CHAPTER 1

INTRODUCTION TO FINANCIAL STATEMENTS

SUMMARY OF QUESTIONS BY STUDY OBJECTIVE AND BLOOM'S TAXONOMY

Item	SO	BT	Item	SO	BT	Item	SO	BT	Item	SO	BT	Item	SO	BT
True-False Statements														
1.	1	K	9.	2	K	17.	3	K	25.	4	K	33.	5	K
2.	1	K	10.	2	K	18.	3	C	26.	4	K	34.	5	K
3.	1	K	11.	2	K	19.	3	K	27.	5	K	35.	6	K
4.	1	K	12.	3	K	20.	4	K	28.	5	C	36.	6	K
5.	1	K	13.	3	K	21.	4	K	29.	5	C	37.	6	K
6.	2	K	14.	3	K	22.	4	K	30.	5	C	38.	6	K
7.	2	K	15.	3	K	23.	4	K	31.	5	C	39.	6	K
8.	2	K	16.	3	K	24.	4	K	32.	5	C	40.	6	C
Multiple Choice Questions														
41.	1	K	68.	2	K	95.	3	AP	122.	4	AP	149.	5	K
42.	1	K	69.	2	K	96.	3	K	123.	4	AN	150.	5	C
43.	1	K	70.	2	K	97.	3	C	124.	4	AN	151.	5	C
44.	1	K	71.	2	K	98.	3	C	125.	5	K	152.	5	C
45.	1	K	72.	2	C	99.	4	K	126.	5	K	153.	5	AP
46.	1	K	73.	2	K	100.	4	K	127.	5	K	154.	5	AP
47.	1	K	74.	2	K	101.	4	K	128.	5	AP	155.	5	AP
48.	1	K	75.	2	C	102.	4	C	129.	5	AP	156.	5	AP
49.	1	K	76.	2	C	103.	4	K	130.	5	AP	157.	5	AP
50.	1	K	77.	2	C	104.	4	C	131.	5	AP	158.	5	AP
51.	1	C	78.	3	K	105.	4	K	132.	5	AN	159.	5	K
52.	1	C	79.	3	K	106.	4	K	133.	5	AN	160.	5	K
53.	1	K	80.	3	K	107.	4	K	134.	5	AN	161.	5	AN
54.	1	K	81.	3	K	108.	4	K	135.	5	AN	162.	5	AN
55.	2	C	82.	3	K	109.	4	C	136	5	AN	163.	5	AN
56.	2	K	83.	3	K	110.	4	K	137.	5	K	164.	5	AN
57.	2	K	84.	3	K	111.	4	K	138.	5	K	165.	5	AN
58.	2	K	85.	3	K	112.	4	K	139.	5	K	166.	6	K
59.	2	K	86.	3	K	113.	4	C	140.	5	K	167.	6	K
60.	2	K	87.	3	K	114.	4	K	141.	5	K	168.	6	K
61.	2	K	88.	3	K	115.	4	C	142.	5	K	169.	6	K
62.	2	K	89.	3	K	116.	4	K	143.	5	K	170.	6	K
63.	2	K	90.	3	K	117.	4	K	144.	5	K	171.	6	K
64.	2	K	91.	3	K	118.	4	C	145.	5	K	172.	6	K
65.	2	K	92.	3	K	119.	4	AP	146.	5	K	173.	6	C
66.	2	K	93.	3	K	120.	4	AP	147.	5	C	174.	6	K
67.	2	K	94.	3	AP	121.	4	AP	148.	5	K			
Brief Exercises														
175.	1	C	179.	4	AP	183.	5	AP	187.	5	C	191.	5	AN
176.	3	C	180.	4	C	184.	5	AP	188.	5	AN			
177.	4	AP	181.	4	AP	185.	5	K	189.	5	C			
178.	4	AP	182.	4	K	186.	5	C	190.	5	AN			
Exercises														
192.	4	AP	194.	4	AP	196.	4,5	AN	198.	5	AP	200.	5	AP
193.	4	AP	195.	4	AP	197.	4,5	AP	199.	5	AN	201.	5	AN

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Completion Statements											
202.	1	K	204.	3	K	206.	5	K	208.	5	K
203.	2	K	205.	5	K	207.	5	K	209.	6	K

Matching											
210.	1-6	K									
Short Answer Essay											
211.	1	K	214.	2	K	217.	5	AN	220.	6	C
212.	1	C	215.	4	C	218.	5	K	221.	6	E
213.	2	C	216.	4	C	219.	5	C	222.	4	C

*This topic is dealt with in an Appendix to the chapter.

SUMMARY OF STUDY OBJECTIVES BY QUESTION TYPE

Study Objective 1											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
1.	TF	5.	TF	44.	MC	48.	MC	52.	MC	202.	CS
2.	TF	41.	MC	45.	MC	49.	MC	53.	MC	210.	Ma
3.	TF	42.	MC	46.	MC	50.	MC	54.	MC	211.	SA
4.	TF	43.	MC	47.	MC	51.	MC	175.	BE	212.	SA
Study Objective 2											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
6.	TF	55.	MC	61.	MC	67.	MC	73.	MC	210.	Ma
7.	TF	56.	MC	62.	MC	68.	MC	74.	MC	213.	SA
8.	TF	57.	MC	63.	MC	69.	MC	75.	MC	214.	SA
9.	TF	58.	MC	64.	MC	70.	MC	76.	MC		
10.	TF	59.	MC	65.	MC	71.	MC	77.	MC		
11.	TF	60.	MC	66.	MC	72.	MC	203.	CS		
Study Objective 3											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
12.	TF	18.	TF	82.	MC	88.	MC	94.	MC	204.	CS
13.	TF	19.	TF	83.	MC	89.	MC	95.	MC	210.	Ma
14.	TF	78.	MC	84.	MC	90.	MC	96.	MC		
15.	TF	79.	MC	85.	MC	91.	MC	97.	MC		
16.	TF	80.	MC	86.	MC	92.	MC	98.	MC		
17.	TF	81.	MC	87.	MC	93.	MC	176.	BE		

Study Objective 4											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
20.	TF	101.	MC	110.	MC	119.	MC	180.	BE	210.	Ma
21.	TF	102.	MC	111.	MC	120.	MC	181.	BE	215.	SA
22.	TF	103.	MC	112.	MC	121.	MC	182.	BE	216.	SA
23.	TF	104.	MC	113.	MC	122.	MC	192.	Ex	222.	SA
24.	TF	105.	MC	114.	MC	123.	MC	193.	Ex		
25.	TF	106.	MC	115.	MC	124.	MC	194.	Ex		
26.	TF	107.	MC	116.	MC	177.	BE	195.	Ex		
99.	MC	108.	MC	117.	MC	178.	BE	196.	Ex		
100.	MC	109.	MC	118.	MC	179.	BE	197.	Ex		
Study Objective 5											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
27.	TF	129.	MC	141.	MC	153.	MC	165.	MC	198.	Ex
28.	TF	130.	MC	142.	MC	154.	MC	183.	BE	199.	Ex
29.	TF	131.	MC	143.	MC	155.	MC	184.	BE	200.	Ex
30.	TF	132.	MC	144.	MC	156.	MC	185.	BE	201.	Ex
31.	TF	133.	MC	145.	MC	157.	MC	186.	BE	205.	CS
32.	TF	134.	MC	146.	MC	158.	MC	187.	BE	206.	CS
33.	TF	135.	MC	147.	MC	159.	MC	188.	BE	207.	CS
34.	TF	136.	MC	148.	MC	160.	MC	189.	BE	208.	CS
125.	MC	137.	MC	149.	MC	161.	MC	190.	BE	217.	SA
126.	MC	138.	MC	150.	MC	162.	MC	191.	BE	218.	SA
127.	MC	139.	MC	151.	MC	163.	MC	196.	Ex	219.	SA
128.	MC	140.	MC	152.	MC	164.	MC	197.	Ex	210.	Ma
Study Objective 6											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
35.	TF	39.	TF	168.	MC	172.	MC	210.	Ma		
36.	TF	40.	TF	169.	MC	173.	MC	220.	SA		
37.	TF	166.	MC	170.	MC	174.	MC	221.	SA		
38.	TF	167.	MC	171.	MC	209.	CS				

Note: TF = True-False
MC = Multiple Choice
Ma = Matching
C = Completion
Ex = Exercise
SA = Short Answer Essay

CHAPTER STUDY OBJECTIVES

1. ***Describe the primary forms of business organization.*** A sole proprietorship is a business owned by one person. A partnership is a business owned by two or more people associated as partners. A corporation is a separate legal entity for which evidence of ownership is provided by shares of stock.

2. ***Identify the users and uses of accounting information.*** Internal users are managers who need accounting information to plan, organize, and run business operations. The primary external users are investors and creditors. Investors (stockholders) use accounting information to help them decide whether to buy, hold, or sell shares of a company's stock. Creditors (suppliers and bankers) use accounting information to assess the risk of granting credit or loaning money to a business. Other groups who have an indirect interest in a business are taxing authorities, customers, labor unions, and regulatory agencies.

3. ***Explain the three principal types of business activity.*** Financing activities involve collecting the necessary funds to support the business. Investing activities involve acquiring the resources necessary to run the business. Operating activities involve putting the resources of the business into action to generate a profit.

4. ***Describe the content and purpose of each of the financial statements.*** An income statement presents the revenues and expenses of a company for a specific period of time. A retained earnings statement summarizes the changes in retained earnings that have occurred for a specific period of time. A balance sheet reports the assets, liabilities, and stockholders' equity of a business at a specific date. A statement of cash flows summarizes information concerning the cash inflows (receipts) and outflows (payments) for a specific period of time.

5. ***Explain the meaning of assets, liabilities, and stockholders' equity, and state the basic accounting equation.*** Assets are resources owned by a business. Liabilities are the debts and obligations of the business. Liabilities represent claims of creditors on the assets of the business. Stockholders' equity represents the claims of owners on the assets of the business. Stockholders' equity is subdivided into two parts: common stock and retained earnings. The basic accounting equation is:

   Assets = Liabilities + Stockholders' Equity

6. ***Describe the components that supplement the financial statements in an annual report.*** The management discussion and analysis provides management's interpretation of the company's results and financial position as well as a discussion of plans for the future. Notes to the financial statements provide additional explanation or detail to make the financial statements more informative. The auditor's report expresses an opinion as to whether the financial statements present fairly the company's results of operations and financial position.

