

***Fundamental Financial Accounting Concepts 11th
edition Edmonds Test Bank***

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Fundamental Financial Accounting Concepts 11th Edition

by Edmonds CH01

ANSWERS ARE LOCATED AT THE END OF THIS DOCUMENT

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

1) Indicate how each event affects the financial statements. Use the following letters to record your answer in the box shown below. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Walker Company issued common stock for \$150,000 cash.

Balance Sheet		Income Statement		Statement
Assets	= Liabilities + Stockholders' Equity	Revenue	- Expense = Net Income	of Cash Flows

Question Details

Difficulty : 2 Medium

Topic : The Horizontal Financial Statements Model

Learning Objective : 01-10 Record business events using a horizontal financial statements model.

Bloom's : Analyze

AACSB : Analytical Thinking

AICPA : BB Critical Thinking

AICPA : FN Measurement

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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2) Indicate how each event affects the financial statements. Use the following letters to record your answer in the box shown below. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Nguyen Company borrowed \$50,000 cash from Metropolitan Bank.

Balance Sheet		Income Statement		Statement
Assets	Liabilities + Stockholders' Equity	Revenue - Expense	Net Income	of Cash Flows

Question Details

Difficulty : 2 Medium

Topic : The Horizontal Financial Statements Model

Learning Objective : 01-10 Record business events using a horizontal financial statements model.

Bloom's : Analyze

AACSB : Analytical Thinking

AICPA : BB Critical Thinking

AICPA : FN Measurement

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

3) Indicate how each event affects the financial statements. Use the following letters to record your answer in the box shown below. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Bell Company provided consulting services for \$20,000 cash.

Balance Sheet		Income Statement		Statement
Assets	Liabilities + Stockholders' Equity	Revenue - Expense	Net Income	of Cash Flows

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Question Details

Difficulty : 2 Medium

Topic : The Horizontal Financial Statements Model

Learning Objective : 01-10 Record business events using a horizontal financial statements model.

Bloom's : Analyze

AACSB : Analytical Thinking

AICPA : BB Critical Thinking

AICPA : FN Measurement

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

4) Indicate how each event affects the financial statements. Use the following letters to record your answer in the box shown below. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Pierce Company paid \$40,000 cash to purchase land.

Balance Sheet		Income Statement		Statement
Assets	= Liabilities + Stockholders' Equity	Revenue	- Expense = Net Income	of Cash Flows

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6) Indicate how each event affects the financial statements. Use the following letters to record your answer in the box shown below. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

Epstein Company paid \$20,000 in cash dividends to its owners.

Balance Sheet		Income Statement		Statement
Assets	Liabilities + Stockholders' Equity	Revenue - Expense	Net Income	of Cash Flows

Question Details

Difficulty : 2 Medium

Topic : The Horizontal Financial Statements Model

Learning Objective : 01-10 Record business events using a horizontal financial statements model.

Bloom's : Analyze

AACSB : Analytical Thinking

AICPA : BB Critical Thinking

AICPA : FN Measurement

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

7) Indicate how each event affects the financial statements. Use the following letters to record your answer in the box shown below. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter dollar amounts.

Increase = I Decrease = D Not Affected = NA

North Company issued a note to purchase a building.

Balance Sheet		Income Statement		Statement
---------------	--	------------------	--	-----------

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Assets = Liabilities + Stockholders' Revenue - Expense = Net of Cash
Equity Income Flows

Question Details

Difficulty : 2 Medium

Topic : The Horizontal Financial Statements Model

Learning Objective : 01-10 Record business events using a horizontal financial statements model.

Bloom's : Analyze

AACSB : Analytical Thinking

AICPA : BB Critical Thinking

AICPA : FN Measurement

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

8) Name the group that has the primary authority for establishing U.S. GAAP.

Question Details

AICPA : BB Critical Thinking

AICPA : FN Measurement

Difficulty : 1 Easy

Topic : Role of Accounting in Society

Learning Objective : 01-01 Identify the ways accounting benefits society.

Bloom's : Remember

AACSB : Reflective Thinking

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

9) Who are the three distinct types of participants in the market for business resources? Briefly describe the role of each group of participants.

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Question Details

Difficulty : 2 Medium

Topic : Role of Accounting in Society

Learning Objective : 01-01 Identify the ways accounting benefits society.

AACSB : Reflective Thinking

Bloom's : Understand

AICPA : BB Industry

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

10) What is meant by the term "stakeholders"?

Question Details

Difficulty : 2 Medium

AICPA : FN Measurement

Topic : Role of Accounting in Society

Learning Objective : 01-01 Identify the ways accounting benefits society.

AACSB : Reflective Thinking

Bloom's : Understand

AICPA : BB Industry

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

11) What is meant by the term "global GAAP"? How does it impact U.S. companies? What body is responsible for setting global standards?

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Question Details

Difficulty : 2 Medium

AICPA : FN Measurement

Learning Objective : 01-01 Identify the ways accounting benefits society.

Bloom's : Understand

Topic : Focus on International Issues

AACSB : Diversity

AICPA : BB Global

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

12) Briefly distinguish between financial accounting and managerial accounting.

Question Details

Difficulty : 2 Medium

AICPA : FN Measurement

Topic : Role of Accounting in Society

Learning Objective : 01-01 Identify the ways accounting benefits society.

AACSB : Reflective Thinking

Bloom's : Understand

AICPA : BB Industry

AACSB : Communication

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

13) Explain some of the similarities and differences between not-for-profit organizations and other types of businesses.

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Question Details

Difficulty : 2 Medium

Topic : Role of Accounting in Society

Learning Objective : 01-01 Identify the ways accounting benefits society.

AACSB : Reflective Thinking

Bloom's : Understand

AICPA : BB Industry

AACSB : Communication

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

14) What financial statement elements are reported on a balance sheet?

Question Details

AICPA : BB Critical Thinking

AICPA : FN Measurement

Difficulty : 1 Easy

Bloom's : Remember

AACSB : Reflective Thinking

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance S

Learning Objective : 01-07 Prepare an income statement, a statement of changes in stockholders' equit

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

15) From what three sources does a business obtain its assets?

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Question Details

Difficulty : 2 Medium

Bloom's : Remember

AACSB : Reflective Thinking

Topic : Elements of Financial Statements

Learning Objective : 01-03 Identify the components of the accounting equation.

AICPA : BB Resource Management

AICPA : FN Risk Analysis

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

16) How does providing services for cash affect the accounting equation? Is it considered an asset source, asset use, or asset exchange transaction?

Question Details

Difficulty : 2 Medium

Bloom's : Analyze

AICPA : BB Critical Thinking

AICPA : FN Measurement

AACSB : Reflective Thinking

Bloom's : Understand

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

17) How does the payment of cash dividends to stockholders affect the accounting equation? Is it considered an asset source, asset use, or asset exchange transaction?

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Question Details

Difficulty : 2 Medium

Bloom's : Analyze

AACSB : Analytical Thinking

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

18) If total stockholder's equity is \$150,000 and liabilities are \$75,000, what are total assets?

Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Elements of Financial Statements

Learning Objective : 01-03 Identify the components of the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

19) What is meant by the term stockholders' equity?

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Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

AACSB : Reflective Thinking

Bloom's : Understand

Topic : Elements of Financial Statements

Learning Objective : 01-03 Identify the components of the accounting equation.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

20) Give three examples of asset use transactions.

Question Details

Difficulty : 2 Medium

AICPA : FN Measurement

AACSB : Reflective Thinking

Bloom's : Understand

AICPA : BB Resource Management

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

21) What does a company's statement of cash flows tell you about the company?

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Question Details

AICPA : BB Critical Thinking

AICPA : FN Measurement

Difficulty : 1 Easy

AACSB : Reflective Thinking

Bloom's : Understand

Topic : Preparing a Statement of Cash Flows

Learning Objective : 01-08 Prepare a statement of cash flows.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

22) If a corporation issues common stock for \$50,000 cash, in which section of the statement of cash flows will this transaction be reported?

Question Details

AICPA : BB Critical Thinking

AICPA : FN Measurement

Difficulty : 1 Easy

AACSB : Reflective Thinking

Bloom's : Understand

Topic : Preparing a Statement of Cash Flows

Learning Objective : 01-08 Prepare a statement of cash flows.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

23) Which types of accounts are closed out to the Retained Earnings account at the end of an accounting period?

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Question Details

AICPA : BB Critical Thinking

AICPA : FN Measurement

Difficulty : 1 Easy

AACSB : Reflective Thinking

Bloom's : Understand

Topic : The Closing Process

Learning Objective : 01-09 Close revenue, expense, and dividend accounts.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

24) Name and briefly describe each of the four financial statements.

Question Details

AICPA : BB Critical Thinking

AICPA : FN Measurement

AACSB : Reflective Thinking

Bloom's : Understand

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance Sheet

Learning Objective : 01-07 Prepare an income statement, a statement of changes in stockholders' equity

Topic : Preparing a Statement of Cash Flows

Learning Objective : 01-08 Prepare a statement of cash flows.

Difficulty : 3 Hard

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

25) Define the term "accounting period." How does this term relate to the "matching concept" as it pertains to the income statement?

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Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

AACSB : Reflective Thinking

Bloom's : Understand

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance S

Learning Objective : 01-07 Prepare an income statement, a statement of changes in stockholders' equit

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

26) Indicate whether each of the following statements about markets is true or false.

- _____ a) Financial resources can be provided to a business by investors.
- _____ b) Resource owners are the businesses that transform resources into products that satisfy consumer desires.
- _____ c) Labor resources include both the physical and intellectual labor of a business's employees.
- _____ d) Businesses purchase their resources from resource owners.
- _____ e) Consumers are the main providers of resources in any market.

Question Details

AICPA : BB Critical Thinking

Difficulty : 1 Easy

Topic : Role of Accounting in Society

Learning Objective : 01-01 Identify the ways accounting benefits society.

Bloom's : Remember

AACSB : Reflective Thinking

AICPA : FN Decision Making

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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27) Indicate whether each of the following statements about accounting information is true or false.

_____ a) Financial accounting is primarily intended to satisfy the information needs of internal stakeholders.

_____ b) Managerial accounting information includes financial and nonfinancial information.

_____ c) The accounting information intended to satisfy the needs of a company's employees is managerial accounting information.

_____ d) GAAP requires that companies adhere to financial accounting standards.

_____ e) Managerial accounting information is usually less detailed than financial accounting information.

Question Details

AICPA : BB Critical Thinking

AICPA : FN Measurement

Difficulty : 1 Easy

Topic : Role of Accounting in Society

Learning Objective : 01-01 Identify the ways accounting benefits society.

Bloom's : Remember

AACSB : Reflective Thinking

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

28) Indicate whether each of the following statements about liabilities is true or false.

_____ a) A net loss on the income statement decreases liabilities.

_____ b) The acquisition of a bank loan increases both assets and liabilities.

_____ c) The accounting equation requires that liabilities be equal to stockholders' equity.

_____ d) The amount of a company's liabilities is equal to the difference between its assets and its stockholders' equity.

_____ e) Liabilities are reported on the statement of cash flows of a business.

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Question Details

Difficulty : 2 Medium

Topic : The Horizontal Financial Statements Model

Learning Objective : 01-10 Record business events using a horizontal financial statements model.

AICPA : BB Critical Thinking

AICPA : FN Measurement

AACSB : Reflective Thinking

Bloom's : Understand

Topic : Elements of Financial Statements

Learning Objective : 01-03 Identify the components of the accounting equation.

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

29) Indicate whether each of the following statements about retained earnings is true or false.

- _____ a) A dividend paid to stockholders decreases retained earnings.
- _____ b) Issuing common stock for cash increases retained earnings.
- _____ c) The amount of net income for a period must equal retained earnings.
- _____ d) The purchase of a truck decreases retained earnings.
- _____ e) Net income increases retained earnings.

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Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

AACSB : Reflective Thinking

Bloom's : Understand

Topic : Elements of Financial Statements

Learning Objective : 01-03 Identify the components of the accounting equation.

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

30) Indicate whether each of the following statements about the types of transactions is true or false.

_____ a) An asset source transaction increases total assets and increases claims to assets.

_____ b) The issuance of stock to owners for cash would be an example of an asset exchange transaction.

_____ c) Purchasing equipment for cash is an example of an asset use transaction.

_____ d) Paying a dividend to stockholders is an example of an asset use transaction.

_____ e) Making a payment on a bank loan is an example of an asset exchange transaction.

Question Details

AICPA : BB Critical Thinking

AICPA : FN Measurement

Difficulty : 1 Easy

AACSB : Reflective Thinking

Bloom's : Understand

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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31) Indicate whether each of the following statements about financial statements is true or false.

_____ a) A cash dividend paid to stockholders is reported in the investing activities section of the statement of cash flows.

_____ b) A cash dividend paid to stockholders is reported on the statement of changes in stockholders' equity.

_____ c) A cash dividend paid to stockholders is reported on the income statement.

_____ d) The balance sheet reports the ending balances of permanent accounts as of the last day of the accounting period.

_____ e) Changes in retained earnings during the accounting period are reported on the income statement.

Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

AACSB : Reflective Thinking

Bloom's : Understand

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance S

Learning Objective : 01-07 Prepare an income statement, a statement of changes in stockholders' equit

Topic : Preparing a Statement of Cash Flows

Learning Objective : 01-08 Prepare a statement of cash flows.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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32) Indicate whether each of the following statements about stockholders' equity is true or false.

- _____ a) Expenses decrease retained earnings.
- _____ b) Stockholders' equity and liabilities can be viewed either as sources of assets or claims to assets of the business.
- _____ c) Retained earnings is increased by loans received from a bank.
- _____ d) Dividends paid to stockholders decrease common stock.
- _____ e) Generally, assets are reported at the actual price paid for them when purchased regardless of subsequent changes in market value.

Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

AACSB : Reflective Thinking

Bloom's : Understand

Topic : Elements of Financial Statements

Learning Objective : 01-03 Identify the components of the accounting equation.

