. A; 3. E; 4. B; 5. C

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry*

*AICPA BB: Legal  
AICPA FN: Reporting*

*AICPA FN: Risk Analysis  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Users of Accounting*

179. Match the following definitions with terms 1 through 8. Place the letter that identifies the best definition in the blank space next to the term.  
  
\_\_\_\_ 1. Assets  
\_\_\_\_ 2. Going-concern principle  
\_\_\_\_ 3. Statement of owner's equity.  
\_\_\_\_ 4. Net assets  
\_\_\_\_ 5. Objectivity principle  
\_\_\_\_ 6. Cost principle  
\_\_\_\_ 7. Owner withdrawal  
\_\_\_\_ 8. Revenues  
  
a. The accounting principle that requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange.  
b. A principle that requires the information in financial statements to be supported by independent unbiased evidence.  
c. Gross increase in equity from a company's earnings activities.  
d. A principle that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold.  
e. Resources owned or controlled by a company that are expected to yield future benefits.  
f. A financial statement that reports the changes in equity over the reporting period; including increases such as owner investment and net income and for decreases such as owner withdrawals or net loss.  
g. Assets an owner takes from the company for personal use.  
h. Another term for equity.

Answer:  
1. E; 2. D; 3. F; 4. H; 5. B; 6. A; 7. G; 8. C

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry*

*AICPA BB: Legal  
AICPA FN: Reporting*

*AIPCA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4  
Learning Objective: 01-A1  
Learning Objective: 01-P2*

*Topic: Generally Accepted Accounting Principles*

*Topic: Accounting Equation*

*Topic: Financial Statements*

180. Match the following definitions with the terms 1 through 9. Place the letter that identifies the best definition in the blank space next to the term.  
  
\_\_\_\_ 1. Statement of cash flows  
\_\_\_\_ 2. Business transaction  
\_\_\_\_ 3. Monetary unit principle  
\_\_\_\_ 4. Business entity principle  
\_\_\_\_ 5. Revenue recognition principle  
\_\_\_\_ 6. Accounting equation  
\_\_\_\_ 7. Statement of owner's equity  
\_\_\_\_ 8. Expenses  
\_\_\_\_ 9. Liabilities

a. The relation between a company's assets, liabilities, and equity.  
b. An exchange of value between two parties.  
c. The principle that assumes transactions and events can be expressed in money units.  
d. A financial statement that reports the changes in equity over the reporting period; adjusted for increases such as owner investment and net income and for decreases such as owner withdrawals or net loss.  
e. A financial statement that lists cash inflows (receipts) and cash outflows (payments); the cash flows are arranged by operating, investing, and financing activities.  
f. Creditor's claims on assets.  
g. The cost of assets or services used to earn revenue.  
h. The principle that requires a business to be accounted for separately from its owners.  
i. The principle that revenue is recognized when earned.

Answer:  
1. E; 2. B; 3. C; 4. H; 5. I; 6. A; 7. D; 8. G; 9. F

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry*

*AICPA BB: Legal  
AICPA FN: Reporting*

*AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Learning Objective: 01-C5  
Learning Objective: 01-A1  
Learning Objective: 01-P2*

*Topic: Generally Accepted Accounting Principles*

*Topic: Business Activities*

*Topic: Accounting Equation*

*Topic: Financial Statements*

181. Identify each of the following business activities 1 through 6 into the appropriate category a, b, and c.   
  
a. Operating  
b. Investing  
c. Financing  
  
\_\_\_\_ 1. Paid utilities expenses.  
\_\_\_\_ 2. Withdrawal of funds by owners.  
\_\_\_\_ 3. Purchase of land.  
\_\_\_\_ 4. Sale of used equipment.  
\_\_\_\_ 5. Borrowed money from a bank on a long-term note.  
\_\_\_\_ 6. Paid employee wages.

Answer:  
1. A; 2. C; 3. B; 4. B; 5. C; 6. A

*Blooms: Apply*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-C5*

*Topic: Business Activities*

182. Match each of the following items 1 through 8 with the financial statement a through d in which each item would most likely appear. An item may appear on more than one statement.  
  
a. Income statement  
b. Statement of owner's equity  
c. Balance sheet  
d. Statement of cash flows  
  
 \_\_\_\_\_1. Assets.  
 \_\_\_\_\_2. Withdrawals.  
 \_\_\_\_\_3. Revenues.  
 \_\_\_\_\_4. Cash from investing activities.  
 \_\_\_\_\_5. Expenses.  
 \_\_\_\_\_6. Liabilities.  
\_\_\_\_\_7. Cash from operating activities.  
 \_\_\_\_\_8. Total equity.

Answer:  
1. C; 2. B; 3. A; 4. D; 5. A; 6. C; 7. D; 8. C

*Blooms: Apply*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

183. Classify the following activities according to the appropriate section of the statement of cash flows.   
  
a. Operating activity  
b. Investing activity  
c. Financing activity   
  
\_\_\_\_ 1. Cash received from a one-time sale of used office equipment.  
\_\_\_\_ 2. Cash paid for withdrawals by owners.  
\_\_\_\_ 3. Cash received from customers.  
\_\_\_\_ 4. Cash received from owner contributions.  
\_\_\_\_ 5. Cash paid for utilities.  
\_\_\_\_ 6. Cash paid for a delivery van to be used in the business.

Answer:  
1. B; 2. C; 3. A; 4. C; 5. A; 6. B

*Blooms: Apply*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Apply  
Learning Objective: 01-C5*

*Learning Objective: 01-P2*

*Topic: Business Activities*

*Topic: Financial Statements*

***Short Answer Questions***

184. Explain the role of accounting in the information age.

Answer: Accounting is an information and measurement system. It identifies, records, and communicates relevant, reliable and comparable information about business activities. Accounting also includes the crucial process of analysis and interpretation.