TRUE-FALSE STATEMENTS

1. A business organized as a separate legal entity owned by stockholders is a partnership.

Ans: F, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

2. Corporate stockholders generally pay higher taxes but have no personal liability.

Ans: T, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

3. The liability of corporate stockholders is limited to the amount of their investment.

Ans: T, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

4. The majority of U.S. business is transacted by proprietorships.

Ans: F, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

5. Proprietorships in the United States generate more revenue than the other two forms of business enterprise.

Ans: F, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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

Ans: F, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

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

Ans: F, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

8. External users of accounting information are managers who plan, organize, and run a business.

Ans: F, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

9. The information needs and questions of external users vary considerably.

Ans: T, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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

Ans: T, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

11. Two primary external users of accounting information are investors and creditors.

Ans: T, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

12. Financing activities for corporations include borrowing money and selling shares of their own stock.

Ans: T, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

13. Investing activities involve collecting the necessary funds to support the business.

Ans: F, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

14. The purchase of equipment is an example of a financing activity.

Ans: F, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

15. Assets are resources owned by a business and provide future services or benefits to the business.

Ans: T, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

16. Payments to owners are operating activities.

Ans: F, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

17. The economic resources that are owned by a business are called stockholders' equity.

Ans: F, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

18. Operating activities involve putting the resources of the business into action to generate a profit.

Ans: T, SO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

19. A business is usually involved in two types of activity—financing and investing.

Ans: F, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

20. Net income for the period is determined by subtracting total expenses and dividends from revenues.

Ans: F, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

21. A different set of financial statements usually is prepared for each user.

Ans: F, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

22. The heading for the income statement might include the line "As of December 31, 20xx."

Ans: F, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

23. Net income is another term for revenue.

Ans: F, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

24. Cash is another term for Stockholders' Equity.

Ans: F, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

25. The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments of a company for a specific period of time.

Ans: T, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

26. The balance sheet reports assets and claims to those assets at a specific point in time.

Ans: T, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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

Ans: F, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

28. One way of stating the accounting equation is: Assets + Liabilities = Stockholders' Equity.

Ans: F, SO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

29. The accounting equation can be expressed as Assets - Stockholders' Equity = Liabilities.

Ans: T, SO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

30. The accounting equation can be expressed as Assets - Liabilities = Stockholders' Equity.

Ans: T, SO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

31. If the assets owned by a business total $150,000 and liabilities total $105,000, stockholders' equity totals $45,000.

Ans: T, SO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

32. If the assets owned by a business total $100,000 and liabilities total $65,000, stockholders' equity totals $25,000.

Ans: F, SO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

33. Claims of creditors and owners on the assets of a business are called liabilities.

Ans: F, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

34. Creditors' rights to assets supersede owners' rights to the assets.

Ans: T, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

35. All publicly traded U.S. companies must provide their shareholders with an annual report each year.

Ans: T, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

36. Information in the notes to the financial statements has to be quantifiable (numeric).

Ans: F, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

37. An auditor is an accounting professional who conducts an independent examination of the accounting data presented by a company.

Ans: T, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Professional Demeanor, IMA: Reporting

38. The management discussion and analysis (MD & A) section of an annual report covers various financial aspects of a company.

Ans: T, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Reporting

39. Explanatory notes and supporting schedules are an optional part of an annual report.

Ans: F, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Reporting

40. Examples of notes are descriptions of the significant accounting policies and methods used in preparing the statements, explanations of contingencies, and various statistics.

Ans: T, SO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Reporting

Answers to True-False Statements

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

MULTIPLE CHOICE QUESTIONS

41. The proprietorship form of business organization
    a. must have at least two owners in most states.
    b. generally receives favorable tax treatment relative to a corporation.
    c. combines the records of the business with the personal records of the owner.
    d. is classified as a separate legal entity.

Ans: B, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

42. A business organized as a corporation
    a. is not a separate legal entity in most states.
    b. requires that stockholders be personally liable for the debts of the business.
    c. is owned by its stockholders.
    d. has tax advantages over a proprietorship or partnership.

Ans: C, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

43. The partnership form of business organization
    a. is a separate legal entity.
    b. is a common form of organization for service-type businesses.
    c. enjoys an unlimited life.
    d. has limited liability.

Ans: B, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

44. Which of the following is **not** one of the three forms of business organization?
    a. corporations.
    b. partnerships.
    c. proprietorships.
    d. investors.

Ans: D, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

45. Most business enterprises in the United States are
    a. proprietorships and partnerships.
    b. partnerships.
    c. corporations.
    d. government units.

Ans: A, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

46. A business organized as a separate legal entity is a
    a. corporation.
    b. proprietor.
    c. government unit.
    d. partnership.

Ans: A, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

47. Which of the following is **not** an advantage of the corporate form of business organization?
    a. No personal liability
    b. Easy to transfer ownership
    c. Favorable tax treatment
    d. Easy to raise funds

Ans: C, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

48. An advantage of the corporate form of business is that
    a. it has limited life.
    b. its owner's personal resources are at stake.
    c. its ownership is easily transferable via the sale of shares of stock.
    d. it is simple to establish.

Ans: C, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

49. Which of the following is an advantage of corporations relative to partnerships and sole proprietorships?
    a. Reduced legal liability for investors.
    b. Harder to transfer ownership.
    c. Lower taxes.
    d. Most common form of organization.

Ans: A, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

50. A corporation has which of the following set of characteristics?
    a. Shared control, tax advantages, increased skills and resources
    b. Simple to set up and maintains control with founder
    c. Easier to transfer ownership and raise funds, no personal liability
    d. Harder to raise funds and gives owner control

Ans: C, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

51. A small neighborhood barber shop that is operated by its owner would likely be organized as a
    a. joint venture.
    b. partnership.
    c. corporation.
    d. proprietorship.

Ans: D, SO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

52. A local retail shop has been operating as a sole proprietorship. The business is growing and now the owner wants to incorporate. Which of the following is not a reason for this owner to incorporate?
    a. ability to raise capital for expansion
    b. desire to limit the owner's personal liability
    c. the prestige of operating as a corporation
    d. the ease in transferring shares of the corporation's stock

Ans: C, SO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

53. All of the following are advantages for choosing a proprietorship for a business except:
    a. A proprietorship is a simple form of business to set up.
    b. A proprietorship gives the owner control of the business.
    c. Proprietorship receive more favorable tax treatment.
    d. Transfer of ownership is easily achieved through stock sales.

Ans: D, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

54. Jack and Jill form a partnership. Jack runs the business in New York, while Jill vacations in Hawaii. During the time Jill is away from the business, Jack increases the debts of the business by $20,000. Which of the following statements is *true* regarding this debt?
    a. Only Jack is personally liable for the debt, since he has been the managing partner during that time.
    b. Only Jill is personally liable for the debt of the business, since Jack has been working and she has not.
    c. Both Jack and Jill are personally liable for the business debt.
    d. Neither Jack nor Jill is personally liable for the business debt, since the partnership is a separate legal entity.

Ans: C, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

55. Which one of the following questions is *most* likely asked by an internal human resources director for the company?
    a. Which product line is most profitable?
    b. What price for our product will maximize the company income?
    c. What average pay raise is affordable for employees this year?
    d. Should any product lines be eliminated?

Ans: C, SO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

56. Which of the following are internal reports that accounting provides to internal users?
    a. Forecasts of cash needs for next year.
    b. Financial comparisons of operating activity alternative.
    c. Both a and b are internal reports.
    d. Neither a or b is an internal report.

Ans: C, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

57. Which of the following is the *best* definition of an internal user of accounting information?
    a. Investors who use accounting information to decide whether to buy or sell stock.
    b. Creditors like banks that use accounting information to evaluate the risk of lending money.
    c. Labor unions who use accounting information to examine the ability of the company to pay increased wages and benefits.
    d. Managers who use accounting information to plan, organize, and run a business.

Ans: D, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

58. External users of accounting information, like the Internal Revenue Service, are most commonly known as:
    a. taxing authorities
    b. labor unions
    c. customers
    d. regulatory agencies

Ans: A, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

59. Which of the following statements is *not* true regarding the Sarbanes-Oxley Act (SOX) of 2002?
    a. The Act calls for increased oversight responsibilities for boards of directors.
    b. The Act has resulted in increased penalties for financial fraud by top management.
    c. The Act calls for decreased independence of outside auditors reviewing corporate financial statements.
    d. The Act is meant to decrease the likelihood of unethical corporate behavior.

Ans: C, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

60. Which of the following is not a step for solving an ethical dilemma?
    a. Identifying the alternatives and weighing the impact of each alternative on various stakeholders.
    b. Certifying the ethical accuracy of the financial information.
    c. Identifying and analyzing the principal elements in the situation.
    d. Recognizing the ethical situation and issues involved.

Ans: B, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Professional Demeanor, IMA: Reporting

61. Which of the following is the most appropriate and modern definition of accounting?
    a. The information system that identifies, records, and communicates the economic events of an organization to interested users
    b. A means of collecting information
    c. The interconnected network of subsystems necessary to operate a business
    d. Electronic collection, organization, and communication of vast amounts of information.

Ans: A, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

62. Which of the following would not be considered an internal user of accounting data for the Xanadu Company?
    a. President of the company
    b. Production manager
    c. Merchandise inventory clerk
    d. President of the employees' labor union

Ans: D, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

63. Which of the following groups uses accounting information primarily to insure the entity is operating within prescribed rules?
    a. Taxing authorities
    b. Regulatory agencies
    c. Labor Unions
    d. Management

Ans: B, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Professional Demeanor, IMA: Reporting

64. The group of users of accounting information charged with achieving the goals of the business is its
    a. auditors.
    b. investors.
    c. managers.
    d. creditors.

Ans: C, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Decision Modeling, AICPA PC: Project Management, IMA: Business Economics

65. Which of the following groups uses accounting information to determine whether the company can pay its obligations?
    a. Investors in common stock
    b. Marketing managers
    c. Creditors
    d. Chief Financial Officer

Ans: C, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

66. Which of the following groups uses accounting information to determine whether the company's net income will result in a stock price increase?
    a. Investors in common stock
    b. Marketing managers
    c. Creditors
    d. Chief Financial Officer

Ans: A, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

67. Which of the following groups uses accounting information to determine whether a marketing proposal will be cost effective?
    a. Investors in common stock
    b. Marketing managers
    c. Creditors
    d. Chief Financial Officer

Ans: B, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Project Management, IMA: Business Economics

68. Which of the following would **not** be considered an external user of accounting data for the Julian Company?
    a. Internal Revenue Service Agent
    b. Management
    c. Creditors
    d. Customers

Ans: B, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

69. Which of the following would **not** be considered an internal user of accounting data for a company?
    a. The president of a company
    b. The controller of a company
    c. Creditor of a company
    d. Salesperson of a company

Ans: C, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

70. Which of the following is a primary user of accounting information with a direct financial interest in the business?
    a. Taxing authority
    b. Creditor
    c. Regulatory agency
    d. Labor union

Ans: B, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

71. Which of the following is a user of accounting information with an indirect financial interest in a business?
    a. A financial adviser
    b. Management
    c. Investor
    d. Creditor

Ans: A, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

72. Which type of corporate information is readily available to investors?
    a. financial comparison of operating alternatives
    b. marketing strategies for a product that will be introduced in eighteen months
    c. forecasts of cash needs for the upcoming year
    d. amount of net income retained in the business

Ans: D, SO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

73. Which of the following statements concerning users of accounting information is **incorrect**?
    a. Management is considered an internal user.
    b. Present creditors are considered external users.
    c. Regulatory authorities are considered internal users.
    d. Taxing authorities are considered external users.