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

33) Jessup Company was founded in Year 1. It acquired \$45,000 cash by issuing stock to investors and an additional \$15,000 cash by borrowing from creditors. During Year 1 it received \$25,000 cash revenues and paid \$32,000 in cash expenses. The company then went out of business.

Required:

- a) Explain the term, "business liquidation."
- b) What amount of cash should Jessup Company have had on hand immediately before going out of business?
- c) What amount of cash will Jessup's creditors receive?
- d) What amount of cash will Jessup's stockholders receive?

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Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Topic : Interpreting Information Shown in the Accounting Equation

Learning Objective : 01-05 Interpret information shown in an accounting equation.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

34) Bates Company entered into the following transactions during its first year in business. Assume that all transactions involve the receipt or payment of cash.

- 1) Issued common stock to investors for \$25,000 cash.
- 2) Borrowed \$18,000 from the local bank.
- 3) Provided services to customers for \$28,000.
- 4) Paid expenses amounting to \$21,400.
- 5) Purchased a plot of land costing \$22,000.
- 6) Paid a dividend of \$15,000 to its stockholders.
- 7) Repaid \$12,000 of the loan listed in item 2.

Required:

(a) Fill in the three column headings of the accounting equation in the first row of the table shown below.

(b) Show the effects of the above transactions on the accounting equation.

Event number	=	+
1 .		
2 .		

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3.

4.

5.

6.

7.

Total

Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

35) Each of the following requirements is independent of the others.

- a) Valdez Corporation has liabilities of \$95,000 and stockholders' equity of \$115,000. What is the amount of Valdez's assets?
- b) Global Company has assets of \$320,000 and liabilities of \$95,000. What is the amount of Global's stockholders' equity?
- c) Brown Company has assets of \$90,000 and liabilities of \$25,000. What is the amount of Brown's claims?

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Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Elements of Financial Statements

Learning Objective : 01-03 Identify the components of the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

36) The following business events occurred for Ringgold Company during Year 1, its first year in operation:

1. Issued stock to investors for \$45,000 cash
2. Borrowed \$25,000 cash from the local bank
3. Provided services to its customers and received \$32,000 cash
4. Paid expenses of \$28,000
5. Paid \$22,000 cash for land
6. Paid dividend of \$12,000 to stockholders
7. Repaid \$10,000 of the loan listed in item 2

Required:

a) Show the effects of the above transactions on the accounting equation, below. Include dollar amounts of increases and decreases. Enter "NA" for elements of the accounting equation that are not affected by the transaction. If one element of the accounting equation is affected by an increase and also by a decrease, enter each part on a separate line. (The effects of the first transaction is shown below.)

b) After entering all the events, calculate the total amounts of assets, liabilities, and stockholders' equity at the end of the year.

Event number	Assets	=	Liabilities	+	Stockholders' Equity
-----------------	--------	---	-------------	---	-------------------------

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1.	45,000	NA	45,000
2.			
3.			
4.			
5.			
6.			
7.			
Total			

Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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37) Ramirez Company experienced the following events during Year 1:

1. Acquired \$50,000 cash by issuing common stock
2. Borrowed \$25,000 cash from a creditor
3. Provided services to customers for \$38,000 cash
4. Paid \$32,000 cash for operating expenses
5. Paid a cash dividend of \$2,500 to stockholders
6. Purchased land with cash, \$30,000

Required:

a) Show how each of these events affects the accounting equation. Enter "NA" for elements of the accounting equation that are not affected by the transaction. If one element of the accounting equation is affected by an increase and also by a decrease, enter each part on a separate line. (The effects of the first event are shown below.)

b) Calculate the total amount of assets, liabilities, common stock, and retained earnings at the end of the period.

Event number	Assets	=	Liabilities	+	Stockholders' Equity	
					Common Stock	+ Retained Earnings
1.	50,000		NA		50,000	NA
2.						
3.						
4.						
5.						
6.						
Total						

Fundamental Financial Accounting Concepts 11th Edition

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Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

38) At the beginning of Year 2, the accounting records of Grace Company included the accounts and balances shown on the first row of the table below. During Year 2, the following transactions occurred:

1. Received \$95,000 cash for providing services to customers
2. Paid salaries expense, \$50,000
3. Purchased land for \$12,000 cash
4. Paid \$4,000 on note payable
5. Paid operating expenses, \$22,000
6. Paid cash dividend, \$2,500

Required:

a) Record the transactions in the appropriate accounts. Record the amounts of revenue, expense, and dividends in the retained earnings column. Enter 0 for items not affected. Provide appropriate titles for these accounts in the last column of the table.

Event	Assets		= Liabilities	+ Stockholders' Equity		Account Titles for RE
	Cash	Land		Notes Payable	Common Stock + Retained Earnings	
Beginning	29,000	32,000	18,000	33,000	10,000	
1.						
2.						
3.						
4.						

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5.

6.

- b) What is the amount of total assets as of December 31, Year 2?
- c) What is the amount of total stockholders' equity as of December 31, Year 2?

Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

39) Montgomery Company experienced the following events during Year 1 (all were cash events):

1. Issued a note
2. Paid operating expenses
3. Issued common stock
4. Provided services to customers
5. Repaid part of the note in event 1
6. Paid dividends to stockholders

Required:

Indicate how each of these events affects the accounting equation by writing the letter "I" for increase, the letter "D" for decrease, and "NA" for no effect under each of the components of the accounting equation. Use only one item of entry in each column. (The effects of the first event are shown below.)

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Event number	Assets	=	Liabilities	+	Stockholders' Equity	
					Common Stock	+ Retained Earnings
1.	I		I		NA	NA
2.						
3.						
4.						
5.						
6.						

Question Details

Difficulty : 2 Medium

Bloom's : Analyze

AACSB : Analytical Thinking

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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40) Indicate how each of the following transactions affects assets by entering "+" for increase, "-" for decrease, or " +/- for an increase that is offset by a decrease (such as an asset exchange). Enter only one item for each answer.

- _____ 1) Issued stock to investors.
- _____ 2) Borrowed cash from the bank.
- _____ 3) Provided services for cash.
- _____ 4) Paid operating expenses.
- _____ 5) Purchased land for cash.
- _____ 6) Paid cash dividend to the stockholders.
- _____ 7) Repaid the bank loan.

Question Details

Difficulty : 2 Medium

Bloom's : Analyze

AACSB : Analytical Thinking

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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41) Classify each of the following events as an asset source (designate as "AS"), asset use (designate as "AU"), asset exchange (designate as "AX"), or not an asset source (designate as "NA").

- _____ 1) Borrowed cash from the bank
- _____ 2) Issued stock for cash
- _____ 3) Purchased land for cash
- _____ 4) Performed services and collected cash
- _____ 5) Paid cash for operating expense
- _____ 6) Purchased equipment for cash
- _____ 7) Paid dividends to stockholders
- _____ 8) Repaid the bank loan with cash

Question Details

Difficulty : 2 Medium

Bloom's : Analyze

AACSB : Analytical Thinking

AICPA : BB Critical Thinking

AICPA : FN Measurement

Learning Objective : 01-04 Show how business events affect the accounting equation.