*Blooms: Understand*  
*AACSB: Communication*

*AACSB: Technology  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-C1*

*Topic: Purpose of Accounting*

*Topic: What is Accounting?*

185. What is the balance sheet? What is its purpose?

Answer: The balance sheet is a listing of the types and amounts of assets, liabilities, and equity of a business at a specified point in time. The statement's purpose is to provide information that helps users assess the financial condition of the business.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

186. Identify the users and uses of accounting information.

Answer: There are two general types of users of accounting information. Internal users are managers and officers of businesses. They require information about business activities in order to make decisions about planning, monitoring, and control. External users rely on financial statements to make business decisions. These users include lenders, and shareholders. Lenders need information for measuring the risk and return of loans. Shareholders need information for assessing the risk and return in owning shares.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C2*

*Topic: Users of Accounting*

187. Identify several opportunities in accounting and its related fields.

Answer: The traditional areas of accounting include financial accounting, managerial accounting, and tax accounting. Work in related fields includes lending, underwriting, market research, and business valuation.

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Career Opportunities*

188. Explain why ethics are an integral part of accounting.

Answer: The purpose of accounting is to provide useful information for decision makers. For information to be useful, it must be trusted. This requires ethical behavior by accountants and managers in all phases of gathering, analyzing and reporting financial information so that good decisions are made.

*Blooms: Understand*  
*AACSB: Communication*

*AACSB: Ethics  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C3*

*Topic: Ethics*

189. Describe the three important guidelines for revenue recognition.

Answer: The three important guidelines for revenue recognition include: (1) Revenue is recognized when earned. (2) Assets received from selling products and services do not need to be in cash. (3) Revenue recognized is measured by cash received plus the cash equivalent of other assets received.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium*

*Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

190. Identify the three basic forms of business organizations.

Answer: The three basic forms of business organizations are sole proprietorships, partnerships, and corporations.

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Legal  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Business Formation*

191. How does the objectivity principle support ethical behavior?

Answer: The objectivity principle supports ethical behavior since it requires that financial information be documented by independent, unbiased evidence. Consequently, the impact of belief and opinions on the recording and reporting of business transactions and events is lessened.

*Blooms: Understand*  
*AACSB: Communication*

*AACSB: Ethics  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C3*

*Learning Objective: 01-C4*

*Topic: Ethics*

*Topic: Generally Accepted Accounting Principles*

192. Identify the two main groups involved in establishing generally accepted accounting principles.

Answer: The FASB is the private group that establishes GAAP. The SEC establishes reporting requirements for companies that issue stock to the public.

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

193. How does the going-concern principle affect reporting asset values of a business?

Answer: The going-concern principle means that financial statements reflect an assumption that the business continues in operation instead of being closed or sold. Assets are therefore reported at cost rather than at liquidation value.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

194. Describe the relation between revenues, expenses, and net income.

Answer: Revenues are the increases in equity from a company's earnings activities. Expenses are the costs of assets or services used to earn revenues. Net income is the excess of revenues over expenses.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

195. Explain the accounting equation and define its terms.

Answer: The accounting equation is stated as: Assets = Liabilities + Equity. Assets are resources owned or controlled by a business. Creditors' claims on assets are called liabilities. The owner's claim on assets is called equity. The accounting equation shows that the ownership of business assets can be shared between creditors and owners.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: Medium  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

196. What distinguishes liabilities from equity?

Answer: Liabilities are creditors' claims on assets. They reflect obligations to transfer assets or provide products or services to others. Equity is owner's claim to assets. Equity is also called net assets or residual interest.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

197. What is the purpose of return on assets as an analytical tool?

Answer: Return on assets is useful in evaluating management, analyzing and forecasting profits, and planning activities.

*Blooms: Understand*  
*AACSB: Communication*

*AICPA BB: Industry  
AICPA BB: Resource Management  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-A2*

*Topic: Return on Assets*

198. Discuss the relation between risk and return.

Answer: Net income is related to return. Risk is the uncertainty about the amount of the expected return. In general, the lower the risk of an investment; the lower the expected return is. Higher return is expected in exchange for accepting higher risk.

*Blooms: Understand*

*AACSB: Communication*  
*AACSB: Reflective Thinking  
AICPA BB: Critical Thinking  
AICPA FN: Risk Analysis  
Difficulty: 2 Medium  
Learning Objective: 01-A3*

*Topic: Risk and Return*

199. Describe the three types of activities reported on the statement of cash flows.

Answer: The three types of activities reported in the statement of cash flows are (1) operating, which are the cash inflows and outflows from operations; (2) financing, which are the cash inflows and cash outflows related to owner investments and withdrawal and long-term borrowing and repaying cash from lending and (3) investing, which represent the cash inflows and outflows from the purchase and sale of long-term assets.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

200. Identify and describe the four basic financial statements:

Answer: The four basic financial statements are the balance sheet, income statement, statement of owner's equity, and statement of cash flows. The balance sheet describes the company's financial position and lists the types and amounts of assets, liabilities, and equity at a point in time. The income statement describes the company's revenues, expenses, and net income over a period of time. The statement of owner's equity explains changes in equity from net income or loss, and from owner investments and withdrawals over a period of time. The statement of cash flows reports on cash flows for operating, investing, and financing activities over a period of time.