Ans: C, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

74. External users want answers to all of the following questions except
    a. Is the company earning satisfactory income?
    b. Will the company be able to pay its debts as they come due?
    c. Will the company be able to afford employee pay raises this year?
    d. How does the company compare in profitability with competitors?

Ans: C, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

75. Which type of corporate information is not available to investors?
    a. dividend history
    b. forecast of cash needs for the upcoming year
    c. cash provided by investing activities
    d. beginning cash balance

Ans: B, SO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

76. The liability created by a business when it purchases coffee beans and coffee cups on credit from suppliers is termed a(n)
    a. account payable.
    b. account receivable.
    c. revenue.
    d. expense.

Ans: A, SO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

77. The right to receive money in the future is called a(n)
    a. account payable.
    b. account receivable.
    c. liability.
    d. revenue.

Ans: B, SO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

78. Which of the following is **not** a principal type of business activity?
    a. Operating
    b. Investing
    c. Financing
    d. Delivering

Ans: D, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

79. Borrowing money is an example of a(n)
    a. delivering activity.
    b. financing activity.
    c. investing activity.
    d. operating activity.

Ans: B, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

80. Issuing shares of stock in exchange for cash is an example of a(n)
    a. delivering activity.
    b. investing activity.
    c. financing activity.
    d. operating activity.

Ans: C, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

81. Debt securities sold to investors that must be repaid at a particular date some years in the future are called
    a. accounts payable.
    b. notes receivable.
    c. taxes payable.
    d. bonds payable.

Ans: D, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

82. Which of the following activities involves collecting the necessary funds to support the business?
    a. Operating
    b. Investing
    c. Financing
    d. Delivering

Ans: C, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

83. Buying assets needed to operate a business is an example of a(n)
    a. delivering activity.
    b. financing activity.
    c. investing activity.
    d. operating activity.

Ans: C, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

84. Which activities involve acquiring the resources to run the business?
    a. Delivering
    b. Financing
    c. Investing
    d. Operating

Ans: C, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

85. Which activities involve putting the resources of the business into action to generate a profit?
    a. Delivering
    b. Financing
    c. Investing
    d. Operating

Ans: D, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

86. The statement of cash flows would disclose the payment of a dividend
    a. nowhere on the statement.
    b. in the operating activities section.
    c. in the investing activities section.
    d. in the financing activities section.

Ans: D, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

87 Buying and selling products are examples of
    a. operating activities.
    b. investing activities.
    c. financing activities.
    d. delivering activities.

Ans: A, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

88. The common characteristic possessed by all assets is
    a. long life.
    b. great monetary value.
    c. tangible nature.
    d. future economic benefit.

Ans: D, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

89. Expenses are incurred
    a. only on rare occasions.
    b. to produce assets.
    c. to produce liabilities.
    d. to generate revenues.

Ans: D, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

90. The cost of assets consumed or services used is also known as
    a. a revenue.
    b. an expense.
    c. a liability.
    d. an asset.

Ans: B, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

91. Resources owned by a business are referred to as
    a. stockholders' equity.
    b. liabilities.
    c. assets.
    d. revenues.

Ans: C, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

92. The best definition of assets is the
    a. cash owned by the company.
    b. collections of resources belonging to the company and the claims on these resources.
    c. Owners' investment in the business.
    d. resources belonging to a company have future benefit to the company.

Ans: D, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

93. Debt and obligations of a business are referred to as
    a. assets.
    b. equities.
    c. liabilities.
    d. expenses.

Ans: C, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

94. Jackson Company recorded the following cash transactions for the year:
    Paid $135,000 for salaries.
    Paid $60,000 to purchase office equipment.
    Paid $15,000 for utilities.
    Paid $6,000 in dividends.
    Collected $225,000 from customers.
    What was Jackson's net cash provided by operating activities?
    a. $75,000
    b. $15,000
    c. $90,000
    d. $69,000

Ans: A, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

95. Gibson Company recorded the following cash transactions for the year:
    Paid $180,000 for salaries.
    Paid $80,000 to purchase office equipment.
    Paid $20,000 for utilities.
    Paid $8,000 in dividends.
    Collected $300,000 from customers.
    What was Gibson's net cash provided by operating activities?
    a. $100,000
    b. $20,000
    c. $120,000
    d. $92,000

Ans: A, SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

96. When expenses exceed revenues, which of the following is *true*?
    a. a net loss results
    b. a net income results
    c. assets equal liabilities
    d. assets are increased

Ans: A, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

97. Which of the following is an asset?
    a. Mortgage Payable
    b. Investments
    c. Common stock
    d. Retained earnings

Ans: B, SO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

98. Which of the following is *not* a liability?
    a. Unearned Service Revenue
    b. Accounts Payable
    c. Accounts Receivable
    d. Interest Payable

Ans: C, SO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

99. Which of the following financial statements is divided into major categories of operating, investing, and financing activities?
    a. The income statement.
    b. The balance sheet.
    c. The retained earnings statement.
    d. The statement of cash flows.

Ans: D, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

100. The retained earnings statement shows all of the following *except*:
    a. The amounts of changes in retained earnings during the period.
    b. The causes of changes in retained earnings during the period.
    c. The time period following the one shown for the income statement.
    d. Beginning retained earnings on the first line of the statement.

Ans: C, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

101. Ending retained earnings for a period is equal to:
    a. Beginning retained earnings + Net income + Dividends
    b. Beginning retained earnings – Net income – Dividends
    c. Beginning retained earnings + Net income – Dividends
    d. Beginning retained earnings – Net income + Dividends

Ans: C, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

102. Which of the following statements is *true*?
    a. Amounts received from issuing stock are revenues.
    b. Amounts paid out as dividends are not expenses.
    c. Amounts paid out as dividends are reported on the income statement.
    d. Amounts received from issued stock are reported on the income statement.

Ans: B, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

103. Dividends are reported on the
    a. income statement.
    b. retained earnings statement.
    c. balance sheet.
    d. income statement and balance sheet.

Ans: B, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

104. Dividends paid
    a. increase assets.
    b. increase expenses.
    c. decrease revenues.
    d. decrease retained earnings.

Ans: D, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

105. The financial statement that summarizes the changes in retained earnings for a specific period of time is the
    a. balance sheet.
    b. income statement.
    c. statement of cash flows.
    d. retained earnings statement.

Ans: D, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

106. To show how successfully your business performed during a period of time, you would report its revenues and expense in the
    a. balance sheet.
    b. income statement.
    c. statement of cash flows.
    d. retained earnings statement.

Ans: B, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

107. Net income results when
    a. Assets > Liabilities.
    b. Revenues = Expenses.
    c. Revenues > Expenses.
    d. Revenues < Expenses.

Ans: C, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

108. Net income will result during a time period when:
    a. assets exceed liabilities.
    b. assets exceed revenues.
    c. expenses exceed revenues.
    d. revenues exceed expenses.

Ans: D, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

109. Retained earnings at the end of the period is equal to
    a. retained earnings at the beginning of the period plus net income minus liabilities.
    b. retained earnings at the beginning of the period plus net income minus dividends.
    c. net income.
    d. assets plus liabilities.

Ans: B, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

110. Which of the following financial statements is concerned with the company at a point in time?
    a. Balance sheet.
    b. Income statement.
    c. Retained Earnings statement.
    d. Statement of cash flows.

Ans: A, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

111. The company's policy toward dividends and growth could best be determined by examining the
    a. Balance sheet.
    b. Income statement.
    c. Retained earnings statement.
    d. Statement of cash flows.

Ans: C, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

112. An income statement
    a. summarizes the changes in retained earnings for a specific period of time.
    b. reports the changes in assets, liabilities, and stockholders' equity over a period of time.
    c. reports the assets, liabilities, and stockholders' equity at a specific date.
    d. presents the revenues and expenses for a specific period of time.

Ans: D, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

113. If the retained earnings account increases from the beginning of the year to the end of the year, then
    a. net income is less than dividends.
    b. a net loss is less than dividends.
    c. additional investments are less than net losses.
    d. net income is greater than dividends.

Ans: D, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

114. The retained earnings statement would **not** show
    a. the retained earnings beginning balance.
    b. revenues and expenses.
    c. dividends.
    d. the ending retained earning balance.

Ans: B, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

115. If the retained earnings account decreases from the beginning of the year to the end of the year, then
    a. net income is less than dividends.
    b. there was a net income and no dividends.
    c. additional investments are less than net losses.
    d. net income is greater than dividends.

Ans: A, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

116. Which financial statement is prepared first?
    a. Balance sheet
    b. Income statement
    c. Retained earnings statement
    d. Statement of cash flows

Ans: B, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

117. An income statement shows
    a. revenues, liabilities, and stockholders' equity.
    b. expenses, dividends, and stockholders' equity.
    c. revenues, expenses, and net income.
    d. assets, liabilities, and stockholders' equity.

Ans: C, SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

118. In a study session, a classmate makes this statement "Dividends are listed as expenses on the income statement." What is your **best** response to this statement?
    a. I've been struggling with that concept and I feel that dividends should be shown on the balance sheet as assets.
    b. You are right. Revenues and expenses are shown on the income statement. Dividends are a cost of generating revenues and that makes them an expense. Why else would a corporation pay dividends?
    c. Dividends represent a portion of corporate profits that are paid to the shareholders. They belong on the retained earnings statement.
    d. Dividends are deducted from retained earnings on the balance sheet.

Ans: C, SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

119. Henson Company began the year with retained earnings of $350,000. During the year, the company recorded revenues of $500,000, expenses of $380,000, and paid dividends of $40,000. What was Henson's retained earnings at the end of the year?
    a. $510,000
    b. $430,000
    c. $810,000
    d. $470,000

Ans: B, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

120. Pinson Company began the year with retained earnings of $550,000. During the year, the company recorded revenues of $600,000, expenses of $380,000, and paid dividends of $140,000. What was Pinson's retained earnings at the end of the year?
    a. $910,000
    b. $630,000
    c. $1,010,000
    d. $480,000

Ans: B, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

121. Finney Company began the year by issuing $20,000 of common stock for cash. The company recorded revenues of $185,000, expenses of $160,000, and paid dividends of $10,000. What was Finney's net income for the year?
    a. $15,000
    b. $35,000
    c. $25,000
    d. $45,000

Ans: C, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

122. Lankston Company began the year by issuing $60,000 of common stock for cash. The company recorded revenues of $550,000, expenses of $480,000, and paid dividends of $30,000. What was Lankston's net income for the year?
    a. $40,000
    b. $100,000
    c. $70,000
    d. $130,000

Ans: C, SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

123. Gilkey Corporation began the year with retained earnings of $155,000. During the year, the company issued $210,000 of common stock, recorded expenses of $600,000, and paid dividends of $40,000. If Gilkey's ending retained earnings was $165,000, what was the company's revenue for the year?
    a. $610,000
    b. $650,000
    c. $820,000
    d. $860,000

Ans: B, SO: 4, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

124. Kilmer Corporation began the year with retained earnings of $310,000. During the year, the company issued $420,000 of common stock, recorded expenses of $1,200,000, and paid dividends of $80,000. If Kilmer's ending retained earnings was $330,000, what was the company's revenue for the year?
    a. $1,220,000
    b. $1,300,000
    c. $1,640,000
    d. $1,720,000

Ans: B, SO: 4, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

125. A balance sheet shows
    a. revenues, liabilities, and stockholders' equity.
    b. expenses, dividends, and stockholders' equity.
    c. revenues, expenses, and dividends.
    d. assets, liabilities, and stockholders' equity.