Topic : Types of Transactions

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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42) Grimes Corporation reports the following cash transactions for the year ending December 31, Year 1, its first year of operation:

- 1) Issued common stock for \$35,000
- 2) Borrowed \$25,000 from a local bank
- 3) Purchased land for \$40,000
- 4) Provided services to clients for \$38,000
- 5) Paid operating expenses of \$30,500
- 6) Paid \$2,000 cash dividends to stockholders

Required:

- a) What are the total assets for Grimes Corporation at December 31, Year 1?
- b) Prepare an income statement for Year 1.

Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance Sheet

Learning Objective : 01-07 Prepare an income statement, a statement of changes in stockholders' equity

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

43) Young Company reported the following balance sheet for the end of Year 1:

Young Company

Balance Sheet

For the Year Ended December 31, Year 1

Assets

Cash

\$ 58,800

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Land	25,500
Total assets	<u>\$ 84,300</u>
Liabilities	
Notes payable	\$ 18,000
Stockholders' equity	
Common stock	50,000
Retained earnings	16,300
Total stockholders' equity	<u>66,300</u>
Total liabilities and stockholders' equity	<u>\$ 84,300</u>

During Year 2, Young reported the following transactions:

- Repaid \$9,000 to a local bank on a note payable
- Provided services to clients for \$27,400 cash
- Paid operating expenses of \$20,200
- Paid \$4,500 cash dividends to stockholders

Required:

Prepare Young Company's balance sheet as of December 31, Year 2.

Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance S

Learning Objective : 01-07 Prepare an income statement, a statement of changes in stockholders' equit

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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44) Use the following information to prepare an income statement for Penelope Company for the period ending December 31, Year 1. All transactions were for cash.

- A) Received revenue from services provided to customers, \$30,500.
- B) Paid \$19,000 cash for land.
- C) Issued \$16,000 of common stock.
- D) Paid dividends to stockholders, \$3,000.
- E) Paid operating expenses, \$25,400.

Question Details

AICPA : BB Critical Thinking

AICPA : FN Measurement

Difficulty : 1 Easy

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance S

Learning Objective : 01-07 Prepare an income statement, a statement of changes in stockholders' equit

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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45) The following events are for Holiday Travel Services for Year 1, the first year of operations. Assume that all transactions involve the receipt or payment of cash.

- 1) The business acquired \$50,000 from stock issued to owners.
- 2) Creditors loaned the company \$27,500.
- 3) The company provided services to its customers and received \$75,400.
- 4) The company paid expenses amounting to \$63,250.
- 5) The company purchased land for \$25,000.
- 6) The company paid a dividend of \$5,500 to its owners.

Required:

a) Show the effects of the above transactions on the accounting equation. (Start by using appropriate element and account headings). For those events that affect retained earnings, indicate in a separate column the appropriate temporary account. Enter a "0" if a transaction does not affect a given account.

Event Number	=	+	Other Account Titles
1			
2			
3			
4			
5			
6			
Totals			

b) Prepare an income statement and balance sheet for and as of the end of Year 1.

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Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance S

Learning Objective : 01-07 Prepare an income statement, a statement of changes in stockholders' equit

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

46) The following transactions apply to Wilson Fitness Center for Year 1.

- 1) Started the business by issuing \$48,000 of common stock for cash.
- 2) Provided services to clients and received \$65,500 cash.
- 3) Borrowed \$10,500 from the bank.
- 4) Paid \$8,500 for rent of equipment.
- 5) Purchased land for \$15,000.
- 6) Paid \$46,600 of salary expense.
- 7) Cash dividends of \$4,000 were paid to the stockholders.

Required:

- a) What are the total assets of the business at the end of Year 1?
- b) Prepare a statement of cash flows for Year 1.

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Question Details

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Topic : Preparing a Statement of Cash Flows

Learning Objective : 01-08 Prepare a statement of cash flows.

Difficulty : 3 Hard

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

47) The following is a partial set of financial statements prepared for the company's first year of operations. All transactions were for cash.

Required:

Fill in the missing information by determining the amounts represented by letters a through d.

Income Statement

Revenue	\$ a
Expense	6,200
Net income	<u>\$ b</u>

Statement of Changes in Stockholders' Equity

Beginning common stock	\$ 0
Plus: Issuance of common stock	11,000
Ending common stock	<u>11,000</u>
Beginning Retained Earnings	\$ 0
Add: Net Income	<u>3,500</u>
Ending Retained Earnings	<u>\$ c</u>
Total stockholders' equity	<u><u>\$ d</u></u>

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Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance Sheet

Learning Objective : 01-07 Prepare an income statement, a statement of changes in stockholders' equity

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

48) The following is a partial set of financial statements prepared for the company's first year of operations. All transactions were for cash.

Required:

Fill in the blanks indicated by the alphabetic letters in the following financial statements.

Income Statement

Service revenue	\$44,000
Operating expenses	a
Net income	<u>\$ b</u>

Statement of Changes in Stockholders' Equity

Beginning common stock	\$80,000
Add: Common stock issued	0
Ending common stock	<u>\$80,000</u>
Beginning retained earnings	\$ 0
Add: Net income	c
Less: Dividends	d
Ending retained earnings	<u>16,000</u>
Total stockholders' equity	<u><u>\$ e</u></u>

Balance Sheet

Assets

Cash	\$ f
Land	20,000
Total assets	<u>\$ 120,000</u>
Liabilities	g
Stockholders' equity	

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Common stock	80,000
Retained earnings	h
Total stockholders' equity	i
Total liabilities and stockholders' equity	\$120,000
Statement of Cash Flows	
Cash flows from operating activities	
Cash receipt from revenue	\$ 44,000
Cash payment for expense	j
Net cash flow from operating activities	k
Cash flows for investing activities	
Cash payment for land	(20,000)
Cash flows from financing activities	
Cash receipt from loan	l
Cash receipt from stock issue	80,000
Cash dividend paid to owners	(12,000)
Net cash flow from financing activities	92,000
Net increase in cash	\$100,000

Question Details

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance S

Bloom's : Apply

AACSB : Knowledge Application

Difficulty : 3 Hard

Learning Objective : 01-05 Interpret information shown in an accounting equation.

Accessibility : Screen Reader Compatible

Learning Objective : 01-06 Classify business events as asset source, use, or exchange transactions.

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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49) The following transactions apply to the Garber Corporation for Year 1, its first year in business.

- 1) Issued stock to investors, \$48,000.
- 2) The company borrowed \$42,000 cash from the bank.
- 3) Services were provided to customers and \$50,000 cash was received.
- 4) The company acquired land for \$44,000.
- 5) The company paid \$34,000 rent for the building where it does its business.
- 6) The company paid \$3,200 for supplies that were used during the period.
- 7) The company sold the land acquired in item 4 for \$44,000.
- 8) A dividend of \$1,000 was paid to the owners.
- 9) Repaid \$20,000 of the loan described in item 2.