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-P2*

*Topic: Financial Statements*

***Problems***

201. The characteristics below apply to at least one of the forms of business organization.   
a. Is a separate legal entity.  
b. Is allowed to be owned by one person only.  
c. Owner or owners are personally liable for debts of the business.  
d. Is a taxable entity.  
e. Is a business entity.  
f. May have a contract specifying the division of profits among the owners.  
g. Has an unlimited life  
  
Use the following format to indicate (with a "yes" or "no") whether or not a characteristic applies to each type of business organization.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Proprietorship | Partnership | Corporation |
| a. |  |  |  |
| b. |  |  |  |
| c. |  |  |  |
| d. |  |  |  |
| e. |  |  |  |
| f. |  |  |  |
| g. |  |  |  |

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Proprietorship | Partnership | Corporation |
| a. | no | no | yes |
| b. | yes | no | yes |
| c. | yes | yes | no |
| d. | no | no | yes |
| e. | yes | yes | yes |
| f. | no | yes | no |
| g. | no | no | yes |

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Business Formation*

202.  A parcel of land is offered for sale at $600,000, is assessed for tax purposes at $500,000, is recognized by its purchasers as easily being worth $575,000, and is sold for $570,000. At what amount should the land be recorded in the purchaser's books? What accounting principle supports your answer?

Answer: $570,000. The cost principle requires the acquisition of an asset to be recorded in the accounting records at cost.

*Blooms: Understand*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 2 Medium  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

203.  You are reviewing the accounting records of Cathy's Antiques, owned by Cathy Miller. You have uncovered the following situations. Compose a memo to Ms. Miller. Cite the appropriate accounting principle and suggest an action for each separate item.  
 1. In August, a check for $500 was written to Wee Day Care Center. This amount represents child care for her son Brandon.  
 2. Cathy plans a Going Out of Business Sale for May, since she will be closing her business for a month-long vacation in June. She plans to reopen July 1 and will continue operating Cathy's Antiques indefinitely.  
 3. Cathy received a shipment of pine furniture from Quebec, Canada. The invoice was stated in Canadian dollars.  
 4. Joseph Clark paid $1,500 for a dining table. The amount was recorded as revenue. The table will be delivered to Mr. Clark in six weeks.

Answer:

1. Business entity assumption. Cathy Miller should refund the $500 to the business or record it as a withdrawal. In the future, she should use a personal check to pay for day care.  
2. Going-concern assumption. Cathy's Antiques is not going out of business. The business is just closing for vacation. She should hold an inventory reduction sale or other appropriate sale.  
3. Monetary unit assumption. The invoice should be restated in U.S. dollars for accounting purposes.  
4. Revenue recognition principle. Since the table has not been delivered, revenue should not be recognized. The $1,500 should be placed in an account such as Deposits Received from Customers (a type of unearned revenue) until the table is delivered.

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry*

*AICPA BB: Legal  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

204. At the beginning of the year, a company had $120,000 worth of liabilities. During the year, assets increased by $160,000 and at year-end they equaled $360,000. Liabilities decreased $20,000 during the year. Calculate the beginning and ending values of equity.

Answer: Beginning equity = $80,000; Ending equity = $260,000

*Feedback:*

Beginning Assets = Beginning Liabilities + Beginning Equity

$200,000 = $120,000 + $80,000

Ending Assets = Ending Liabilities + Ending Equity

$360,000 = $100,000 + $260,000

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1  
Learning Objective: 01-P2*

*Topic: Accounting Equation*

*Topic: Financial Statements*

205. The accounts of Garfield Company with the increases or decreases that occurred during the past year are as follows:   
  
Account Increase Decrease

Cash $25,000

Accounts receivable $(5,000)

Accounts payable (11,000)

Notes payable 16,000

Except for net income, an investment of $3,000 by the owner, and a withdrawal of $11,000 by the owner, no other items affected the owner's capital account. Using the balance sheet equation, compute net income for the past year.

Answer: $23,000

*Feedback:*

Assets = Liabilities + Owner’s Equity

Assets Increased by $20,000; Liabilities Increased by $5,000; Therefore, Equity needs to Increase by $15,000.

Change in Equity = Investment + Net Income – Withdrawals

Increase of $15,000 = $3,000 + Net Income - $11,000

$15,000 = Net Income - $8,000

Net Income = $23,000

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-P1  
Learning Objective: 01-P2*

*Topic: Accounting Equation*

*Topic: Financial Statements*

206. Annie's Attic has the following account balances for the dates given:

September 1 September 30

Cash $40,000 60,000

Accounts Receivable 40,000 38,000

Accounts payable 6,000 ?

Also, its net income, for September 1 through September 30 was $20,000 and there were no investments or withdrawals by the owner. Determine the equity at both September 1 and September 30.

Answer: September 1st Equity = $74,000; September 30th Equity = $94,000

*Feedback:*

Total assets:

September 1 September 30

Cash $40,000 60,000

Accounts Receivable 40,000 38,000

Total assets $80,000 $98,000

At September 1:  
Assets = Liabilities + Equity  
$80,000 = $6,000 + Equity  
Equity = $74,000  
  
At September 30:

Equity, September 1 $74,000

Plus September net income 20,000

Equity, September 30 $94,000   
  
or:  
September 1 Equity + Net Income + September 30 Equity  
$74,000 + $20,000 = $94,000

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-P1*

*Learning Objective: 01-P2*

*Topic: Accounting Equation*

*Topic: Financial Statements*

207. If the liabilities of a company increased $92,000 during a period of time and equity in the business decreased $30,000 during the same period, did the assets of the company increase or decrease? By what amount?

Answer: Assets increased by $62,000.