Ans: D, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

126. The accounting equation may be expressed as:
    a. Assets = Stockholders' Equity – Liabilities.
    b. Assets = Liabilities + Stockholders' Equity.
    c. Assets + Liabilities = Stockholders' Equity.
    d. Assets + Stockholders' Equity = Liabilities.

Ans: B, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

127. Which of the following is **not** a satisfactory statement of the accounting equation?
    a. Assets = Stockholders' Equity – Liabilities.
    b. Assets = Liabilities + Stockholders' Equity.
    c. Assets - Liabilities = Stockholders' Equity.
    d. Assets - Stockholders' Equity = Liabilities.

Ans: A, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

128. Jimmy's Repair Shop started the year with total assets of $150,000 and total liabilities of $120,000. During the year the business recorded $315,000 in revenues, $165,000 in expenses, and dividends of $30,000. Stockholders' equity at the end of the year was
    a. $180,000.
    b. $150,000.
    c. $120,000.
    d. $135,000.

Ans: B, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

129. Jimmy's Repair Shop started the year with total assets of $150,000 and total liabilities of $120,000. During the year the business recorded $315,000 in revenues, $165,000 in expenses, and dividends of $30,000. The net income reported by Jimmy's Repair Shop for the year was
    a. $120,000.
    b. $150,000.
    c. $90,000.
    d. $285,000.

Ans: B, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

130. Ashley's Accessory Shop started the year with total assets of $70,000 and total liabilities of $40,000. During the year the business recorded $110,000 in revenues, $55,000 in expenses, and dividends of $20,000. Stockholders' equity at the end of the year was
    a. $60,000.
    b. $55,000.
    c. $65,000.
    d. $35,000.

Ans: C, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

131. Ashley's Accessory Shop started the year with total assets of $70,000 and total liabilities of $40,000. During the year the business recorded $110,000 in revenues, $55,000 in expenses, and dividends of $20,000. The net income reported by Ashley's Accessory Shop for the year was
    a. $40,000.
    b. $50,000.
    c. $65,000.
    d. $55,000.

Ans: D, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

132. If total liabilities increased by $45,000 and stockholders' equity increased by $15,000 during a period of time, then total assets must change by what amount and direction during that same period?
    a. $60,000 decrease
    b. $60,000 increase
    c. $75,000 increase
    d. $90,000 increase

Ans: B, SO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

133. If total liabilities decreased by $45,000 and stockholders' equity increased by $15,000 during a period of time, then total assets must change by what amount and direction during that same period?
    a. $60,000 increase
    b. $30,000 decrease
    c. $30,000 increase
    d. $45,000 decrease

Ans: B, SO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

134. If total liabilities decreased by $25,000 and stockholders' equity increased by $5,000 during a period of time, then total assets must change by what amount and direction during that same period?
    a. $20,000 decrease
    b. $20,000 increase
    c. $25,000 increase
    d. $30,000 increase

Ans: A, SO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

135. If total liabilities decreased by $45,000 and stockholders' equity decreased by $15,000 during a period of time, then total assets must change by what amount and direction during that same period?
    a. $60,000 increase
    b. $30,000 decrease
    c. $60,000 decrease
    d. $30,000 decrease

Ans: C, SO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

136. If total liabilities increased by $42,000 during a period of time and stockholders' equity decreased by $18,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)
    a. $42,000 increase.
    b. $60,000 increase.
    c. $24,000 decrease.
    d. $24,000 increase.

Ans: D, SO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

137. The balance sheet
    a. summarizes the changes in retained earnings for a specific period of time.
    b. reports the changes in assets, liabilities, and stockholders' equity over a period of time.
    c. reports the assets, liabilities, and stockholders' equity at a specific date.
    d. presents the revenues and expenses for a specific period of time.

Ans: C, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

138. The retained earnings statement
    a. summarizes the changes in retained earnings for a specific period of time.
    b. reports the changes in assets, liabilities, and stockholders' equity over a period of time.
    c. reports the assets, liabilities, and stockholders' equity at a specific date.
    d. presents the revenues and expenses for a specific period of time.

Ans: A, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

139. Liabilities
    a. are future economic benefits.
    b. are debts and obligations.
    c. possess service potential.
    d. are things of value owned by a business.

Ans: B, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

140. Liabilities of a company are owed to
    a. debtors.
    b. owners.
    c. creditors.
    d. stockholders.

Ans: C, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

141. Stockholders' equity can be described as claims of
    a. creditors on total assets.
    b. owners on total assets.
    c. customers on total assets.
    d. debtors on total assets.

Ans: B, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

142. Payments to stockholders are called
    a. expenses.
    b. liabilities.
    c. dividends.
    d. distributions.

Ans: C, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

143. Common stock is reported on the
    a. statement of cash flows.
    b. retained earnings statement.
    c. income statement.
    d. balance sheet.

Ans: D, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

144. Stockholders' equity is comprised of
    a. common stock and dividends.
    b. common stock and retained earnings.
    c. dividends and retained earnings.
    d. net income and retained earnings.

Ans: B, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

145. Stockholders' equity
    a. is usually equal to cash on hand.
    b. is equal to liabilities and retained earnings.
    c. includes retained earnings and common stock.
    d. is shown on the income statement.

Ans: C, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

146. Retained earnings is
    a. the stockholders' claim on total assets.
    b. equal to cash.
    c. equal to revenues.
    d. the amount of net income kept in the corporation for future use.

Ans: D, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

147. Which financial statement would best indicate whether the company relies on debt or stockholders' equity to finance its assets?
    a. Statement of Cash Flows
    b. Retained Earnings Statement
    c. Income Statement
    d. Balance Sheet

Ans: D, SO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

148. The primary purpose of the statement of cash flows is to report
    a. a company's investing transactions.
    b. a company's financing transactions.
    c. information about cash receipts and cash payments of a company.
    d. the net increase or decrease in cash.

Ans: C, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

149. Claims of owners are called
    a. dividends
    b. stockholders' equity
    c. liabilities
    d. income payable

Ans: B, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

150. Which of the following is not a common way that managers use the balance sheet?
    a. To analyze the balances of assets, liabilities, and stockholders' equity throughout the accounting period
    b. To determine if the cash balance is sufficient for future needs
    c. To analyze the balance between debt and common stock financing
    d. To analyze the balance of accounts receivable on the last day of the accounting period

Ans: A, SO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

151. Why are financial statement users interested in the statement of cash flows?
    a. It is the easiest financial statement to evaluate.
    b. It provides information about an important company resource.
    c. It is the first statement that is presented to users.
    d. It helps users decide whether assets such as office equipment should be replaced.

Ans: B, SO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

152. Why should the income statement be prepared first?
    a. The statement of cash flows should be prepared first because it determines the sources of cash. That information is then used in preparing the income statement.
    b. Net income from the income statement flows into the retained earnings statement. The ending retained earnings balance then flows into the balance sheet.
    c. The income statement does not have to be prepared first. Financial statements can be prepared in any order.
    d. None of these statements is correct.

Ans: B, SO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

153. Elston Company compiled the following financial information as of December 31, 2012:

Revenues	$420,000
Common stock	90,000
Equipment	120,000
Expenses	375,000
Cash	105,000
Dividends	30,000
Supplies	15,000
Accounts payable	60,000
Accounts receivable	45,000
Retained earnings, 1/1/12	225,000

Elston's assets on December 31, 2012 are:

a. $705,000
b. $510,000
c. $240,000
d. $285,000

Ans: D, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

154. Elston Company compiled the following financial information as of December 31, 2012:

Revenues	$420,000
Common stock	90,000
Equipment	120,000
Expenses	375,000
Cash	105,000
Dividends	30,000
Supplies	15,000
Accounts payable	60,000
Accounts receivable	45,000
Retained earnings, 1/1/12	225,000

Elston's retained earnings on December 31, 2012 are:

a. $225,000
b. $270,000
c. $240,000
d. $ 15,000

Ans: C, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

155. Elston Company compiled the following financial information as of December 31, 2012:

Revenues	$420,000
Common stock	90,000
Equipment	120,000
Expenses	375,000
Cash	105,000
Dividends	30,000
Supplies	15,000
Accounts payable	60,000
Accounts receivable	45,000
Retained earnings, 1/1/12	225,000

Elston's stockholders' equity on December 31, 2012 is:

a. $315,000
b. $330,000
c. $240,000
d. $360,000

Ans: B, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

156. Benedict Company compiled the following financial information as of December 31, 2012:

Revenues	$280,000
Common stock	60,000
Equipment	80,000
Expenses	250,000
Cash	70,000
Dividends	20,000
Supplies	10,000
Accounts payable	40,000
Accounts receivable	30,000
Retained earnings, 1/1/12	150,000

Benedict's assets on December 31, 2012 are:

a. $470,000
b. $340,000
c. $160,000
d. $190,000

Ans: D, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

157. Benedict Company compiled the following financial information as of December 31, 2012:

Revenues	$280,000
Common stock	60,000
Equipment	80,000
Expenses	250,000
Cash	70,000
Dividends	20,000
Supplies	10,000
Accounts payable	40,000
Accounts receivable	30,000
Retained earnings, 1/1/12	150,000

Benedict's retained earnings on December 31, 2012 are:

a. $150,000
b. $180,000
c. $160,000
d. $ 10,000

Ans: C, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

158. Benedict Company compiled the following financial information as of December 31, 2012:

Revenues	$280,000
Common stock	60,000
Equipment	80,000
Expenses	250,000
Cash	70,000
Dividends	20,000
Supplies	10,000
Accounts payable	40,000
Accounts receivable	30,000
Retained earnings, 1/1/12	150,000

Benedict's stockholders' equity on December 31, 2012 is:

a. $210,000
b. $220,000
c. $160,000
d. $240,000

Ans: B, SO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

159. The heading on the statement of cash flows identifies all of the following *except*:

a. the preparer of the statement
b. the company
c. the time period covered by the statement
d. the type of statement

Ans: A, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

160. All of the following are interrelationships that are important to understand when preparing financial statements *except*:
   a. The net income from the income statement is used in the retained earnings statement.
   b. The ending retained earnings from the Retained earnings statement is used in the stockholder's equity section of the balance sheet.
   c. The cash on the balance sheet should be equal to the cash at the end of the period on the statement of cash flows.
   d. All of the payments on the balance sheet should be equal to the cash payments for operating activities on the statement of cash flows.