Required:

- a. Prepare an income statement, statement of changes in stockholders' equity, and balance sheet for Year 1.
- b. Prepare a statement of cash flows for Year 1.

Question Details

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance Sheet

Learning Objective : 01-07 Prepare an income statement, a statement of changes in stockholders' equity

Bloom's : Apply

AACSB : Knowledge Application

Topic : Preparing a Statement of Cash Flows

Learning Objective : 01-08 Prepare a statement of cash flows.

Difficulty : 3 Hard

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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50) Rosemont Company began operations on January 1, Year 1, and on that date issued stock for \$60,000 cash. In addition, Rosemont borrowed \$50,000 cash from the local bank. The company provided services to its customers during Year 1 and received \$35,000. It purchased land for \$70,000. During the year, it paid \$10,000 cash for salaries and \$9,000 cash for supplies that were used up in its operations. Stockholders were paid cash dividends of \$8,000 during the year.

Required:

- a) List the transactions from the information above (for example, issued common stock for \$60,000) and indicate in which section of the statement of cash flows each transaction would be reported.
- b) What would the amount be for net cash flows from operating activities?
- c) What would be the end-of-year balance for the cash account?
- d) What would be the amount of the total assets for the Rosemont Company at the end of Year 1?
- e) What would be the end-of-year balance for the Retained Earnings account?

Question Details

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Topic : Preparing a Statement of Cash Flows

Learning Objective : 01-08 Prepare a statement of cash flows.

Difficulty : 3 Hard

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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51) The Campbell Company began operations on January 1, Year 1 and on that date issued \$60,000 of common stock for cash. In addition, the company borrowed \$40,000 from the bank. It provided services to its customers during Year 1 and received \$72,000 cash. During the year, it paid \$80,000 cash for land, \$50,000 for salaries, and \$10,000 in cash dividends to the owners.

Required:

- 1) Show the effects of the above transactions on the accounting equation. (Start by using appropriate element and account headings). Enter a "0" if a transaction does not affect a given account.
- 2) Prepare an income statement and a balance sheet for the Year 1 accounting period.

Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance S

Learning Objective : 01-07 Prepare an income statement, a statement of changes in stockholders' equit

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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52) Pinehurst Company was formed in Year 1 and experienced the following accounting events during the year:

1. Issued common stock for \$15,000 cash
2. Earned cash revenue of \$28,000
3. Paid cash expenses of \$20,500.

These were the only events that affected the company during the year.

Required:

- a) Show the effects of the above transactions on the accounting equation. (Start by using appropriate element and account headings). Leave the cell blank if a transaction does not affect a given account.
- b) Prepare an income statement for Year 1 and a balance sheet as of December 31, Year 1.

Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance S

Learning Objective : 01-07 Prepare an income statement, a statement of changes in stockholders' equit

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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53) Fieldstone Company was founded on January 1, Year 1. During Year 1, the company experienced the following events:

1. Received cash revenue of \$25,500
2. Paid cash expenses of \$20,000
3. Issued common stock for \$30,000 cash
4. Paid cash dividend of \$2,000 to owners.

Required:

- a) Show the effects of the above transactions on the accounting equation. (Start by using appropriate element and account headings). Leave the cell blank if a transaction does not affect a given account.
- b) Prepare the Year 1 income statement and balance sheet for Fieldstone Company.

Question Details

Difficulty : 2 Medium

AICPA : BB Critical Thinking

AICPA : FN Measurement

Topic : Preparing an Income Statement, a Statement of Changes in Stockholders' Equity and a Balance S

Learning Objective : 01-07 Prepare an income statement, a statement of changes in stockholders' equit

Topic : Recording Business Events Under the Accounting Equation

Learning Objective : 01-04 Show how business events affect the accounting equation.

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

54) During Year 1, Sawyer Company earned \$42,000 of cash revenue and paid \$28,200 of cash expenses and \$1,600 in dividends to the company's owners. Enter each of these three events into the horizontal financial statements model, below. Indicate dollar amounts of increases and decreases. For cash flows, show whether they are operating activities (OA), investing activities (IA), or financing activities (FA). Enter "NA" if a given transaction does not affect a financial statement element.

Event Assets = Liabilities + Stockholders' Revenue - Expense = Net Statement

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	Equity	Income of Cash Flows
a)		
b)		
c)		

Question Details

Difficulty : 2 Medium

Topic : The Horizontal Financial Statements Model

Learning Objective : 01-10 Record business events using a horizontal financial statements model.

AICPA : BB Critical Thinking

AICPA : FN Measurement

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

55) During Year 1, Pace Company issued common stock to stockholders for \$12,000, purchased land for \$3,200 cash, and paid cash dividends of \$1,000 to the company's owners.

Required:

Enter each of these three events into the horizontal financial statements model, below. Indicate dollar amounts of increases and decreases. For cash flows, show whether they are operating activities (OA), investing activities (IA), or financing activities (FA).

Enter 0 if there would be no entry in a column.

Event	Assets	=	Liabilities	+	Stockholders' Revenue	-	Expense	=	Net	Statement
a)										

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b)

c)

Question Details

Difficulty : 2 Medium

Topic : The Horizontal Financial Statements Model

Learning Objective : 01-10 Record business events using a horizontal financial statements model.

AICPA : BB Critical Thinking

AICPA : FN Measurement

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

56) During Year 1, Morsch Company issued common stock to stockholders for \$10,000; purchased land for \$2,000 cash; provided services to customers for \$8,000; paid cash operating expenses of \$6,200; and paid cash dividends of \$1,000 to the company's owners.

Required:

Enter each of these events into the horizontal financial statements model, below. Indicate dollar amounts of increases and decreases. For cash flows, show whether they are operating activities (OA), investing activities (IA), or financing activities (FA). Enter a "0" if a transaction does not affect a given element of the accounting equation.

Event	Assets	=	Liabilities	+	Stockholders' Equity	=	Revenue	-	Expense	=	Net Income	Statement of Cash Flows
-------	--------	---	-------------	---	----------------------	---	---------	---	---------	---	------------	-------------------------

a)

b)

c)

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Question Details

Difficulty : 2 Medium

Topic : The Horizontal Financial Statements Model

Learning Objective : 01-10 Record business events using a horizontal financial statements model.

AICPA : BB Critical Thinking

AICPA : FN Measurement

Bloom's : Apply

AACSB : Knowledge Application

Accessibility : Screen Reader Compatible

Accessibility : Keyboard Navigation

Gradable : manual

Type : Static

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Answer Key

Test name: CH01

1)

Balance Sheet			Income Statement		Statement of Cash Flows
Assets	Liabilities + Stockholders' Equity		Revenue	Expense = Net Income	
I	NA	I	NA	NA	I

Issuing common stock is an asset source transaction that increases the business's assets (cash) and its stockholders' equity (common stock). It does not affect the income statement but is reported as a cash flow from financing activities in the statement of cash flows.