*Feedback:* Assets = Liabilities + Equity  
 $62,000 = $92,000 - $30,000

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

208. Hal Burton began a Web Consulting practice and completed these transactions during September of the current year:

|  |  |  |
| --- | --- | --- |
| Sept. | 1 | Invested $100,000 of his personal savings into a checking account opened in the name of the business. |
|  | 2 | Rented office space and paid $1,200 cash for the month of September. |
|  | 3 | Purchased office equipment for $30,000, paying $8,000 cash and agreeing to pay the balance in one year. |
|  | 4 | Purchased office supplies for $750 cash. |
|  | 8 | Completed work for a client and immediately collected $2,700 cash for the services. |
|  | 15 | Completed $3,600 services for a client on credit. |
|  | 20 | Received $3,600 from a client for the work completed on September 15. |
|  | 30 | Paid the office secretary's monthly salary, $3,000 cash. |
|  | 30 | Burton withdrew $2,000 for personal use. |

Show the effects of the above transactions on the accounting equation of Halley Burton, Consultant. Use the following format for your answers. The first item is shown as an example.  
Increase = I Decrease = D No effect = N

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Assets | Liabilities | Equity |
| **Example:** |  |  |  |
| September 1 | I | N | I |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Assets | Liabilities | Equity |
| September 1 | I | N | I |
| September 2 | D | N | D |
| September 3 | I,D | I | N |
| September 4 | I,D | N | N |
| September 8 | I | N | I |
| September 15 | I | N | I |
| September 20 | I,D | N | N |
| September 30 | D | N | D |
| September 30 | D | N | D |

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

209. For each of the following transactions, identify the effects as reflected in the accounting equation. Use "+" to indicate an increase and "-" to indicate a decrease. Use "A", "L", and "E" to indicate assets, liabilities, and equity, respectively. Part A has been completed as an example.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| a. | L. Berryman invested $100,000 in a sole proprietorship |  | +A |  | +E |
| b. | Land was purchased for $50,000.  A down payment of $15,000 cash was made and a note was signed for the balance. |  |  |  |  |
| c. | Services were rendered to customers for cash. |  |  |  |  |
| d. | A building was purchased for cash. |  |  |  |  |
| e. | Supplies were purchased for cash. |  |  |  |  |
| f. | Paid the office secretary's salary. |  |  |  |  |
| g. | The amount owed on the land from Part (b) was paid. |  |  |  |  |

Answer:

a. +A +E  
b. +A +L  
c. +A +E  
d. +A - A  
e. +A - A  
f. -A - E  
g. -A - L

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

210. The following schedule reflects shows the first month's transactions of the Bill Blue Real Estate Company:   
  
 

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | Accounts |  |  |  |  |  | Accounts | B. Blue | |
|  | **Cash** | + | **Receivable** | + | **Supplies** | + | **Equipment** | = | **Payable** | + | Capital |
| 1. | +20,000 |  |  |  |  |  |  |  |  |  | +20,000 |
| 2. | -5,000 |  |  |  |  |  | +5,000 |  |  |  |  |
| 3. |  |  |  |  | +$1,500 |  |  |  | +1,500 |  |  |
| 4. | +3,000 |  |  |  |  |  |  |  |  |  | +3,000 |
| 5. | +1,000 |  | +1,500 |  |  |  |  |  |  |  | +2,500 |
| 6. | -750 |  |  |  |  |  |  |  | -750 |  |  |
| 7. | +500 |  | -500 |  |  |  |  |  |  |  |  |
| 8. |  |  |  |  | -400 |  |  |  |  |  | -400 |
| 9. | -2,000 |  |  |  |  |  |  |  |  |  | -2,000 |

Provide descriptions for each transaction.

Answer:

1. Investment of cash in business by owner *or* performed services for cash.  
2. Purchased equipment for cash.  
3. Purchased supplies on credit.  
4. Performed services for cash *or* investment of cash in business by owner.  
5. Performed services for both cash and on credit.  
6. Paid accounts payable.  
7. Received cash for an account receivable.  
8. Used supplies in business.  
9. Withdrawal of cash from business by owner for personal use or paid expense of business.

*Blooms: Apply*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-P1*

*Topic: Business Transactions*

*Topic: Accounting Equation*

211. The accountant of Magic Video Games prepared a balance sheet immediately after each transaction was recorded. During September, the first month of operation, the following balance sheets were prepared:

|  |  |  |  |
| --- | --- | --- | --- |
| MAGIC VIDEO GAMES Balance Sheet September 1 | | | |
| Assets |  | Equity |  |
| Cash…………………….. | $60,000 | I. Magic, Capital…………….. | $60,000 |
| Total assets……………… | $60,000 | Total liabilities and equity…………………….. | $60,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| MAGIC VIDEO GAMES Balance Sheet September 5 | | | |
| Assets |  | Liabilities |  |
| Cash……………………. | $48,000 | Notes payable……. | $18,000 |
| Land……………………. | 10,000 | Equity |  |
| Building………………… | 20,000 | I. Magic, Capital….. | 60,000 |
| Total assets………….. | $78,000 | Total liabilities and equity…………….. | $78,000 |

 

|  |  |  |  |
| --- | --- | --- | --- |
| MAGIC VIDEO GAMES Balance Sheet September 9 | | | |
| Assets |  | Liabilities |  |
| Cash……………………. | $48,000 | Accounts payable…. | $2,000 |
| Office supplies………… | 2,000 | Notes payable……. | 18,000 |
| Land……………………. | 10,000 | Equity |  |
| Building………………… | 20,000 | I. Magic, Capital….. | 60,000 |
| Total assets………….. | $80,000 | Total liabilities and equity…………….. | $80,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| MAGIC VIDEO GAMES Balance Sheet September 11 | | | | |
| Assets |  | Liabilities |  | |
| Cash……………………. | $42,000 | Accounts payable…. | | $ 2,000 | |
| Office supplies………… | 2,000 | Notes payable……. | | 18,000 | |
| Land……………………. | 10,000 | Equity | |  | |
| Building………………… | 20,000 | I. Magic, Capital….. | | 60,000 | |
| Office furniture………… | 6,000 |  | |  | |
| Total assets………….. | $80,000 | Total liabilities and equity…………….. | | $80,000 | |

|  |  |  |  |
| --- | --- | --- | --- |
| MAGIC VIDEO GAMES Balance Sheet September 15 | | | |
| Assets |  | Liabilities |  |
| Cash……………………. | $32,000 | Accounts payable…. | $ 2,000 |
| Office supplies………… | 2,000 | Notes payable……. | 18,000 |
| Land……………………. | 10,000 | Equity |  |
| Building………………… | 20,000 | I. Magic, Capital….. | 60,000 |
| Office furniture………… | 6,000 | Total liabilities and equity…………….. | $70,000 |
| Total assets………….. | $70,000 |