Ans: D, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

161. Marvin Services Corporation had the following accounts and balances:

Accounts payable	$12,000	Equipment	$14,000
Accounts receivable	2,000	Land	14,000
Buildings	?	Unearned service revenue	4,000
Cash	6,000	Total stockholders' equity	?

If the balance of the Buildings account was $28,000 and $2,000 of Accounts Payable were paid in cash, what would be the balance of the total stockholders' equity?
   a. $54,000
   b. $48,000
   c. $68,000
   d. $52,000

Ans: B, SO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

162. Marvin Services Corporation had the following accounts and balances:

Accounts payable	$12,000	Equipment	$14,000
Accounts receivable	2,000	Land	14,000
Buildings	?	Unearned service revenue	4,000
Cash	6,000	Total stockholders' equity	?

If the balance of the Buildings account was $16,000 and $4,000 of Accounts Payable were paid in cash, what would be the total liabilities and stockholders' equity?
   a. $36,000
   b. $52,000
   c. $32,000
   d. $48,000

Ans: D, SO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

163. Marvin Services Corporation had the following accounts and balances:

Accounts payable	$12,000	Equipment	$14,000
Accounts receivable	2,000	Land	14,000
Buildings	?	Unearned service revenue	4,000
Cash	6,000	Total stockholders' equity	?

If total stockholder's equity was $38,000, what would be the balance of the Buildings Account?
a. $14,000
b. $54,000
c. $58,000
d. $18,000

Ans: D, SO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

164. Marvin Services Corporation had the following accounts and balances:

Accounts payable	$12,000	Equipment	$14,000
Accounts receivable	2,000	Land	14,000
Buildings	?	Unearned service revenue	4,000
Cash	6,000	Total stockholders' equity	?

If the balance of the Buildings account was $30,000 and the equipment was sold for $14,000, what would be the total of stockholders' equity?
a. $26,000
b. $36,000
c. $46,000
d. $50,000

Ans: D, SO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

165. Marvin Services Corporation had the following accounts and balances:

Accounts payable	$12,000	Equipment	$14,000
Accounts receivable	2,000	Land	14,000
Buildings	?	Unearned service revenue	4,000
Cash	6,000	Total stockholders' equity	?

If the balance of the Buildings account was $34,000, what would be the total of liabilities and stockholders' equity?
a. $68,000
b. $70,000
c. $54,000
d. $50,000

Ans: B, SO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

166. Notes to the financial statements include all of the following except:
    a. Descriptions of significant accounting policies used.
    b. Explanations of uncertainties.
    c. Quantifiable accounting information.
    d. Statistics needed to understand the statements.

Ans: C, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

167. The management discussion and analysis (MD&A) section of the annual report covers all of the following aspects except:
    a. The ability of the company to pay near-term obligations.
    b. The certification criteria of the company's auditors.
    c. The company's ability to fund operations and expansion.
    d. The results of the company operations.

Ans: B, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

168. An annual report includes all of the following except
    a. management discussion and analysis section.
    b. notes to the financial statements.
    c. an auditor’s report.
    d. salary information for all the executives.

Ans: D, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

169. Which of the following clarifies information presented in the financial statements, as well as expanding upon it where additional detail is needed?
    a. Auditor’s report
    b. Management discussion and analysis section
    c. Notes to the financial statements
    d. President’s state of the company report

Ans: C, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

170. The information needed to determine whether a company is using accounting methods similar to those of its competitors would be found in the
    a. auditor’s report.
    b. balance sheet.
    c. management discussion and analysis section.
    d. notes to the financial statements.

Ans: D, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

171. In the annual report, where would a financial statement reader find out if the company’s financial statements give a fair depiction of its financial position and operating results?
    a. Notes to the financial statements
    b. Management discussion and analysis section
    c. Balance sheet
    d. Auditor’s report

Ans: D, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

172. Management's views on the company's short-term debt paying ability, expansion financing, and results of operations are found in the
    a. auditor's report.
    b. management discussion and analysis section.
    c. notes to the financial statements.
    d. president's state of the company report.

Ans: B, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

173. Which of the following statements is true?
    a. Publicly traded U.S. companies must provide an annual report to their shareholders when operating conditions change significantly.
    b. An unqualified independent auditor's report must be included in the annual report.
    c. Notes to the financial statements do not need to be included in the annual report because that information is only for internal users.
    d. All of the statements are false.

Ans: D, SO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

174. Notes to the financial statements
    a. are optional.
    b. help clarify information presented in the financial statements.
    c. are generally brief and few in number.
    d. need not be read in detail if an unqualified opinion accompanies the financial statements.

Ans: B, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Multiple Choice Questions

41. b	61. a	81. d	101. c	121. c	141. b	161. b
42. c	62. d	82. c	102. b	122. c	142. c	162. d
43. b	63. b	83. c	103. b	123. b	143. d	163. d
44. d	64. c	84. c	104. d	124. b	144. b	164. d
45. a	65. c	85. d	105. d	125. d	145. c	165. b
46. a	66. a	86. d	106. b	126. b	146. d	166. c
47. c	67. b	87. a	107. c	127. a	147. d	167. b
48. c	68. b	88. d	108. d	128. b	148. c	168. d
49. a	69. c	89. d	109. b	129. b	149. b	169. c
50. c	70. b	90. b	110. a	130. c	150. a	170. d
51. d	71. a	91. c	111. c	131. d	151. b	171. d
52. c	72. d	92. d	112. d	132. b	152. b	172. b
53. d	73. c	93. c	113. d	133. b	153. d	173. d
54. c	74. c	94. a	114. b	134. a	154. c	174. b
55. c	75. b	95. a	115. a	135. c	155. b	
56. c	76. a	96. a	116. b	136. d	156. d	
57. d	77. b	97. b	117. c	137. c	157. c	
58. a	78. d	98. c	118. c	138. a	158. b	
59. c	79. b	99. d	119. b	139. b	159. a	
60. b	80. c	100. c	120. b	140. c	160. d	

BRIEF EXERCISES

Be. 175

Indicate in the space by letter whether each statement below applies to a sole proprietorship (S), partnership (P), or corporation (C). More than one answer may be appropriate.

____ a. Simple to establish.
____ b. Shared control.
____ c. Easy to transfer ownership.
____ d. No personal liability.
____ e. Tax advantage.
____ f. Easier to raise funds.

Ans: N/A, SO: 1, Bloom: C, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

Solution 175 (5 min.)

a. S & P	d. C
b. P	e. S & P
c. C	f. C

Be. 176

Indicate in the space provided by each item whether it would appear on the statement of cash flows as a(n): (O) operating activity, (I) investing activity, or (F) financing activity.

____ a. Cash receipts from customers.
____ b. Issuance of common stock for cash.
____ c. Payment of cash dividends.
____ d. Cash purchase of equipment.
____ e. Cash payments to suppliers.
____ f. Sale of old machine for cash.

Ans: N/A, SO: 3, Bloom: C, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 176 (5 min.)

a. O	d. I
b. F	e. O
c. F	f. I

Be. 177

Use the following information to calculate for the year ended December 31, 2012 (a) net income (net loss), (b) ending retained earnings, and (c) total assets.

Supplies	$ 500	Revenues	$18,000
Operating expenses	10,000	Cash	15,000
Accounts payable	11,000	Dividends	6,000
Accounts receivable	4,000	Notes payable	1,000
Common stock	10,000	Equipment	9,500
Retained earnings (beginning)	5,000		

Ans: N/A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 177 (5 min.)

(a) $8,000 (b) $7,000 (c) $29,000

Be. 178

Use the following information to calculate for the year ended December 31, 2012 (a) net income (net loss), (b) ending retained earnings, and (c) total assets.

Supplies	$ 1,000	Revenues	$16,000
Operating expenses	12,000	Cash	15,000
Accounts payable	9,000	Dividends	1,000
Accounts receivable	3,000	Notes payable	1,000
Common stock	9,000	Equipment	11,000
Retained earnings (beginning)	5,000		

Ans: N/A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 178 (5 min.)

(a) $4,000 (b) $8,000 (c) $30,000

Be. 179

Listed below in alphabetical order are the balance sheet items of Nolan Company at December 31, 2012. Prepare a balance sheet and include a complete heading.

Accounts payable	$ 6,000
Accounts receivable	15,000
Buildings	65,000
Cash	11,000
Common stock	80,000
Land	31,000
Equipment	5,000
Retained earnings	41,000

Ans: N/A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 179 (5 min.)

NOLAN COMPANY
Balance Sheet
December 31, 2012

ASSETS

Cash	$ 11,000	
Accounts receivable	15,000	
Equipment	5,000	
Buildings	65,000	
Land	31,000	
Total assets		$127,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities		
Accounts payable		$ 6,000
Stockholders' Equity		
Common stock	$80,000	
Retained earnings	41,000	121,000
Total liabilities and stockholders' equity		$127,000

Be. 180

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

a. ____ Service Revenue
b. ____ Utilities Expense
c. ____ Cash
d. ____ Accounts Payable
e. ____ Supplies
f. ____ Salaries and Wages Expense
g. _____ Accounts Receivable
h. _____ Common Stock
i. _____ Equipment
j. _____ Advertising Expense
k. _____ Dividends
l. ____ Notes Payable

Ans: N/A, SO: 4, Bloom: C, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 180 (5 min.)

a. IS
b. IS
c. BS
d. BS
e. BS
f. IS
g. BS
h. BS
i. BS
j. IS
k. RE
l. BS

Be. 181

Cesar Ruiz was reviewing his business activities at the end of the year (2012) and decided to prepare a Retained Earnings Statement. At the beginning of the year his assets were $550,000, liabilities were $140,000, and common stock was $120,000. The net income for the year was $250,000. Dividends of $220,000 were paid during the year.

Prepare a Retained Earnings Statement in good form.

Ans: N/A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 181 (5 min.)

CESAR RUIZ
Retained Earnings Statement
For the Year Ended 2012

Retained Earnings, Beginning	$290,000
Add: Net Income	250,000
	540,000
Less: Dividends	220,000
Retained Earnings, Ending	$320,000

Be. 182

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

a. Common Stock
b. Service Revenue
c. Land
d. Salaries and Wages Expense
e. Notes Payable
f. Accounts Payable
g. Cash
h. Advertising Expense
i. Supplies
j. Utilities Expense

Ans: N/A, SO: 4, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 182 (5 min.)

a, c, e, f, g, i

Be. 183

Determine the missing items.

Assets	**=**	**Liabilities**	**+**	**Stockholders' Equity**
$75,000		$56,000		(a)
(b)		$28,000		$34,000
$84,000		(c)		$55,000

Ans: N/A, SO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 183 (5 min.)

a. $19,000 b. $62,000 c. $29,000

Be. 184

Determine the missing items.

Assets	=	Liabilities	+	Stockholders' Equity
$61,000		$50,000		(a)
(b)		$18,000		$30,000
$54,000		(c)		$40,000

Ans: N/A, SO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 184 (5 min.)

b. $11,000 b. $48,000 c. $14,000

Be. 185

Identify which of the following accounts appear on a balance sheet.