2)

Balance Sheet			Income Statement		Statement of Cash Flows
Assets	Liabilities + Stockholders' Equity		Revenue	Expense = Net Income	
I	I	NA	NA	NA	I

Borrowing cash is an asset source transaction that increases a business's assets (cash) and its liabilities (notes payable). It does not affect the income statement but is reported as a cash flow from financing activities in the statement of cash flows.

3)

Balance Sheet			Income Statement		Statement of Cash Flows
Assets	Liabilities + Stockholders' Equity		Revenue	Expense = Net Income	
I	NA	I	I	NA	I

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This is an asset source transaction that increases the business's assets (cash). When a business provides services, it earns revenue. Revenue increases net income, which will increase stockholders' equity (retained earnings) at the end of the accounting period. This event is reported as a cash inflow from operating activities in the statement of cash flows.

4)

Balance Sheet			Income Statement		Statement of Cash Flows
Assets	= Liabilities + Stockholders' Equity		Revenue	- Expense = Net Income	
I/D	NA	NA	NA	NA	D

Purchasing land for cash is an asset exchange transaction that increases one asset (land) and decreases another asset (cash). It does not affect the income statement and is reported as an investing activity in the statement of cash flows.

5)

Balance Sheet			Income Statement		Statement of Cash Flows
Assets	= Liabilities + Stockholders' Equity		Revenue	- Expense = Net Income	
D	NA	D	NA	I	D

Paying expenses is an asset use transaction that decreases the business's assets (cash) and decreases its stockholders' equity (retained earnings). Note that the expense decreases net income and will decrease retained earnings at the end of the accounting period. It is reported as a cash outflow from operating activities in the statement of cash flows.

6)

Balance Sheet			Income Statement		Statement of Cash Flows
Assets	= Liabilities + Stockholders' Equity		Revenue	- Expense = Net Income	

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D NA D NA NA NA D

Paying a cash dividend is an asset use transaction that decreases a business's assets (cash) and its stockholders' equity (retained earnings). The dividends account will decrease retained earnings at the end of the accounting period. It does not affect net income and is reported as a cash outflow from financing activities in the statement of cash flows.

7)

Balance Sheet			Income Statement			Statement
Assets = Liabilities + Stockholders' Equity			Revenue	- Expense	= Net Income	of Cash Flows
I	I	NA	NA	NA	NA	NA

Issuing a note to purchase a building is an asset source transaction that increases a business's assets (building) and increases its liabilities (notes payable). It does not affect net income or the statement of cash flows.

8) The Financial Accounting Standards Board (FASB)

The Financial Accounting Standards Board (FASB) is a privately funded organization with the primary authority for establishing accounting standards in the United States.

9) Markets include consumers, businesses, and resource owners. Consumers use resources. Businesses convert resources to the form that consumers want. Resource owners control the distribution of resources to businesses.

10) Stakeholders are the parties that are interested in operations of an organization. Stakeholders often are users or potential users of accounting information. Stakeholders include resource providers, financial analysts, brokers, attorneys, government regulators and news reporters.

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11) International Financial Reporting Standards (IFRS) have been adopted by most countries outside of the United States, and are becoming "global GAAP." Many believe that U.S. companies will be allowed to use either IFRS or U.S. GAAP in the future, and there is an ongoing process to reduce the differences between IFRS and GAAP. The International Accounting Standards Board (IASB), headquartered in London, is responsible for forming these standards.

12) Financial accounting is designed to satisfy the needs of external resource providers (external users) and must adhere to Generally Accepted Accounting Principles. Managerial accounting, however, provides information that is useful to managers within a business (internal users), and does not have to follow GAAP.

13) Similarities: Both types of organizations commonly use specific resources to satisfy consumer demand. These resources are financial resources, physical resources, and labor resources. Accounting systems are used by both types of organizations to measure the cost of the goods and services that are provided, the efficiency and effectiveness of the organizations' operations, and the ability of the organizations to continue to provide goods and services.

Differences: Not-for-profit organizations are established primarily for motives other than making a profit, while most other businesses are motivated by profit. As a result, factors other than profitability influence the resource allocation priorities of not-for-profit organizations.

14) A business's balance sheet shows the elements: assets, liabilities, and stockholders' equity.

15) A business obtains its assets from creditors, from investors, and from operations.

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16) Providing services for cash increases assets and increases stockholders' equity. It is considered an asset source transaction.

Providing services for cash increases cash, an asset, and revenue increases equity (retained earnings).

17) Payment of cash dividends decreases assets and decreases stockholders' equity. It is considered an asset use transaction.

Paying dividends decreases assets (cash) and decreases equity (retained earnings).

18) \$225,000

Assets = Liabilities \$75,000 + Equity \$150,000; Assets = \$225,000

19) When a business acquires assets from investors, it commits to keep the assets safe and to use the assets in a manner that benefits the investors. The business also grants the investor an ownership interest in the business, thereby allowing the investor (owner) to share in the profits generated by the business. In accounting terms investors are called stockholders. A business's commitment to its stockholders is called stockholders' equity.

20) Paid loan, paid expense, and paid dividends to stockholders.

Asset use transactions involve a decrease in assets (for example, cash) and will also result in a decrease in either liabilities (paid loan) or equity (paid expense or dividends).

21) The statement of cash flows tells how a company obtained and used cash during the accounting period.

The statement of cash flows explains the change in cash from the beginning to the end of the period.

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22) Issuing stock is reported in the financing activities section.

All cash exchanged between a company and its stockholders is considered a financing activity.

23) Revenues, expenses, and dividends are temporary accounts and are closed at the end of the accounting period.

These accounts are called temporary accounts. Note that dividends are not reported on the income statement or the balance sheet.

24) The balance sheet lists the assets of a business and corresponding claims (liabilities and stockholders' equity) on those assets. It draws its name from the accounting equation.

The income statement matches revenue (benefits) with the expenses (sacrifices) that were incurred to generate the revenue.

The statement of changes in stockholders' equity is used to explain the effects of transactions on stockholders' equity during an accounting period.

The statement of cash flows explains how a company obtained and used cash during the accounting period. The statement classifies cash receipts (inflows) and payments (outflows) into three categories: financing activities, investing activities, and operating activities.

25) An accounting period is the span of time covered by the financial statements, normally one year; the span of time for which income is measured. The practice of pairing together on the income statement revenues and expenses that were incurred in the same accounting period is known as the matching concept.

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26) a) T b) F c) T d) T e) F

Financial resources are provided to a business by investors and creditors. Businesses, not resource owners, transform resources into products. Resource owners are the main providers of resources in any market.

27) a) F b) T c) T d) T e) F

Financial accounting is primarily intended for external, not internal, stakeholders. Managerial accounting information is usually more detailed than financial accounting information.

28) a) F b) T c) F d) T e) F

A net loss decreases a company's stockholders' equity, not its liabilities. The accounting equation requires that assets be equal to liabilities plus stockholders' equity. Liabilities are reported on the balance sheet, not on the statement of cash flows.

29) a) T b) F c) F d) F e) T

Issuing common stock for cash increases the common stock account, not retained earnings. Net income increases retained earnings but does not necessarily equal its total. The purchase of a truck increases one asset (truck) and decreases another asset (cash) or increases a liability (note payable). Retained earnings includes all net income that a company has earned in its existence that has not been paid out in dividends.

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2.	18,000	18,000	
3.	28,000		28,000
4.	(21,400)		(21,400)
5.	22,000		
	(22,000)		
6.	(15,000)		(15,000)
7.	(12,000)	(12,000)	
Totals	22,600	6,000	16,600

35) a) \$210,000

b) \$225,000

c) \$90,000

36)

Event number	Assets	=	Liabilities	+	Stockholders' Equity
1.	45,000		NA		45,000
2.	25,000		25,000		NA
3.	32,000		NA		32,000
4.	(28,000)		NA		(28,000)
5.	22,000		NA		NA
	(22,000)		NA		NA
6.	(12,000)		NA		(12,000)
7.	(10,000)		(10,000)		NA
Total	52,000		15,000		37,000

37)

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Event number	Assets	=	Liabilities	+	Stockholders' Equity	
					Common Stock	+ Retained Earnings
1.	50,000		NA		50,000	NA
2.	25,000		25,000		NA	NA
3.	38,000		NA		NA	38,000
4.	(32,000)		NA		NA	(32,000)
5.	(2,500)		NA		NA	(2,500)
6.	30,000					
	(30,000)		NA		NA	NA
Total	<u>78,500</u>		<u>25,000</u>		<u>50,000</u>	<u>3,500</u>

38)

Event	Assets		=Liabilities+	Stockholders' Equity		Account Titles for RE
	Cash	Land		Common Stock	+ Retained Earnings	
Beginning	29,000	32,000	Notes Payable 18,000	33,000	10,000	
1.	95,000	0	0	0	95,000	Service Revenue
2.	(50,000)	0	0	0	(50,000)	Salaries Expense
3.	(12,000)	12,000	0	0	0	
4.	(4,000)	0	(4,000)	0	0	
5.	(22,000)	0	0	0	(22,000)	Operating Expense
6.	(2,500)	0	0	0	(2,500)	Dividend
Total	<u>\$33,500</u>	<u>\$44,000</u>	<u>\$14,000</u>	<u>\$33,000</u>	<u>\$30,500</u>	

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b) Total assets = \$33,500 + \$44,000 = \$77,500

c) Total stockholders' equity = \$33,000 + \$30,500 = \$63,500

39)

Event number	Assets	=	Liabilities	+	Stockholders' Equity	
					Common Stock	+ Retained Earnings
1.	I		I		NA	NA
2.	D		NA		NA	D
3.	I		NA		I	NA
4.	I		NA		NA	I
5.	D		D		NA	NA
6.	D		NA		NA	D

40) 1) +, 2) +, 3) +, 4) -, 5) +/-, 6) -, 7) -

41) 1) AS 2) AS 3) AX 4) AS 5) AU 6) AX 7) AU 8) AU

42) a) Total assets = \$35,000 + \$25,000 + \$40,000 - \$40,000 + \$38,000 - \$30,500 - \$2,000 = \$65,500

b)

Grimes Corporation

Income Statement

For the Year Ended December 31, Year 1

Revenue	\$ 38,000
Operating expenses	(30,500)
Net income	<u>\$ 7,500</u>

43)

Young Company

Balance Sheet

For the Year Ended December 31, Year 2

Assets

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Cash	\$ 52,500
Land	25,500
Total assets	<u>\$ 78,000</u>
Liabilities	
Notes payable	\$ 9,000
Stockholders' equity	
Common stock	50,000
Retained earnings	19,000
Total stockholders' equity	<u>69,000</u>
Total liabilities and stockholders' equity	<u>\$ 78,000</u>

Ending balances: Cash (\$58,800 – \$9,000 + \$27,400 – \$20,200 – \$4,500); Land – No change; Notes payable (\$18,000 – \$9,000); Common stock – No change; Retained earnings (\$16,300 + \$27,400 – \$20,200 – \$4,500)

44)

Penelope Company	
Income Statement	
For the Year Ended December 31, Year 1	
Revenue	\$ 30,500
Operating expenses	(25,400)
Net income	<u>\$ 5,100</u>

Only revenue and expenses are reported on the income statement. Purchasing land, paying dividends, and issuing common stock do not affect the income statement.

45)

Event number	Assets		= Liabilities +		Stockholders' Equity		Other Account Titles
	Cash	Land	=	Notes Payable	+ Common Stock	+ Retained Earnings	
1	50,000	0		0	50,000	0	

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2	27,500	0	27,500	0	0	
3	75,400	0	0	0	75,400	Service Revenue
4	(63,250)	0	0	0	(63,250)	Operating Expenses
5	(25,000)	25,000	0	0	0	
6	(5,500)	0	0	0	(5,500)	Dividends
Totals	59,150	25,000	27,500	50,000	6,650	

(b)

Holiday Travel Services	
Income Statement	
For the Year Ended December 31, Year 1	
Service revenue	\$ 75,400
Operating expenses	(63,250)
Net income	<u>\$ 12,150</u>

Holiday Travel Services	
Balance Sheet	
As of December 31, Year 1	
Assets	
Cash	\$ 59,150
Land	25,000
Total assets	<u>\$ 84,150</u>
Liabilities	
Notes payable	\$ 27,500
Stockholders' equity	
Common stock	50,000
Retained earnings	6,650
Total stockholders' equity	<u>56,650</u>
Total liabilities and stockholders' equity	<u>\$ 84,150</u>

46) a) Total assets = \$48,000 + \$65,500 + \$10,500 - \$8,500 + \$15,000
 - \$15,000 - \$46,600 - \$4,000 = \$64,900

Wilson Fitness Center

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Statement of Cash Flows

For the Year Ended December 31, Year 1

Cash flows from operating activities

Cash receipt from revenue	\$ 65,500
Cash payment for expense	(55,100)
Net cash flow from operating activities	<u>\$ 10,400</u>

Cash flows for investing activities

Cash payment for land	\$ (15,000)
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Cash flows from financing activities

Cash receipt from loan	10,500
Cash receipt from stock issue	48,000
Cash dividend paid to owners	(4,000)
Net cash flow from financing activities	<u>\$ 54,500</u>
Net increase in cash	<u>49,900</u>
Plus: Beginning cash balance	<u>0</u>
Ending cash balance	<u><u>\$ 49,900</u></u>

47) a) \$9,700, b) \$3,500, c) \$3,500, d) \$14,500

Further breakdown of calculations below:

Revenue – Expenses of \$6,200 = \$3,500 net income

Revenue = \$9,700

Net income = Revenue of \$9,700 – \$6,200 = \$3,500

Beginning RE + Net income of \$3,500 = \$3,500 of Ending Retained Earnings

Ending Common Stock of \$11,000 + Ending Retained Earnings of \$3,500 = Total Stockholders' Equity of \$14,500

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48) a = 16,000

b = 28,000

c = 28,000

d = 12,000

e = 96,000

f = 100,000

g = 24,000

h = 16,000

i = 96,000

j = (16,000)

k = 28,000

l = 24,000

49) a.

Garber Corporation	
Income Statement	
For the Year Ended December 31, Year 1	
Service revenue	\$ 50,000
Operating expenses	(37,200)
Net income	<u>\$ 12,800</u>

Garber Corporation	
Statement of Changes in Stockholders' Equity	
For the Year Ended December 31, Year 1	
Beginning common stock	\$ 0
Add: Common stock issued	48,000
Ending common stock	<u>48,000</u>
Beginning retained earnings	0
Add: Net income	12,800
Less: Dividends	(1,000)
Ending retained earnings	<u>11,800</u>
Total stockholders' equity	<u>\$ 59,800</u>

Garber Corporation	
Balance Sheet	
As of December 31, Year 1	

Assets

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Cash	\$ 81,800
Land	0
Total assets	<u>\$ 81,800</u>
Liabilities	
Notes payable	\$ 22,000
Stockholders' equity	
Common stock	48,000
Retained earnings	11,800
Total stockholders' equity	<u>59,800</u>
Total liabilities and stockholders' equity	<u>\$ 81,800</u>

b.

Garber Corporation	
Statement of Cash Flows	
For the Year Ended December 31, Year 1	
Cash flows from operating activities	
Cash receipt from revenue	\$ 50,000
Cash payment for expense	(37,200)
Net cash flow from operating activities	<u>12,800</u>
Cash flows for investing activities	
Cash receipt from sale of land	44,000
Cash payment for land	(44,000)
Net cash flow for investing activities	<u>0</u>
Cash flows from financing activities	
Cash receipt from loan	42,000
Cash receipt from stock issue	48,000
Cash repayment of loan	(20,000)
Cash dividend paid to owners	(1,000)
Net cash flow from financing activities	<u>69,000</u>
Net increase in cash	<u>81,800</u>
Plus: Beginning cash balance	<u>0</u>
Ending cash balance	<u>\$ 81,800</u>

50)

Transaction	Description	Section of statement of
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		cash flows
1	Issued stock for \$60,000 cash	Financing activities
2	Borrowed \$50,000 cash from bank	Financing activities
3	Provided services to customers, \$35,000	Operating activities
4	Purchased land for \$70,000	Investing activities
5	Paid cash for salaries, \$10,000	Operating activities
6	Paid cash for supplies, \$9,000	Operating activities
7	Paid cash dividends, \$8,000	Financing activities

b) Net cash flows from operating activities = \$16,000 (\$35,000 – \$10,000 – \$9,000)

c) Cash account balance: \$48,000 (\$60,000 + \$50,000 + \$35,000 – \$70,000 – \$10,000 – \$9,000 – \$8,000)

d) Total Assets = \$118,000 (Cash = \$48,000; Land = \$70,000)

e) Retained earnings balance: \$8,000 (\$35,000 – \$10,000 – \$9,000 – \$8,000)

51) 1)

Event	Assets		= Liabilities +	Stockholders' Equity	
	Cash	Land		Common Stock	+ Retained Earnings
Issued stock	60,000	0	0	60,000	0
Borrowed cash	40,000	0	40,000	0	0
Revenue	72,000	0	0	0	72,000
Land purchase	(80,000)	80,000	0	0	0
Salaries	(50,000)	0	0	0	(50,000)

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Dividends	(10,000)	0	0	0	(10,000)
Ending balances	32,000	80,000	40,000	60,000	12,000

2)

Campbell Company	
Income Statement	
For the Year Ended December 31, Year 1	
Service revenue	\$ 72,000
Operating expenses	(50,000)
Net income	<u>\$ 22,000</u>

Campbell Company	
Balance Sheet	
For the Year Ended December 31, Year 1	
Assets	
Cash	\$ 32,000
Land	80,000
Total assets	<u>\$112,000</u>
Liabilities	
Notes payable	\$ 40,000
Stockholders' equity	
Common stock	60,000
Retained earnings	12,000
Total stockholders' equity	<u>72,000</u>
Total liabilities and stockholders' equity	<u>\$112,000</u>

52) a)

Event	Assets	=	Liabilities	+	Stockholders' Equity	
	Cash	=		+	Common Stock	+ Retained Earnings
1.	15,000				15,000	
2.	28,000					28,000
3.	(20,500)					(20,500)
Totals	<u>22,500</u>				<u>15,000</u>	<u>7,500</u>

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b)

Pinehurst Company	
Income Statement	
For the Year Ended December 31, Year 1	
Service revenue	\$ 28,000
Operating expenses	(20,500)
Net income	<u>\$ 7,500</u>

Pinehurst Company	
Balance Sheet	
As of December 31, Year 1	
Assets	
Cash	\$22,500
Liabilities	\$ 0
Stockholders' equity	
Common stock	15,000
Retained earnings	7,500
Total stockholders' equity	<u>22,500</u>
Total liabilities and stockholders' equity	<u>\$22,500</u>

53) a)

Event	Assets	=	Liabilities	+	Stockholders' Equity	
	Cash	=		+	Common Stock	+ Retained Earnings
1.	25,500					25,500
2.	(20,000)					(20,000)
3.	30,000				30,000	
4.	(2,000)					(2,000)
Totals	<u>33,500</u>				<u>30,000</u>	<u>3,500</u>

b)

Fieldstone Company	
Income Statement	
For the Year Ended December 31, Year 1	
Service revenue	\$ 25,500

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Operating expenses	(20,000)
Net income	\$ 5,500

Fieldstone Company
Balance Sheet
As of December 31, Year 1

Assets

Cash	\$33,500
Total Assets	\$33,500
Liabilities	\$ 0
Stockholders' equity	
Common stock	30,000
Retained earnings	3,500
Total stockholders' equity	33,500
Total liabilities and stockholders' equity	\$33,500

54)

Event	Assets	=Liabilities	+Stockholders' Equity	Revenue	-Expenses	= Net Income	Statement of Cash Flows
a)	42,000	NA	42,000	42,000	NA	42,000	42,000 O A
b)	(28,200)	NA	(28,200)	NA	28,200	(28,200)	(28,200 O A
c)	(1,600)	NA	(1,600)	NA	NA	NA	(1,600 F A

55)

Event	Assets	=Liabilities	+Stockholders' Equity	Revenue	-Expenses	= Net Income	Statement of Cash Flows
a)	12,000	0	12,000	0	0	0	12,000 F A
b)	(3,200)	0	0	0	0	0	(3,200 I A
	3,200	0	0	0	0	0	0
c)	(1,000)	0	(1,000)	0	0	0	(1,000 F A

56)

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	Even t	Assets	=Liabiliti es	+Stockholder s' Equity	Revenue - Expense =	Net Income	Statemen t of Cash Flows
a)	10,00 0		0	0	0	0	10,00 F 0 A
b)	(2,00 0)		0	0	0	0	(2,00 I 0) A
	2,000		0	0	0	0	0
c)	8,000		0	8,000	8,00 0	0	8,000 8,000 O A
d)	(6,20 0)		0	0	6,20 0	(6,20 0)	(6,20 O 0) A
e)	(1,00 0)		0	(1,000)	0	0	(1,00 F 0) A