Required: Describe the nature of each of these five transactions for the month of September.

|  |  |  |
| --- | --- | --- |
| Sept |  |  |
|  | 1 |  |
|  | 5 |  |
|  | 9 |  |
|  | 11 |  |
|  | 15 |  |

Answer:

|  |  |  |
| --- | --- | --- |
| Sept | 1 | I. Magic invested $60,000 cash in the company. |
|  | 5 | Land and building were purchased for $12,000 cash and an $18,000 note payable. |
|  | 9 | Office supplies were purchased for $2,000 on account. |
|  | 11 | Office furniture was purchased for $6,000 cash. |
|  | 15 | $10,000 of the note payable was paid in cash. |

 Blooms: Apply  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 3 Hard  
Learning Objective: 01-P1

Learning Objective: 01-P2

Topic: Accounting Equation

Topic: Business Transactions

Topic: Financial Statements

212. Identify the risk and the return in each of the following examples.   
a. Investing $500 in a CD at 4.5% interest.  
b. Placing a $100 bet on an NBA game.  
c. Investing $10,000 in Microsoft stock.  
d. Borrowing $20,000 in student loans.

Answer:

a. The risk involved is that the investor may need the money in the CD before the CD matures and would have to give up the interest. The return is the 4.5% interest on the $500 invested in the CD.  
b. The risk is that the team bet on may not beat the point spread and the bet would be lost. The return would be any winnings based on the odds.  
c. The risk is that the value of Microsoft stock could go down. The return would come from increase in the value of the stock.  
d. The risk is that the student might not be able to find a job that pays enough to live on and allow for loan payments with interest. The return is that the student would be able to finance an education and earn higher wages.

*Blooms: Apply*  
*AACSB: Reflective Thinking  
AICPA BB: Critical Thinking  
AICPA FN: Risk Analysis  
Difficulty: 3 Hard  
Learning Objective: 01-A3*

*Topic: Risk and Return*

213. Prepare a November 30 balance sheet in proper form for Green Bay Delivery Service from the following alphabetical list of the accounts at November 30:

|  |  |
| --- | --- |
| Accounts receivable………………….. | $10,000 |
| Accounts payable………………………….. | 18,000 |
| Building…………………………………….... | 28,000 |
| Cash………………………….…………….... | 8,000 |
| Notes payable………………………………. | 45,000 |
| Office equipment……………...…………….. | 12,000 |
| R. Perkins, Capital………………………….. | ? |
| Trucks……………………………………….. | 55,000 |

  Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| GREEN BAY DELIVERY SERVICE Balance Sheet November 30 | | | |
| Assets |  | Liabilities |  |
| Cash…………………….. | $ 8,000 | Accounts payable……… | $ 18,000 |
| Accounts receivable…… | 10,000 | Notes payable………….. | 45,000 |
| Office equipment………. | 12,000 | Total liabilities…………… | $ 63,000 |
| Building…………………. | 28,000 |  |  |
| Trucks………………….. | 55,000 | Equity |  |
|  |  | R. Perkins, Capital…….. | 50,000 |
| Total assets……………. | $113,000 | Total liabilities and equity……………………. | $113,000 |

*Blooms: Create*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

214. Prepare a December 31 balance sheet in proper form for Surety Insurance using the following accounts and amounts:

|  |  |
| --- | --- |
| Commissions earned……....... | $40,000 |
| Accounts payable……………… | 3,500 |
| Accounts receivable…………… | 5,000 |
| M. Bruno, Capital……………… | 103,500 |
| Office equipment………………. | 10,000 |
| Advertising expense…………. | 3,200 |
| Cash…………………………….. | 7,500 |
| Land...................................... | 35,000 |
| Note payable.......................... | 50,000 |
| Office supplies........................ | 500 |
| Salaries expense.................... | 12,000 |
| Salaries payable..................... | 1,000 |
| Building............................... | 100,000 |

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| SURETY INSURANCE Balance Sheet December 31 | | | |
| Assets |  | Liabilities |  |
| Cash…………………….. | $ 7,500 | Accounts payable……….. | $ 3,500 |
| Accounts receivable…… | 5,000 | Salaries payable………….. | 1,000 |
| Office supplies…………. | 500 | Note payable……………… | 50,000 |
| Land…………………….. | 35,000 | Total liabilities…………….. | $ 54,000 |
| Building…………………. | 100,000 | Equity |  |
| Office equipment………. | 10,000 | M. Bruno, Capital………… | 103,500 |
| Total assets……………. | \_\_\_\_\_\_\_\_\_\_ $158,000 | Total liabilities and  Equity…………………….. | $158,000 |

*Blooms: Create*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

215.   From the information given below, prepare a November income statement, a November statement of owner’s equity, and a November 30 balance sheet. On November 1 of the current year, Lois Bell began Lois Bell, Interior Design with an initial investment of $50,000 cash. On November 30, her records showed the following (alphabetically arranged) items and amounts.

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable……………. | $12,000 | Office furnishings……….. | $40,000 |
| Accounts receivable………. | 23,000 | Owner's withdrawals……. | 6,000 |
| Cash……………………… | 17,200 | Rent expense…………… | 3,600 |
| Fees earned………………. | 30,000 | Salaries expense………. | 6,200 |
| Notes payable………………… | 4,250 | Telephone expense……. | 250 |

 Answer:

|  |  |  |
| --- | --- | --- |
| LOIS BELL, INTERIOR DESIGN Income Statement For Month Ended November 30 | | |
| Revenue: |  |  |
| Fees earned……………………….. |  | $30,000 |
| Operating expenses: |  |  |
| Rent expense……………………………. | $3,600 |  |
| Salaries expense………………………… | 6,200 |  |
| Telephone expense……………………… | 250 | 10,050 |
| Net income…………………………………….. |  | $19,950 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| LOIS BELL, INTERIOR DESIGN Statement of Owner's Equity For Month Ended November 30 | | | | | |
| Lois Bell, Capital, November 1……………………….. | | | | $ 0 | |
| Plus: Investments by owner……………………………. | | | $50,000 |  | |
| Net income………………………………. | | | 19,950 | 69,950 | |
|  | | |  | 69,950 | |
| Less withdrawals by owner……………………. | | |  | (6,000) | |
| Lois Bell, Capital, November 30………………. | | |  | $63,950 | |
|  | | |  |  | |
| LOIS BELL, INTERIOR DESIGN Balance Sheet November 30 | | | | | | |
| Assets |  | Liabilities | | |  | |
| Cash…………………….. | $17,200 | Accounts payable……….. | | | $12,000 | |
| Accounts receivable…… | 23,000 | Notes payable………….... | | | 4,250 | |
| Office furnishings……….. | 40,000 | Total liabilities…………….. | | | $16,250 | |
|  |  | Equity | | |  | |
|  |  | Lois Bell, capital………… | | | 63,950 | |
| Total assets……………. | $80,200 | Total liabilities and  equity……………………… | | | $80,200 | |

*Blooms: Create*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

216.  Data for Madison Realty are as follows:

|  |  |  |
| --- | --- | --- |
|  | Total assets at January 1 | $100,000 |
|  | Total liabilities at January 1 | 35,000 |
|  | Total revenues for the year | 79,000 |
|  | Total expenses for the year | 47,000 |
|  |  |  |

The owner, Mary Madison, withdrew a total of $30,000 for personal use during the year. Using the above data, prepare Madison Realty's Statement of Owner's Equity for the year ended December 31.

Answer:

|  |  |
| --- | --- |
|  | MADISON REALTY  Statement of Owner’s Equity  For year Ended December 31 |
|  | Mary Madison, Capital, January 1\* | $ 65,000 | \* |
|  | Plus Net income | 32,000 |  |
|  |  | $ 97,000 |  |
|  | Less Withdrawals by owner | (30,000 | ) |
|  | Mary Madison, Capital, December 31 | $ 67,000 |  |
|  |  |  |  |
|  | \*Total assets at January 1 | $100,000 |  |
|  | Less total liabilities at January 1 | 35,000 |  |
|  | Total owner's equity at January 1 | $ 65,000 |  |
|  |  |  |  |

*Blooms: Create  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

217. FastForward has the following beginning cash balance and cash transactions for the month of January. Using this information prepare a statement of cash flows.

|  |  |  |
| --- | --- | --- |
| a. | Beginning cash balance…………….. | $ 3,200 |
| b. | Cash investment by owner………….. | 15,000 |
| c. | Cash payment toward long-term loan | 1,000 |
| d. | Cash payment of rent……………….. | 1,800 |
| e. | Purchased equipment for cash…….. | 7,500 |
| f. | Purchased store supplies for cash… | 1,500 |
| g. | Cash collected from customers……. | 7,750 |
| h. | Cash withdrawal by owner………….. | 2,000 |
| i. | Cash payment of wages……………. | 4,000 |

Answer:

|  |  |  |
| --- | --- | --- |
| FastForward Statement of Cash Flows For Month Ended January 31 | | |
| Cash flows from operating activities: |  |  |
| Cash collected from customers………………… | $ 7,750 |  |
| Cash paid for supplies…………………………… | (1,500) |  |
| Cash paid for rent………………………………… | (1,800) |  |
| Cash paid for wages…………………………….. | (4,000) |  |
| Cash flows from operating activities………………… |  | $ 450 |
| Cash flows from investing activities: |  |  |
| Purchase of equipment…………………………. |  | (7,500) |
| Cash flows from financing activities: |  |  |
| Investment by owner……………………………. | 15,000 |  |
| Withdrawal by owner…………………………… | (2,000) |  |
| Payment of loan………………………………… | (1,000) |  |
| Cash flows from financing activities……………….. |  | 12,000 |
| Net increase in cash………………………………… |  | $ 4,950 |
| Beginning cash balance……………………………. |  | 3,200 |
| Ending cash balance……………………………….. |  | $ 8,150 |

*Blooms: Create*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

218.  The records of Skymaster Airplane Rentals show the following information as of December 31. Skymaster withdrew $52,000 during the year for personal expenses. Prepare a December income statement, a December statement of owner’s equity, and a December 30 balance sheet.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Accounts payable | $36,000 |  | Wages expense | $75,000 |
| Insurance expense | 2,000 |  | Advertising expense | 22,000 |
| Accounts receivable | 24,000 |  | Cash | 11,000 |
| H. Skymaster, capital, |  |  |  |  |
| January 1 | 150,000 |  | Office Furniture | 15,000 |
| Airplanes | 150,000 |  | Maintenance expense | 39,000 |
| Notes payable | 47,000 |  | Revenues | 217,000 |
| Hangar | 60,000 |  |  |  |
|  |  |  |  |  |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | SKYMASTER AIRPLANE RENTALS  Income Statement  For Year Ended December 31 | | | |
|  | Revenues |  | $ 217,000 |
|  | Expenses: |  |  |
|  | Insurance expense | $ 2,000 |  |
|  | Wages expense | 75,000 |  |
|  | Advertising expense | 22,000 |  |
|  | Maintenance expense | 39,000 |  |
|  | Total expenses |  | $ 138,000 |
|  | Net income |  | $ 79,000 |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | SKYMASTER AIRPLANE RENTALS  Statement of Owner's Equity  For Year Ended December 31 | | |
|  | H. Skymaster, Capital, January 1 | $150,000 |  |
|  | Add: Net income | 79,000 |  |
|  | Less: Withdrawals | (52,000 | ) |
|  | H. Skymaster, Capital, December 31 | $177,000 |  |
|  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | SKYMASTER AIRPLANE RENTALS  Balance Sheet  December 31 | | | | |
|  | Assets |  |  | Liabilities |  |
|  | Cash | $ 11,000 |  | Accounts payable | $ 36,000 |
|  | Accounts receivable | 24,000 |  | Notes payable | 47,000 |
|  | Airplanes | 150,000 |  | Total liabilities | $ 83,000 |
|  | Hangar | 60,000 |  | Equity |  |
|  | Office furniture | 15,000 |  | H. Skymaster, Capital | 177,000 |
|  |  | \_\_\_\_\_\_\_ |  | Total liabilities and |  |
|  | Total assets | $260,000 |  | equity | $260,000 |
|  |  |  |  |  |  |

*Blooms: Create*  
*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P2*

*Topic: Financial Statements*

 219.  Graham Roofing Company, owned by R. Graham, began operations in May and completed the following transactions during that first month of operations. Show the effects of the transactions on the accounts of the accounting equation by recording increases and decreases in the appropriate columns in the table below. Do not determine new account balances after each transaction. Determine the final total for each account and verify that the equation is in balance.

|  |  |  |
| --- | --- | --- |
| May | 1 | R. Graham invested $90,000 cash in the company. |
|  | 2 | The company purchased $25,000 in office equipment. It paid $10,000 in cash and signed a note payable promising to pay the $15,000 over the next three years. |
|  | 2 | The company rented office space and paid $3,000 for the May rent. |
|  | 6 | The company installed a new roof for a customer and immediately collected $5,000. |
|  | 7 | The company paid a supplier $2,000 for roofing materials used on the May 6 job. |
|  | 8 | The company purchased a $2,500 copy machine for office use on credit. |
|  | 9 | The company completed work for additional customers on credit in the amount of $16,000. |
|  | 15 | The company paid its employees salaries $2,300 for the first half of the month. |
|  | 17 | The company installed a new roof for a customer and immediately collected $2,400. |
|  | 20 | The company received $10,000 in payments from the customers billed on May 9. |
|  | 28 | The company paid $1,500 on the copy machine purchased on May 8. It will pay the remaining balance in June. |
|  | 31 | The company paid its employees salaries $2,400 for the second half of the month. |
|  | 31 | The company paid a supplier $5,300 for roofing materials used on the remaining jobs completed during May. |
|  | 31 | The company paid $450 for this month’s utility bill. |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **GRAHAM ROOFING CO.** | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
|  | **Assets =** | | | | | **Liabilities +** | **Equity** | | |
| **Date** |  | **Accounts** |  | **Accounts** | **Notes** | **R. Graham** | **R. Graham** |  |  |
| **May** | **Cash** | **Receivable** | **Equipment** | **Payable** | **Payable** | **Capital** | **Withdrawals** | **Revenues** | **Expenses** |
| 1 |  |  |  |  |  |  |  |  |  |
| 2 |  |  |  |  |  |  |  |  |  |
| 2 |  |  |  |  |  |  |  |  |  |
| 6 |  |  |  |  |  |  |  |  |  |
| 7 |  |  |  |  |  |  |  |  |  |
| 8 |  |  |  |  |  |  |  |  |  |
| 9 |  |  |  |  |  |  |  |  |  |
| 15 |  |  |  |  |  |  |  |  |  |
| 17 |  |  |  |  |  |  |  |  |  |
| 20 |  |  |  |  |  |  |  |  |  |
| 28 |  |  |  |  |  |  |  |  |  |
| 31 |  |  |  |  |  |  |  |  |  |
| 31 |  |  |  |  |  |  |  |  |  |
| 31 |  |  |  |  |  |  |  |  |  |
|  | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

Answer:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  | |  | |
|  | **Assets =** | | | | | **Liabilities +** | **Equity** | | | | |
| **Date** |  | **Accounts** |  | **Accounts** | **Notes** | **R. Graham** | **R. Graham** | |  | |  |
| **May** | **Cash** | **Receivable** | **Equipment** | **Payable** | **Payable** | **Capital** | **Withdrawals** | | **Revenues** | | **Expenses** |
| 1 | 90,000 |  |  |  |  | 90,000 |  | |  | |  |
| 2 | (10,000) |  | 25,000 |  | 15,000 |  |  | |  | |  |
| 2 | (3,000) |  |  |  |  |  |  | |  | | (3,000) |
| 6 | 5,000 |  |  |  |  |  |  | | 5,000 | |  |
| 7 | (2,000) |  |  |  |  |  |  | |  | | (2,000) |
| 8 |  |  | 2,500 | 2,500 |  |  |  | |  | |  |
| 9 |  | 16,000 |  |  |  |  |  | | 16,000 | |  |
| 15 | (2,300) |  |  |  |  |  |  | |  | | (2,300) |
| 17 | 2,400 |  |  |  |  |  |  | | 2,400 | |  |
| 20 | 10,000 | (10,000) |  |  |  |  |  | |  | |  |
| 28 | (1,500) |  |  | (1,500) |  |  |  | |  | |  |
| 31 | (2,400) |  |  |  |  |  |  | |  | | (2,400) |
| 31 | (5,300) |  |  |  |  |  |  | |  | | (5,300) |
| 31 | (450) |  |  |  |  |  |  | |  | | (450) |
|  | 80,450 | 6,000 | 27,500 | 1,000 | 15,000 | 90,000 | - | | 23,400 | | (15,450) |