(a) Service revenue
(b) Cash
(c) Common stock
(d) Accounts payable
(e) Rent expense
(f) Supplies
(g) Land

Ans: N/A, SO: 5, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 185 (5 min.)
(b), (c), (d), (f), (g)

Be. 186

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

	Code
Asset	A
Liability	L
Stockholders' Equity	SE

_____ 1. Rent Expense
_____ 2. Equipment
_____ 3. Accounts Payable
_____ 4. Common Stock
_____ 5. Insurance Expense
____ 6. Cash
____ 7. Accounts Receivable
____ 8. Retained Earnings
____ 9. Service Revenue
____ 10. Notes Payable

Ans: N/A, SO: 5, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 186 (5 min.)

1. SE
2. A
3. L
4. SE
5. SE
6. A
7. A
8. SE
9. SE
10. L

Be. 187

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

_____ 1. Accounts receivable
_____ 2. Accounts payable
_____ 3. Common stock
_____ 4. Supplies
_____ 5. Retained earnings
_____ 6. Cash
_____ 7. Notes payable
_____ 8. Equipment

Ans: N/A, SO: 5, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 187 (5 min.)

1. A
2. L
3. SE
4. A
5. SE
6. A
7. L
8. A

Be. 188

At the beginning of the year, Gant Company had total assets of $690,000 and total liabilities of $300,000. Answer the following questions viewing each situation as being independent of the others.

(1) If total assets increased $225,000 during the year, and total liabilities decreased $100,000, what is the amount of stockholders' equity at the end of the year?

(2) During the year, total liabilities increased $215,000 and stockholders' equity decreased $130,000. What is the amount of total assets at the end of the year?

(3) If total assets decreased $60,000 and stockholders' equity increased $150,000 during the year, what is the amount of total liabilities at the end of the year?

Ans: N/A, SO: 5, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 188 (5 min.)

	Total Assets		Total Liabilities		Stockholders' Equity
Beginning	$690,000		$300,000		
Change	225,000		(100,000)		
Ending	$915,000	-	$200,000	=	$715,000 (1)

	Total Assets		Total Liabilities		Stockholders' Equity
Beginning	$690,000		$300,000		$390,000
Change			215,000		(130,000)
Ending	$775,000 (2)	=	$515,000	+	$260,000

	Total Assets		Total Liabilities		Stockholders' Equity
Beginning	$690,000		$300,000		$390,000
Change	(60,000)				150,000
Ending	$630,000	=	$ 90,000 (3)	+	$540,000

Be. 189

Reinhardt's Carpet Cleaning has the following balance sheet items:

Buildings	Notes Payable
Accounts Payable	Common Stock
Cash	Retained Earnings
Supplies	Equipment
Accounts Receivable	

Identify which items are (1) Assets
(2) Liabilities
(3) Stockholders' Equity

Ans: N/A, SO: 5, Bloom: C, Difficulty: Medium, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 189 (5 min.)

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

(2) Liabilities—Accounts Payable, Notes Payable

(3) Stockholders' Equity—Common Stock, Retained Earnings

Be. 190

On June 1, 2012, Shaw Company prepared a balance sheet that shows the following:

Assets (no cash)	$125,000
Liabilities	85,000
Stockholders' Equity	40,000

Shortly thereafter, all of the assets were sold for cash.

How would the balance sheet appear immediately after the sale of the assets for cash for each of the following cases?

	Cash Received for the Assets	Balances Immediately After Sale				
		Assets	-	Liabilities	=	Stockholders' Equity
Cash A	$135,000	$_____		$_____		$_____
Cash B	120,000	_____		_____		_____
Cash C	105,000	_____		_____		_____

Ans: N/A, SO: 5, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 190 (5 min.)

	Cash Received for the Assets	Balances Immediately After Sale				
		Assets	-	Liabilities	=	Stockholders' Equity
Cash A	$135,000	$135,000		$85,000		$50,000
Cash B	120,000	120,000		85,000		35,000
Cash C	105,000	105,000		85,000		20,000

Be. 191

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

	Assets	Liabilities	Stockholders' Equity
(a)	$263,000	$?	$ 91,000
(b)	$183,000	$ 75,000	$?
(c)	$?	$212,000	$310,000

Ans: N/A, SO: 5, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 191 (5 min.)

(a) $172,000: ($263,000 - $91,000 = $172,000).
(b) $108,000: ($183,000 - $75,000 = $108,000).
(c) $522,000: ($212,000 + $310,000 = $522,000).

EXERCISES

Ex. 192

Prepare an income statement, a retained earnings statement, and a balance sheet for the medical practice of Linda Denny, MD, from the items listed below for the month of October 2012.

Retained earnings (October 1)	$15,000
Common stock	30,000
Accounts payable	6,000
Equipment	29,000
Service revenue	23,000
Dividends	6,000
Supplies expense	3,500
Cash	13,000
Utilities expense	700
Supplies	2,800
Salaries and wages expense	7,000
Accounts receivable	10,000
Rent expense	2,000

LINDA DENNY, MD
Income Statement
For the Month Ended October 31, 2012

Revenues		$
Expenses	$	
Total expenses		
Net income		$

Ex. 192 (Cont.)

LINDA DENNY, MD
Retained Earnings Statement
For the Month Ended October 31, 2012

Retained Earnings, October 1	$
Add:	
Less:	
	$

LINDA DENNY, MD
Balance Sheet
October 31, 2012

Assets		
		$
Total assets		$
Liabilities and Stockholders' Equity		
Liabilities		$
Stockholders' Equity	$	
Total liabilities and stockholders' equity		$

Ans: N/A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 192 (15 min.)

LINDA DENNY, MD
Income Statement
For the Month Ended October 31, 2012

Revenues		
Service revenue		$23,000
Expenses		
Salaries and wages expense	$7,000	
Supplies expense	3,500	
Rent expense	2,000	
Utilities expense	700	
Total expenses		13,200
Net income		$9,800

LINDA DENNY, MD
Retained Earnings Statement
For the Month Ended October 31, 2012

Retained Earnings, October 1	$15,000
Add: Net income	9,800
	24,800
Less: Dividends	6,000
Retained Earnings, October 31	$18,800

LINDA DENNY, MD
Balance Sheet
October 31, 2012

Assets		
Cash		$ 13,000
Accounts receivable		10,000
Supplies		2,800
Equipment		29,000
Total assets		$54,800
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable		$ 6,000
Stockholders' Equity		
Common stock	$30,000	
Retained earnings	18,800	48,800
Total liabilities and stockholders' equity		$54,800

Ex. 193
Use the following accounts and information to prepare, in good form, an income statement, a retained earnings statement, and a balance sheet for Pierce Industries for the month ended August 31, 2012.

Accounts payable	$ 1,100	Dividends	$ 3,000
Accounts receivable	5,400	Insurance expense	1,200
Buildings	63,000	Supplies	1,400
Cash	20,600	Notes payable	3,300
Service revenue	25,700	Rent expense	3,400
Common stock	52,000	Salaries expense	10,000
Retained earnings (beginning)	25,900		

PIERCE INDUSTRIES
Income Statement
For the Month Ended August 31, 2012

Revenues		
		$
Expenses		
	$	
Total expenses		
Net income		$

PIERCE INDUSTRIES
Retained Earnings Statement
For the Month Ended August 31, 2012

Retained Earnings, August 1	$
Add:	
Less:	
Retained Earnings, August 31	$

Ex. 193 (Cont.)

PIERCE INDUSTRIES
Balance Sheet
August 31, 2012

Assets		
		$
Total assets		
		$
Liabilities and Stockholders' Equity		
Liabilities		
	$	
		$
Stockholders' Equity		
	$	
Total liabilities and stockholders' equity		$

Ans: N/A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 193 (15 min.)

PIERCE INDUSTRIES
Income Statement
For the Month Ended August 31, 2012

Revenues		
Service revenue		$25,700
Expenses		
Salaries expense	$10,000	
Rent expense	3,400	
Insurance expense	1,200	
Total expenses		14,600
Net income		$ 11,100

Solution 193 (Cont.)

PIERCE INDUSTRIES
Retained Earnings Statement
For the Month Ended August 31, 2012

Retained Earnings, August 1	$25,900
Add: Net income	11,100
	37,000
Less: Dividends	3,000
Retained Earnings, August 31	$34,000

PIERCE INDUSTRIES
Balance Sheet
August 31, 2012

Assets		
Cash		$ 20,600
Accounts receivable		5,400
Supplies		1,400
Buildings		63,000
Total assets		$90,400
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable	$ 1,100	
Notes payable	3,300	
Total liabilities		$ 4,400
Stockholders' Equity		
Common stock	$52,000	
Retained earnings	34,000	86,000
Total liabilities and stockholders' equity		$90,400

Ex. 194

At September 1, the balance sheet accounts for Kiner's Restaurant were as follows:

Accounts Payable	$ 3,800	Land	$33,000
Accounts Receivable	1,600	Common Stock	?
Buildings	66,000	Notes Payable	46,000
Cash	5,000	Supplies	3,600
Equipment	15,700	Retained Earnings	45,200

The following transactions occurred during the next two days:

Stockholders invested an additional $25,000 cash in the business. The accounts payable were paid in full. (No payment was made on the notes payable.)

Instructions

Prepare a balance sheet at September 3, 2012.

Ans: N/A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 194 (10 min.)

KINER'S RESTAURANT
Balance Sheet
September 3, 2012

ASSETS

Cash	$26,200	
Accounts receivable	1,600	
Supplies	3,600	
Equipment	15,700	
Buildings	66,000	
Land	33,000	
Total assets		$146,100

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities		
Notes payable		$ 46,000
Stockholders' Equity		
Common stock	$54,900	
Retained earnings	45,200	100,100
Total liabilities and stockholders' equity		$146,100

Cash ($5,000 + $25,000 - $3,800) = $26,200
Accounts Payable ($3,800 - $3,800) = $0

Common Stock	Beginning balance ($124,900 - $95,000)	$ 29,900
	Additional investment	25,000
	Ending balance	$ 54,900

Ex. 195

This information relates to Connor Co. for the year 2012.

Retained earnings, January 1, 2012	$59,000
Advertising expense	1,800
Dividends paid during 2012	9,000
Rent expense	10,400
Service revenue	52,000
Utilities expense	2,400
Salaries and wages expense	28,000

Instructions

After analyzing the data, prepare an income statement and a retained earnings statement for the year ending December 31, 2012.

Ans: N/A, SO: 4, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 195 (10 min.)

CONNOR CO.
Income Statement
For the Year Ended December 31, 2012

Revenues		
Service revenue		$52,000
Expenses		
Salaries and wages expense	$28,000	
Rent expense	10,400	
Utilities expense	2,400	
Advertising expense	1,800	
Total expenses		42,600
Net income		$9,400

CONNOR CO.
Retained Earnings Statement
For the Year Ended December 31, 2012

Retained earnings, January 1	$59,000
Add: Net income	9,400
	68,400
Less: Dividends	9,000
Retained earnings, December 31	$59,400

Ex. 196

Here are incomplete financial statements for Brandon, Inc.

BRANDON, INC.
Balance Sheet

Assets		Liabilities and Stockholders' Equity	
Cash	$ 5,000	Liabilities	
Inventory	10,000	Accounts payable	$ 5,000
Buildings	40,000	Stockholders' equity	
Total assets	$55,000	Common stock	(a)
		Retained earnings	(b)
		Total liabilities and stockholders' equity	$55,000

Ex. 196 (Cont.)

Income Statement

Revenues	$80,000
Cost of goods sold	(c)
Administrative expenses	10,000
Net income	$ (d)

Retained Earnings Statement

Beginning retained earnings	$10,000
Net income	(e)
Dividends	5,000
Ending retained earnings	$29,000

Instructions

Calculate the missing amounts.

Ans: N/A, SO: 4,5, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 196 (10 min.)

First note that the retained earnings statement shows that (b) equals $29,000.

Accounts payable + Common stock + Retained earnings = Total liabilities and stockholders' equity

$5,000 + a + $29,000 = $55,000
a + $34,000 = $55,000
a = $21,000

Beginning retained earnings + Net income – Dividends = Ending retained earnings

$10,000 + e – $5,000 = $29,000
$5,000 + e = $29,000
e = $24,000

From above, we know that net income (d) equals $24,000.

Revenue – Cost of goods sold – Administrative expenses = Net income

$80,000 – c – $10,000 = $24,000
$70,000 – c = $24,000
c = $46,000

Ex. 197

Sleep Cheap is a private camping ground near the Boulder Peak Recreation Area. It has compiled the following financial information as of December 31, 2012.

Revenues during 2012: camping fees	$137,000	Dividends	$ 8,000
Revenues during 2012: general store	25,000	Notes payable	50,000
Accounts payable	13,000	Expenses during 2012	133,000
Cash	13,500	Supplies	2,500
Equipment	113,000	Common stock	40,000
		Retained earnings (1/1/2012)	5,000

Instructions

(a) Determine net income from Sleep Cheap for 2012.
(b) Prepare a retained earnings statement and a balance sheet for Sleep Cheap as of December 31, 2012.

Ans: N/A, SO: 4,5, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 197 (10 min.)

(a) Camping fee revenue	$137,000
General store revenue	25,000
Total revenue	162,000
Expenses	133,000
Net income	$ 29,000

(b)

SLEEP CHEAP
Retained Earnings Statement
For the Year Ended December 31, 2012

Retained earnings, January 1	$ 5,000
Add: Net income	29,000
	34,000
Less: Dividends	8,000
Retained earnings, December 31	$26,000

SLEEP CHEAP
Balance Sheet
December 31, 2012

Assets	
Cash	$ 13,500
Supplies	2,500
Equipment	113,000
Total assets	$129,000

Solution 197 (Cont.)

Liabilities and Stockholders' Equity

Liabilities		
Notes payable	$50,000	
Accounts payable	13,000	
Total liabilities		$ 63,000
Stockholders' equity		
Common stock	40,000	
Retained earnings	26,000	66,000
Total liabilities and stockholders' equity		$129,000

Ex. 198

John Tate is the bookkeeper for Gabelli Company. John has been trying to get the balance sheet of Gabelli Company to balance. It finally balanced, but now he's not sure it is correct.

GABELLI COMPANY
Balance Sheet
December 31, 2012

Assets		Liabilities and Stockholders' Equity	
Cash	$15,500	Accounts payable	$18,000
Supplies	9,500	Accounts receivable	(12,000)
Equipment	50,000	Common stock	40,000
Dividends	10,000	Retained earnings	39,000
Total assets	$85,000	Total liabilities and stockholders' equity	$85,000

Instructions

Prepare a correct balance sheet.

Ans: N/A, SO: 5, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 198 (5 min.)

GABELLI COMPANY
Balance Sheet
December 31, 2012

Assets

Cash	$15,500
Accounts receivable	12,000
Supplies	9,500
Equipment	50,000
Total assets	$87,000

Solution 198 (Cont.)

	Liabilities and Stockholders' Equity	
Liabilities		
Accounts payable		$18,000
Stockholders' equity		
Common stock	$40,000	
Retained earnings	29,000*	69,000
Total liabilities and stockholders' equity		$87,000

*$39,000 – $10,000

Ex. 199

The summaries of data from the balance sheet, income statement, and retained earnings statement for two corporations, Bates Corporation and Wilson Enterprises, are presented below for 2012.

	Bates Corporation	Wilson Enterprises
Beginning of year		
Total assets	$110,000	$130,000
Total liabilities	70,000	(d)
Total stockholders' equity	(a)	90,000
End of year		
Total assets	(b)	190,000
Total liabilities	120,000	65,000
Total stockholders' equity	70,000	(e)
Changes during year in retained earnings		
Dividends	(c)	5,000
Total revenues	225,000	(f)
Total expenses	165,000	80,000

Instructions

Determine the missing amounts. Assume all changes in stockholders' equity are due to changes in retained earnings.

Ans: N/A, SO: 5, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 199 (10 min.)

(a)	Assets	=	Liabilities	+	Stockholders' Equity
	$110,000	=	$70,000	+	(a)
	(a)	=			$40,000
(b)	Assets	=	Liabilities	+	Stockholders' Equity
	(b)	=	$120,000	+	$70,000
	(b)	=	$190,000		

Solution 199 (Cont.)

(c)	Beginning stockholders' Equity	+	Revenues	–	Expenses	–	Dividends	=	Ending stockholders' Equity
	$40,000(a)	+	$225,000	–	$165,000	–	(c)	=	$70,000
			$100,000	–	(c)			=	$70,000
					(c)			=	$30,000

(d)	Assets	=	Liabilities	+	Stockholders' Equity
	$130,000	=	(d)	+	$90,000
	(d)	=	$40,000		

(e)	Assets	=	Liabilities	+	Stockholders' Equity
	$190,000	=	$65,000	+	(e)
	(e)	=	$125,000		

(f)	Beginning stockholders' Equity	+	Revenues	–	Expenses	–	Dividends	=	Ending stockholders' Equity
	$90,000	+	(f)	–	$80,000	–	$5,000	=	$125,000(e)
	(f)	=	$120,000						

Ex. 200

This information is for Campo Corporation for the year ended December 31, 2012.

Cash received from lenders	$20,000
Cash received from customers	65,000
Cash paid for new equipment	30,000
Cash dividends paid	6,000
Cash paid to suppliers	18,000
Cash balance 1/1/12	12,000

Instructions

Prepare the 2012 statement of cash flows for Campo Corporation.

Ans: N/A, SO: 5, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 200 (10 min.)

CAMPO CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2012

Cash flows from operating activities		
Cash received from customers	$65,000	
Cash paid to suppliers	(18,000)	
Net cash provided by operating activities		$47,000
Cash flows from investing activities		
Cash paid for new equipment	(30,000)	
Net cash used by investing activities		(30,000)
Cash flows from financing activities		
Cash received from lenders	20,000	
Cash dividends paid	(6,000)	
Net cash provided by financing activities		14,000
Net increase in cash		31,000
Cash at beginning of period		12,000
Cash at end of period		$43,000

Ex. 201

One item is omitted in each of the following summaries of balance sheet and income statement data for three different corporations, A, B, and C.

Determine the amounts of the missing items, identifying each corporation by letter.

	Corporation		
	A	B	C
Beginning of the Year:			
Assets	$410,000	$150,000	$199,000
Liabilities	250,000	115,000	166,000
End of the Year:			
Assets	430,000	195,000	195,000
Liabilities	280,000	95,000	169,000
During the Year:			
Additional Investment by stockholders	?	79,000	78,000
Dividends	70,000	83,000	?
Revenue	195,000	?	187,000
Expenses	155,000	113,000	183,000

Ans: N/A, SO: 5, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 201 (10 min.)

Corporation A ($20,000)	
Beginning Stockholders' equity ($410,000 - $250,000)	$160,000
Additional investments ($150,000 + $70,000 - $160,000 - $40,000)	20,000
Net income for year ($195,000 - $155,000)	40,000
	220,000
Less dividends	70,000
Ending Stockholders' equity ($430,000 - $280,000)	$150,000
Corporation B ($182,000)	
Beginning Stockholders' equity ($150,000 - $115,000)	$ 35,000
Additional investments	79,000
Net income for year ($183,000 - $35,000 - $79,000)	69,000
[Revenues = $182,000 ($113,000 + $69,000)]	183,000
Less dividends	83,000
Ending Stockholders' equity ($195,000 - $95,000)	$100,000
Corporation C ($89,000)	
Beginning Stockholders' equity ($199,000 - $166,000)	$ 33,000
Additional investments	78,000
Net income for year ($187,000 - $183,000)	4,000
	115,000
Less dividends ($115,000 - $26,000)	89,000
Ending Stockholders' equity ($195,000 - $169,000)	$ 26,000

COMPLETION STATEMENTS

202. A business organized as a separate legal entity owned by stockholders is a _____.

Ans: N/A, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

203. _____ of accounting information are managers who plan, organize, and run a business.

Ans: N/A, SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

204. _____ activities involve collecting the necessary funds to start the business.

Ans: N/A, SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

205. The _____ reports the assets, liabilities, and stockholders' equity of a business at a specific date.

Ans: N/A, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

206. The claims of owners on the assets of a corporation are known as _____.

Ans: N/A, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

207. The basic accounting equation is Assets = _____ + _____.

Ans: N/A, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

208. The primary purpose of a _____ is to provide financial information about the cash receipts and cash payments of a business.

Ans: N/A, SO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

209. The _____ is prepared by an independent auditor stating the auditor's opinion as to the fairness of the presentation of the financial statements.

Ans: N/A, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Completion Statements

202. corporation
203. Internal users
204. Financing
205. balance sheet
206. stockholders' equity
207. Liabilities, Stockholders' equity
208. statement of cash flows
209. auditor's report

MATCHING

210. Match the items below by entering the appropriate code letter in the space provided.

A. Internal users
B. Management discussion and analysis
C. Annual report
D. Sole proprietorship
E. Dividends
F. Corporation
G. Assets
H. Liabilities
I. Expenses
J. Investing activities

____ 1. Distributions of cash from a corporation to its stock holders.

____ 2. Consumed assets or services.

____ 3. Ownership is limited to one person.

____ 4. Officers and others who manage the business.

____ 5. Creditor claims against the assets of the business.

____ 6. A separate legal entity under state laws.

____ 7. A report prepared by management that presents financial information.

____ 8. A section of the annual report that presents management's views.

____ 9. Future economic benefits.

____ 10. Involves acquiring the resources necessary to run the business.

Ans: N/A, SO: 1,2,3,4,5,6, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Matching

1.	E	6.	F
2.	I	7.	C
3.	D	8.	B
4.	A	9.	G
5.	H	10.	J

SHORT-ANSWER ESSAY QUESTIONS

S-A E 211

What are the advantages to a business of being formed as a corporation? What are the disadvantages?