*Blooms: Apply*

*Blooms: Analyze  
AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 3 Hard  
Learning Objective: 01-P1*

*Topic: Accounting Equation*

***Fill in the Blank Questions***

 220. Accounting is a(n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that identifies, records and communicates relevant, reliable and comparable information about an organization's economic activities. 

Answer: Information and measurement system (or information system)

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C1*

*Topic: What is Accounting?*

221. A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a business that is owned by only one person.

Answer: Sole proprietorship

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Business Formation*

222. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ users of accounting information are not directly involved in running the organization.

Answer: External

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C2*

*Topic: Users of Accounting*

223. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the area of accounting aimed at serving external users.

Answer: Financial accounting

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C2  
Topic: Uses of Accounting*

224. Congress passed the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to help curb financial abuses at companies that issue their stock to the public.

Answer: Sarbarnes-Oxley Act

*Blooms: Remember*  
*AACSB: Communication*

*AACSB: Ethics  
AICPA BB: Legal  
AICPA FN: Reporting  
Difficulty: 1 Easy*

*Learning Objective: 01-C3  
Learning Objective: 01-C4*

*Topic: Ethics*

*Topic: Generally Accepted Accounting Principles*

225. \_\_\_\_\_\_\_\_\_ are beliefs that separate right from wrong.

Answer: Ethics

*Blooms: Remember*

*AACSB: Communication*  
*AACSB: Ethics  
AICPA BB: Industry  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C3*

*Topic: Ethics*

226. The assumption that requires that a business be accounted for separately from its owners is the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ assumption.

Answer: business entity

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

227. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ assumption requires that financial information is supported by independent, unbiased evidence.

Answer: objectivity

*Bloom’s: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

228. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_ assumption assumes business will continue operating indefinitely instead of being closed or sold.

Answer: going-concern

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

229. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ assumption states that transactions and events are expressed in money units.

Answer: monetary unit

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

230. In accounting, the rule that requires that assets, services, and liabilities be recorded initially at the cash or cash-equivalent value of what was given up or of the item received is called the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Answer: cost principle

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Measurement  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Generally Accepted Accounting Principles*

231. A disadvantage of a sole proprietorship is the fact that the owner has \_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Answer: unlimited liability

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Business Formation*

232. There are at least three types of partnerships that limit the partners' liability. They are 1)\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, 2) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and 3)\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Answer: limited partnership, limited liability partnership, limited liability company

*Feedback: answers can appear in any order*

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Legal  
AICPA FN: Decision Making  
Difficulty: 1 Easy  
Learning Objective: 01-C4*

*Topic: Business Formation*

233. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ activities are the means organizations use to pay for resources such as land, building, and equipment.

Answer: Financing

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities*

234. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ activities involve the acquisition and disposal of resources that an organization uses to acquire and sell its products or services.

Answer: Investing

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities*

235. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ activities involve using resources to research, develop, purchase, produce, distribute, and market products and services.

Answer: Operating

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C5*

*Topic: Business Activities*

236. Assets removed from the business by the business owner for personal use are called \_\_\_\_\_\_\_\_\_\_\_\_.

Answer: withdrawals

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

237. \_\_\_\_\_\_\_\_\_\_\_\_ are the increases in equity from a company's earnings activities.

Answer: Revenues

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

238. A common characteristic of \_\_\_\_\_\_\_\_\_\_ is their ability to provide expected future benefits to a business.

Answer: assets

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

239. Creditors claims on assets that reflect obligations to transfer assets are called \_\_\_\_\_\_\_\_.

Answer: liabilities

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

240. The owner's claim on assets is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Answer: equity

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

241. The accounting equation is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Answer: Assets = Liabilities + Owner’s Equity

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

242. The term \_\_\_\_\_\_\_\_\_\_\_ refers to a liability that promises a future outflow of resources.

Answer: payable

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

243. Using the accounting equation, equity is equal to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Answer: assets minus liabilities

*Blooms: Understand*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 2 Medium  
Learning Objective: 01-A1*

*Topic: Accounting Equation*

244. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the recording of financial transactions and events, either manually or electronically.

Answer: Record-keeping or Bookkeeping

*Blooms: Remember*  
*AACSB: Communications  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-C1*

*Topic: What is Accounting?*

245. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is net income divided by average total assets.

Answer: Return on assets

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-A2*

*Topic: Return on Assets*

246. Risk is the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ about the return an investor expects to earn.

Answer: uncertainty

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Risk Analysis  
Difficulty: 1 Easy  
Learning Objective: 01-A3*

*Topic: Risk and Return*

247. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ reports changes in the owner's claim on the business's assets over a period of time.

Answer: The statement of owner’s equity

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*

248. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ describes a company's revenues and expenses over a period of time due to earnings activities.

Answer: income statement

*Blooms: Remember*  
*AACSB: Communication  
AICPA BB: Industry  
AICPA FN: Reporting  
Difficulty: 1 Easy  
Learning Objective: 01-P2*

*Topic: Financial Statements*