Ans: N/A, SO: 1, Bloom: K, Difficulty: Easy, Min: 3, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Business Economics

Solution 211

Advantages of a corporation are limited liability (stockholders are not personally liable for corporate debts), easy transferability of ownership, and easier to raise funds. Disadvantages of a corporation are increased taxation and government regulations.

S-A E 212

Why would it be safer for a wealthy individual to set up his or her business as a corporation rather than as a proprietorship or partnership?

Ans: N/A, SO: 1, Bloom: C, Difficulty: Easy, Min: 3, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Business Economics

Solution 212

With a proprietorship or partnership, the owner(s) have unlimited liability. That is, they may be required to use personal assets to satisfy business debts. The liability of a corporate shareholder, however, is limited to his or her investment in the business. Therefore, it would be safer for a wealthy individual to set up his/her business as a corporation.

S-A E 213

Your friend, James, made this comment: “My major is biology and I plan to research for cures for major illnesses. Therefore, I have no need to study accounting.” What is your response to James?

Ans: N/A, SO: 2, Bloom: C, Difficulty: Easy, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Business Economics

Solution 213
James, you are entering a dynamic profession and you have the opportunity to make important contributions to society. While science will be your profession and major concern, you will not be able to escape the need to understand accounting. Accounting staff and professionals will always be available to assist you. Here are some areas that will directly affect you:

As a manager, you will need to review accounting information (both internal and external) and make decisions. Budgets will be an important part of your research activities. As an employee, you will be concerned about the financial information of your employer. Thus, you will need to be able to read the company's financial statements. Also, as an investor, you will be interested in the financial statements of other companies.

You will probably not be a preparer of the financial statements, but you do need an understanding of how they are prepared. You also need a good understanding of how to interpret the information on the financial statements.

S-A E 214
The information needs of a specific user of financial accounting information depends upon the kinds of decisions that user makes. Identify the major users of accounting information and discuss what questions financial accounting information answers for each group of users.

Ans: N/A, SO: 2, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Reporting

Solution 214
The major users of accounting information are internal users and external users. Internal users are those who manage the business. External users are those outside the business who have either a present or potential financial interest.

Financial accounting information may answer the following questions for internal users:
1. Is cash sufficient to pay our debts?
2. Can we afford to give employee pay raises this year?
3. What is the cost of manufacturing each unit of product?
4. Which product line is the most profitable?

Questions answered by financial accounting information for external users include:
1. Is the company earning satisfactory income?
2. How does the company compare in size and profitability with competitors?
3. Will the company be able to pay its debts as they come due?

S-A E 215

The statement of cash flows for Nyland Corporation reveals the following information:

Net cash used by operating activities		($150,000)
Net cash used by investing activities		($200,000)
Net cash provided by financing activities		
Issuance of common stock	$100,000	
Issued note payable	250,000	$350,000
Net change in cash		0

Provide three comments about this information. Make your comments concise yet thorough.

Ans: N/A, SO: 4, Bloom: C, Difficulty: Easy, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Business Economics

Solution 215

(1) Operating activities represent the ongoing activities of the company and are a result of its reason for being in business. The fact that this is a negative cash flow is a cause of concern. This may be a new company and future cash flows from operations will be positive.
(2) The cash that was used for operating and investing activities came from the shareholders (issuance of common stock) and creditors (borrowing with a notes payable). This is to be expected for a new company, or a company that is expanding, but should not be considered an ongoing way to finance the business. Cash from operating activities should be available to purchase assets and pay dividends to shareholders.
(3) There is a concern that all proceeds raised from issuing stock have been used. If operating activities cannot generate positive cash flows, can the corporation issue additional stock to raise cash?
(4) The corporation owes on the note payable. Will there be sufficient cash from operating activities to pay the interest and repay the principal?
(5) Does the corporation need to acquire additional assets for use in the business? If so, will it be able to get the cash to pay for these future acquisitions.

The net of zero may be misleading. The reader may think that there are no potential problems because the cash flows netted to zero. The user of the Statement of Cash Flows needs to consider the activities of each of the sections – operating, investing, and financing.

S-A E 216

How are each of the following financial statements interrelated? (a) Retained earnings statement and income statement. (b) Retained earnings statement and balance sheet. (c) Balance sheet and statement of cash flows.

Ans: N/A, SO: 4, Bloom: C, Difficulty: Easy, Min: 3, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Reporting

Solution 216

(a) Net income from the income statement is reported as an increase to retained earnings on the retained earnings statement.
(b) The ending amount on the retained earnings statement is reported as the retained earnings amount on the balance sheet.
(c) The ending amount on the statement of cash flows is reported as the cash amount on the balance sheet.

S-A E 217

Broadway Corporation's stockholders' equity equals one-fourth of the company's total assets. The company's liabilities are $270,000. What is the amount of the company's stockholders' equity?

Ans: N/A, SO: 5, Bloom: AN, Difficulty: Easy, Min: 2, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Reporting

Solution 217
$90,000: X = 270,000 + ¼X

S-A E 218
Which three types of transactions affect retained earnings, and how do they affect it?

Ans: N/A, SO: 5, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Business Economics

Solution 218
Revenues increase retained earnings, whereas expenses and dividends decrease it.

S-A E 219
The framework used to record and summarize the economic activities of a business enterprise is referred to as the accounting equation. State the basic accounting equation and define its major components. How are business transactions and financial statements related to the accounting equation?

Ans: N/A, SO: 5, Bloom: C, Difficulty: Easy, Min: 3, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Business Economics

Solution 219

The basic accounting equation is expressed as follows:

Assets = Liabilities + Stockholders' Equity

Assets are defined as resources owned by the business. Liabilities are creditors' claims against the assets of the business; or simply put, liabilities are existing debts and obligations. Stockholders' equity is the ownership claim on the total assets of the business; it is equal to total assets minus total liabilities.

Business transactions are economic events and activities that affect the elements of the basic accounting equation; that is, transactions cause increases or decreases in the assets, liabilities, and stockholders' equity. The financial statements report the results and effects of transactions on the business' assets, liabilities, and stockholders' equity. The balance sheet is a summary expression of the basic accounting equation.

S-A E 220
What types of information are presented in the notes to the financial statements?

Ans: N/A, SO: 6, Bloom: C, Difficulty: Easy, Min: 3, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Reporting

Solution 220
Information included in the notes to the financial statements clarifies information presented in the financial statements and includes descriptions of accounting policies, explanations of uncertainties and contingencies, and details too voluminous to be reported in the financial statements.

S-A E 221 (Ethics)

Joe Laramie owns and operates Joe's Burgers, a small fast food store, located at the edge of City College campus in Newton, Ohio. After several very profitable years, Joe's Burgers began to have problems. Most of the problems were related to Joe's expansion of the eating area in the restaurant without corresponding increases in the food preparation area. Joe does not have the cash or financial backing to expand further. He has therefore decided to sell his business.

William Sheets is interested in purchasing the business. However, he is located in another city and is unfamiliar with Newton. He has asked Joe why he is selling Joe's Burgers. Joe replies that his elderly mother requires extra care, and that his brother needs help in his manufacturing business. Both are true, but neither is his primary reason for selling. Joe reasons that William should not have asked him anyway, since profitable businesses don't come up for sale.

Required:

1. Identify the stakeholders in this situation.
2. Did Joe act ethically in not revealing fully his reasons for selling the business? Why or why not?

Ans: N/A, SO: 6, Bloom: E, Difficulty: Easy, Min: 5, AACSB: Ethics, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Reporting

Solution 221

1. The stakeholders include:

Joe Laramie	Students of City College and other customers
William Sheets	City College
Newton, Ohio	Persons financing the purchase of Don's Burgers

2. Joe did not act ethically in not revealing fully his reasons for selling the business. Students might be of the opinion that a purchaser should investigate a business before purchasing it, rather than relying entirely on the seller's assertions. However, students should realize that Joe should have said something about his problems. He might ethically be allowed to put these in the best possible light, perhaps, but failure to disclose them at all is certainly unethical. This is especially true, since family concerns might well cause someone to sell a business that is otherwise doing well. Joe has shown an intent to deceive that is unethical, and might be actionable in court as well.

S-A E 222 (Communication)

Mary Baroni is a friend of yours from high school. She decided to become a beautician after leaving high school, rather than to attend college. She recently opened her own shop, and has contracted her services to a local hospital. She is paid a monthly fee for her services, and receives a small gratuity from each of the patients.

She has just received her first set of financial statements from her accountant. She is quite upset. The statements show a cash balance of $3,600 at the end of the month, but a net income of only $500. She has written you a letter, asking you whether such a situation is possible, or whether she should find another accountant.

Required:

Write a short letter to your friend. Use proper form. Answer her question completely, but briefly.

Ans: N/A, SO: 4, Bloom: C, Difficulty: Easy, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Communications, IMA: Business Economics

Solution 222

Answers will vary. The instructor's requirements concerning proper form should be followed. The letter may be either business or personal. At a minimum, the letter should be in a recognizable form, and proper grammar and spelling should be used. Neat erasures and corrections might be allowed. A suggested personal letter follows:

1245 Lily Lane
Buena Vista, AR 77661
(Date)

Dear Mary,

Congratulations on opening your business! I am sure you will do well, combining your creative genius with your talent for serving others.

You asked about your financial statements. Of course, you realize that I am just an accounting student, but I do know that it is possible to have a large cash balance and little net income. You may have had expenses that were not paid in cash yet. These expenses reduce your income, but not your cash.

I think that you should discuss the statements with the accountant who prepared them. He or she will be in the best position to explain the results.

Thanks for the question. It really made me think.

Sincerely,
(signature)

IFRS Questions

1. Internal users of accounting information include all of the following except
   a. the CEO of Sony.
   b. the Human Resources department at Hyundai.
   c. the marketing department at Braun.
   d. the shareholders of Airbus.

Ans: D, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

2. Internal users of accounting information include
   a. the shareholders of Royal Dutch Shell.
   b. the Internal Revenue Service.
   c. the Chief Financial Officer of Credit Suisse.
   d. the International Accounting Standards Board.

Ans: C, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

3. External users of accounting information include all of the following except
   a. the shareholders of Air Italy.
   b. the management of Pirelli.
   c. a potential customer of Olivetti.
   d. All of the above are external users of accounting information.

Ans: B, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

4. External users of accounting information include
   a. the Financial Accounting Standards Board.
   b. the shareholders of Ferragamo.
   c. the Marketing department at Olivetti.
   d. the CEO of Air Italy.

Ans: B, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

5. When preparing a set of financial statement, the statement of cash flows is prepared
   a. first.
   b. second.
   c. third.
   d. fourth.

Ans: C, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

6. The Cash account balance reported on the Statement of Financial Position is needed to prepare
   a. the income statement.
   b. the share capital statement.
   c. the retained earnings statement.
   d. the statement of cash flows.

Ans: D, SO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting