

***Financial and Managerial Accounting 5th edition
Weygandt Test Bank***

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Financial and Managerial Accounting, 5e (Weygandt)
Chapter 1 Accounting in Action

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

Answer: FALSE

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

2) Transactions that can be measured in dollars and cents are recorded in the financial information system.

Answer: TRUE

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

3) The hiring of a new company president is an economic event recorded by the financial information system.

Answer: FALSE

Diff: 1

LO: 1

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

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

Answer: FALSE

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

5) Accounting communicates financial information about a business enterprise to both internal and external users.

Answer: TRUE

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

6) Accounting information is used only by external users with financial interests in a business enterprise.

Answer: FALSE

Diff: 1

LO: 1

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

7) Financial statements are the primary means of communicating accounting information to interested parties.

Answer: TRUE

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

8) Bookkeeping and accounting are one and the same because the bookkeeping function includes the accounting process.

Answer: FALSE

Diff: 1

LO: 1

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

9) The origins of accounting are attributed to Luca Pacioli, a famous mathematician.

Answer: TRUE

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

10) The study of accounting is not useful for a business career unless your career objective is to become an accountant.

Answer: FALSE

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

11) A working knowledge of accounting is not relevant to a lawyer or an architect.

Answer: FALSE

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

12) A partnership must have more than one owner.

Answer: TRUE

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

13) The economic entity assumption requires that the activities of an entity be kept separate and distinct from the activities of its owner and all other economic entities.

Answer: TRUE

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

14) The monetary unit assumption states that only transactions that can be measured in terms of money should be recorded in the accounting records.

Answer: TRUE

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

15) Accountants rely on a fundamental business concept—ethical behavior—in reporting financial information.

Answer: TRUE

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting, Ethics

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

16) The primary accounting standard-setting body in the United States is the International Accounting Standards Board.

Answer: FALSE

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

17) The Financial Accounting Standards Board is a part of the Securities and Exchange Commission.

Answer: FALSE

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

18) The Securities and Exchange Commission oversees U.S. financial markets and accounting standard-setting bodies.

Answer: TRUE

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

19) The cost and fair value of an asset are the same at the time of acquisition and in all subsequent periods.

Answer: FALSE

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

20) Even though a partnership is not a separate legal entity, for accounting purposes the partnership affairs should be kept separate from the personal activities of the owners.

Answer: TRUE

Diff: 1

LO: 2

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

21) In order to possess future service potential, an asset must have physical substance.

Answer: FALSE

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

22) Owners' claims to total business assets take precedence over the claims of creditors because owners invest assets in the business and are liable for losses.

Answer: FALSE

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

23) The basic accounting equation states that Assets = Liabilities.

Answer: FALSE

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

24) Both internal and external transactions are recorded in accounting records.

Answer: TRUE

Diff: 1

LO: 4

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

25) Internal transactions do not affect the basic accounting equation because they are economic events that occur entirely within one company.

Answer: FALSE

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

26) The purchase of store equipment for cash reduces assets and stockholders' equity by an equal amount.

Answer: FALSE

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

27) The purchase of office equipment on credit increases total assets and total liabilities.

Answer: TRUE

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

28) The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments of a company during a period.

Answer: TRUE

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

29) Net income for the period is determined by subtracting total expenses and drawings from total revenues.

Answer: FALSE

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

30) The income statement is sometimes referred to as the statement of operations.

Answer: TRUE

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

31) A balance sheet reports the assets and liabilities of a company for a specific period of time.

Answer: FALSE

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

32) The ending retained earnings balance is reported on both the retained earnings statement and the balance sheet.

Answer: TRUE

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

33) The study of accounting will be useful only if a student is interested in working for a profit-oriented business firm.

Answer: FALSE

Diff: 1

LO: 6

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

34) Private accountants are accountants who are not employees of business enterprises.

Answer: FALSE

Diff: 1

LO: 6

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

35) Expressing an opinion as to the fairness of the information presented in financial statements is a service performed by CPAs.

Answer: TRUE

Diff: 1

LO: 6

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

36) Identifying is the process of keeping a chronological diary of events measured in dollars and cents.

Answer: FALSE

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

37) Management consulting includes examining the financial statements of companies and expressing an opinion as to the fairness of their presentation.

Answer: FALSE

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

38) Accountants do not have to worry about issues of ethics.

Answer: FALSE

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Ethics / Business Operations, Ethics

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

39) At the time an asset is acquired, cost and fair value should be the same.

Answer: TRUE

Diff: 1

LO: 2

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

40) The monetary unit assumption requires that all dollar amounts be rounded to the nearest dollar.

Answer: FALSE

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

41) The basic accounting equation is in balance when the creditor and ownership claims against the business equal the assets.

Answer: TRUE

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

42) External transactions involve economic events between the company and some other enterprise or party.

Answer: TRUE

Diff: 1

LO: 4

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

43) In the retained earnings statement, revenues are listed first, followed by expenses, and net income (or net loss).

Answer: FALSE

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

44) Accountants refer to an economic event as a

A) purchase.

B) sale.

C) transaction.

D) change in ownership.

Answer: C

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

45) The starting point of the accounting process is

- A) communicating information to users.
- B) identifying economic events.
- C) recording economic events.
- D) None of these answers are correct.

Answer: B

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

46) Communication of economic events is the part of the accounting process that involves

- A) identifying economic events.
- B) quantifying transactions into dollars and cents.
- C) preparing accounting reports.
- D) recording and classifying information.

Answer: C

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

47) Which of the following events **cannot** be quantified into dollars and cents and recorded as an accounting transaction?

- A) The appointment of a new CPA firm to perform an audit
- B) The purchase of a new computer
- C) The sale of store equipment
- D) Payment of income taxes

Answer: A

Diff: 1

LO: 1

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

48) Interpretation of reported information involves each of the following **except**

- A) limitations of reported data.
- B) meaning of reported data.
- C) uses of reported data.
- D) All of these choices are correct.

Answer: D

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

49) The accounting process involves all of the following **except**

- A) identifying economic transactions that are relevant to the business.
- B) communicating financial information to users by preparing financial reports.
- C) recording non-quantifiable economic events.
- D) analyzing and interpreting financial reports.

Answer: C

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

50) The accounting process is correctly sequenced as

- A) identification, communication, recording.
- B) recording, communication, identification.
- C) identification, recording, communication.
- D) communication, recording, identification.

Answer: C

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

51) Which of the following techniques is **not** used by accountants to interpret and report financial information?

- A) Graphs
- B) Special memos for each class of external users
- C) Charts
- D) Ratios

Answer: B

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

52) Accounting consists of three basic activities that are related to economic events of an organization. These include

- A) identifying, recording, and communicating.
- B) identifying, calculating, and responding.
- C) classifying, numbering, and reporting.
- D) issuing, reporting, and classifying.

Answer: A

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

53) All of the following statements are correct **except**

- A) Good decision-making depends on good information.
- B) A vital element in communicating economic events is the accountant's ability to analyze and interpret reported information.
- C) The origins of accounting are generally attributed to Socrates, a classical Greek philosopher, who promoted accounting as a social contract.
- D) The information that a user of financial information needs depends upon the kinds of decisions the user makes.

Answer: C

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

54) Which of the following is **not** considered an internal user of accounting data?

- A) President of the company
- B) Production manager
- C) Merchandise inventory clerk
- D) President of the employees' labor union

Answer: D

Diff: 1

LO: 1

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

55) Which of the following would **not** be considered an external user of accounting data for the GHI Company?

- A) Internal Revenue Service Agent
- B) Management
- C) Creditors
- D) Customers

Answer: B

Diff: 1

LO: 1

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

56) Which of the following would **not** be considered internal users of accounting data for a company?

- A) The president of a company
- B) The controller of a company
- C) Creditors of a company
- D) Salesmen of the company

Answer: C

Diff: 1

LO: 1

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

57) Which of the following is an external user of accounting information?

- A) Labor union
- B) Finance director
- C) Company officer
- D) Manager

Answer: A

Diff: 1

LO: 1

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

58) Which one of the following is **not** an external user of accounting information?

- A) Regulatory agency
- B) Customer
- C) Investor
- D) All of these are external users.

Answer: D

Diff: 1

LO: 1

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

59) Bookkeeping differs from accounting in that bookkeeping primarily involves which part of the accounting process?

- A) Identification
- B) Communication
- C) Recording
- D) Analysis

Answer: C

Diff: 1

LO: 1

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

60) The origins of accounting are generally attributed to the work of

- A) Christopher Columbus.
- B) Abner Doubleday.
- C) Luca Pacioli.
- D) Leonardo da Vinci.

Answer: C

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

61) Financial accounting provides economic and financial information for all of the following external users **except**

- A) creditors.
- B) investors.
- C) managers.
- D) regulators.

Answer: C

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

62) The final step in solving an ethical dilemma is to

- A) identify and analyze the principal elements in the situation.
- B) recognize an ethical situation.
- C) identify the alternatives and weigh the impact of each alternative on stakeholders.
- D) recognize the ethical issues involved.

Answer: C

Diff: 1

LO: 2

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Ethics

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 63) The first step in solving an ethical dilemma is to
- A) identify and analyze the principal elements in the situation.
 - B) identify the alternatives.
 - C) recognize an ethical situation and the ethical issues involved.
 - D) weigh the impact of each alternative on various stakeholders.

Answer: C

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Ethics / Ethics

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 64) Ethics are the standards of conduct by which one's actions are judged as

- A) right or wrong.
- B) honest or dishonest.
- C) fair or unfair.
- D) All of these answers are correct.

Answer: D

Diff: 1

LO: 2

Bloom / IFRS: C

AACSB/ IMA: Ethics / Ethics

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 65) All of the following are steps in analyzing ethics cases in financial reporting **except**

- A) identify and analyze the principle elements in the situation.
- B) contact law enforcement regarding any violations of corporate ethics codes.
- C) identify the alternatives and weigh the impact of each alternative on various stakeholders.
- D) recognize an ethical situation and the ethical issues involved.

Answer: B

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Ethics

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

66) In order to increase comparability, the FASB and IASB have made efforts to reduce the differences between U.S. GAAP and IFRS through a process known as

- A) convergence.
- B) monetary unit assumption.
- C) the cost principle.
- D) the fair value principle.

Answer: A

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

67) Martin Corporation purchased land in 2013 for \$290,000. In 2027, it purchased a nearly identical parcel of land for \$460,000. In its 2027 balance sheet, Martin valued these two parcels of land at a combined value of \$920,000. By reporting the land in this manner, Martin Corp. has violated the

- A) historical cost principle.
- B) convergence.
- C) economic entity assumption.
- D) monetary unit assumption.

Answer: A

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

68) Andre Dickinson, owner of Andre's Fine Wines, also owns a personal residence that cost \$475,000. The market value of his residence is \$625,000. During preparation of the financial statements for Andre's Fine Wines, the accounting concept most relevant to the presentation of Andre's home is

- A) the economic entity assumption.
- B) the fair value principle.
- C) the monetary unit assumption.
- D) convergence.

Answer: A

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 69) Generally accepted accounting principles are
- A) income tax regulations of the Internal Revenue Service.
 - B) standards that indicate how to report economic events.
 - C) theories that are based on the physical laws of the universe.
 - D) principles that have been proven correct by academic researchers.

Answer: B

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 70) The historical cost principle requires that when assets are acquired, they are recorded at

- A) appraisal value.
- B) cost.
- C) market price.
- D) book value.

Answer: B

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 71) The cost of an asset and its fair value are

- A) never the same.
- B) the same when the asset is sold.
- C) irrelevant when the asset is used by the business in its operations.
- D) the same on the date of acquisition.

Answer: D

Diff: 1

LO: 2

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

72) The body of theory underlying accounting is **not** based on

- A) physical laws of nature.
- B) concepts.
- C) principles.
- D) definitions.

Answer: A

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

73) The private sector organization involved in developing accounting principles is the

- A) Feasible Accounting Standards Body.
- B) Financial Accounting Studies Board.
- C) Financial Accounting Standards Board.
- D) Financial Auditors' Standards Body.

Answer: C

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

74) The SEC and FASB are two organizations that are primarily responsible for establishing generally accepted accounting principles. It is true that

- A) they are both governmental agencies.
- B) the SEC is a private organization of accountants.
- C) the SEC relies on FASB to develop accounting standards.
- D) the SEC and FASB rarely cooperate in developing accounting standards.

Answer: C

Diff: 1

LO: 2

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

75) GAAP stands for

- A) Generally Accepted Auditing Procedures.
- B) Generally Accepted Accounting Principles.
- C) Generally Accepted Auditing Principles.
- D) Generally Accepted Accounting Procedures.

Answer: B

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

76) Financial information that is capable of making a difference in a decision is

- A) faithfully representative.
- B) relevant.
- C) convergent.
- D) generally accepted.

Answer: B

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

77) The Duce Company has five plants nationwide that cost a total of \$100 million. The current fair value of the plants is \$500 million. The plants will be recorded and reported at

- A) \$100 million.
- B) \$600 million.
- C) \$400 million.
- D) \$500 million.

Answer: A

Diff: 1

LO: 2

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

78) The fair value principle is applied for

- A) all assets.
- B) current assets.
- C) buildings.
- D) investment securities.

Answer: D

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

79) The proprietorship form of business organization

- A) must have at least three owners in most states.
- B) represents the largest number of businesses in the United States.
- C) combines the records of the business with the personal records of the owner.
- D) is characterized by a legal distinction between the business as an economic unit and the owner.

Answer: B

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

80) The economic entity assumption requires that the activities

- A) of different entities can be combined if all the entities are corporations.
- B) must be reported to the Securities and Exchange Commission.
- C) of a sole proprietorship cannot be distinguished from the personal economic events of its owners.
- D) of an entity be kept separate from the activities of its owner.

Answer: D

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

81) 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) terminates when one of its original stockholders dies.

Answer: C

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

82) 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.

Answer: B

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

83) Which of the following is **not** an advantage of the corporate form of business organization?

- A) Limited liability of stockholders
- B) Transferability of ownership
- C) Unlimited personal liability for stockholders
- D) Unlimited life

Answer: C

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

84) 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.

Answer: D

Diff: 1

LO: 2

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

85) John and Sam met at law school and decide to start a small law practice after graduation. They agree to split revenues and expenses evenly. The most common form of business organization for a business such as this would be a

- A) joint venture.
- B) partnership.
- C) corporation.
- D) proprietorship.

Answer: B

Diff: 1

LO: 2

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

86) Which of the following is true regarding the corporate form of business organization?

- A) Corporations are the most prevalent form of business organization.
- B) Corporate businesses are generally smaller in size than partnerships and proprietorships.
- C) The revenues of corporations are greater than the combined revenues of partnerships and proprietorships.
- D) Corporations are separate legal entities organized exclusively under federal law.

Answer: C

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

87) A basic assumption of accounting that requires that the activities of an entity be kept separate from the activities of its owner is referred to as the

- A) stand alone concept.
- B) monetary unit assumption.
- C) corporate form of ownership.
- D) economic entity assumption.

Answer: D

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

88) Ted Leo is the proprietor (owner) of Ted's, a retailer of golf apparel. When recording the financial transactions of Ted's, Ted does not record an entry for a car he purchased for personal use. Ted took out a personal loan to pay for the car. What accounting concept guides Ted's behavior in this situation?

- A) Pay back concept
- B) Economic entity assumption
- C) Cash basis concept
- D) Monetary unit assumption

Answer: B

Diff: 1

LO: 2

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

89) A basic assumption of accounting assumes that the dollar is

- A) unrelated to business transactions.
- B) a poor measure of economic activities.
- C) the common unit of measure for all business transactions.
- D) useless in measuring an economic event.

Answer: C

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 90) The assumption that the unit of measure remains relatively constant over time is part of the
- A) economic entity assumption.
 - B) cost principle.
 - C) historical cost principle.
 - D) monetary unit assumption.

Answer: D

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 91) Owners enjoy limited liability in a

- A) proprietorship.
- B) partnership.
- C) corporation.
- D) sole proprietorship.

Answer: C

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 92) A problem with the monetary unit assumption is that

- A) the dollar is not always stable over time.
- B) the dollar has been stable over time.
- C) the dollar is a common medium of exchange.
- D) it is impossible to account for international transactions.

Answer: A

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

93) The common characteristic possessed by all assets is

- A) long life.
- B) great monetary value.
- C) tangible nature.
- D) future economic benefit.

Answer: D

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

94) Owner's equity is best depicted by the following:

- A) Assets = Liabilities.
- B) Liabilities + Assets.
- C) Residual equity + Assets.
- D) Assets - Liabilities.

Answer: D

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

95) The basic accounting equation may be expressed as

- A) Assets = Equities.
- B) Assets - Liabilities = Stockholders' Equity.
- C) Assets = Liabilities + Stockholders' Equity.
- D) All of these answers are correct.

Answer: D

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

96) Liabilities

- A) are future economic benefits.
- B) are existing debts and obligations.
- C) possess service potential.
- D) are things of value used by the business in its operation.

Answer: B

Diff: 1

LO: 3

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

97) Liabilities of a company would **not** include

- A) notes payable.
- B) accounts payable.
- C) salaries and wages payable.
- D) cash.

Answer: D

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

98) Liabilities of a company are owed to

- A) debtors.
- B) benefactors.
- C) creditors.
- D) underwriters.

Answer: C

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

99) Stockholders' equity can be described as

- A) creditorship claim on total assets.
- B) ownership claim on total assets.
- C) benefactor's claim on total assets.
- D) debtor claim on total assets.

Answer: B

Diff: 1

LO: 3

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

100) Stockholders' equity is often referred to as

- A) residual equity.
- B) leftovers.
- C) spoils.
- D) second equity.

Answer: A

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

101) When assets are distributed to the owners of a corporation, these distributions are termed

- A) depletions.
- B) consumptions.
- C) dividends.
- D) a credit line.

Answer: C

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

102) A dividend is

- A) a distribution of the company's earnings to its stockholders.
- B) equal to liabilities minus stockholders' equity.
- C) equal to assets minus stockholders' equity.
- D) equal to revenues less expenses.

Answer: A

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

103) Revenues would **not** result from the

- A) sale of merchandise.
- B) issuance of common stock.
- C) performance of services.
- D) rental of property.

Answer: B

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

104) Sources of increases to stockholders' equity are

- A) additional investments by owners.
- B) purchases of merchandise.
- C) dividends.
- D) expenses.

Answer: A

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

105) The basic accounting equation **cannot** be restated as

- A) Assets - Liabilities = Stockholders' Equity.
- B) Assets - Stockholders' Equity = Liabilities.
- C) Stockholders' Equity + Liabilities = Assets.
- D) Assets + Liabilities = Stockholders' Equity.

Answer: D

Diff: 1

LO: 3

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

106) Stockholders' equity is decreased by all of the following **except**

- A) sales of stock.
- B) net losses.
- C) expenses.
- D) dividends.

Answer: A

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

107) A net loss will result during a time period when

- A) liabilities exceed assets.
- B) dividends exceed investments.
- C) expenses exceed revenues.
- D) revenues exceed expenses.

Answer: C

Diff: 1

LO: 3

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

108) If total liabilities increased by \$30,000 and stockholders' equity increased by \$20,000 during a period of time, then total assets must change by what amount and direction during that same period?

- A) \$50,000 decrease
- B) \$10,000 decrease
- C) \$10,000 increase
- D) \$50,000 increase

Answer: D

Explanation: $\$30,000 + \$20,000 = \$50,000$

(Incr. in stockholders' equity + incr. in liabl. = incr. in assets)

Diff: 1

LO: 3

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

109) If total liabilities decreased by \$30,000 and stockholders' equity increased by \$20,000 during a period of time, then total assets must change by what amount and direction during that same period?

- A) \$50,000 decrease
- B) \$10,000 decrease
- C) \$10,000 increase
- D) \$50,000 increase

Answer: B

Explanation: $\$20,000 - \$30,000 = (\$10,000)$

(Incr. in stockholders' equity + decr. in liabl. = decr. in assets)

Diff: 1

LO: 3

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

110) If total liabilities decreased by \$50,000 and stockholders' equity increased by \$30,000 during a period of time, then total assets must change by what amount and direction during that same period?

- A) \$80,000 decrease
- B) \$20,000 decrease
- C) \$20,000 increase
- D) \$80,000 increase

Answer: B

Explanation: $\$30,000 - \$50,000 = (\$20,000)$

(Incr. in stockholders' equity + decr. in liabl. = decr. in assets)

Diff: 1

LO: 3

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

111) If total liabilities decreased by \$30,000 and stockholders' equity decreased by \$20,000 during a period of time, then total assets must change by what amount and direction during that same period?

- A) \$50,000 decrease
- B) \$10,000 decrease
- C) \$10,000 increase
- D) \$50,000 increase

Answer: A

Explanation: $(\$30,000) + (\$20,000) = (\$50,000)$

(Decr. in liabl. + Decr. in stockholders' equity = Decr. in assets)

Diff: 1

LO: 3

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

112) If total liabilities increased by \$25,000 during a period of time and stockholders' equity decreased by \$9,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)

- A) \$34,000 decrease.
- B) \$16,000 decrease.
- C) \$16,000 increase.
- D) \$34,000 increase.

Answer: C

Explanation: $\$25,000 - \$9,000 = \$16,000$ increase

(Incr. in liabl – Decr. in stockholders' equity = Incr. in assets)

Diff: 1

LO: 3

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

113) If total assets equal \$345,000 and total stockholders' equity equal \$140,000, then total liabilities must equal

- A) \$485,000.
- B) \$205,000.
- C) \$140,000.
- D) There is not enough information given to determine this.

Answer: B

Explanation: $\$345,000 - \$140,000 = \$205,000$

(Asset tot. - Stockholders' equity tot. = Liabl. tot.)

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

114) Which of the following will **not** cause a change in the stockholders' equity of a business?

- A) An increase in prepaid expenses.
- B) An increase in retained earnings.
- C) The sale of common stock.
- D) The declaration and payment of dividends.

Answer: A

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

115) The amount of stockholders' equity in a business is **not** affected by

- A) the percentage of total assets held in cash.
- B) assets consumed in the process of earning revenues.
- C) the profitability of the business.
- D) the amount of dividends declared and paid to stockholders.

Answer: A

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

116) If the transaction causes an asset account to decrease, which of the following related effects may occur?

- A) An increase of equal amount in the common stock account
- B) An increase in a liability account
- C) An increase of equal amount in another asset account
- D) An increase in the combined total of liabilities and stockholders' equity

Answer: C

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

117) The accounting equation for Quattro Enterprises is as follows:

<u>Assets</u>		<u>Liabilities</u>		<u>Stockholders' Equity</u>
\$120,000	=	\$60,000	+	\$60,000

If Quattro purchases office equipment on account for \$25,000, the accounting equation will change to

	<u>Assets</u>		<u>Liabilities</u>		<u>Stockholders' Equity</u>
a.	\$120,000	=	\$60,000	+	\$60,000
b.	\$145,000	=	\$60,000	+	\$85,000
c.	\$145,000	=	\$72,500	+	\$72,500
d.	\$145,000	=	\$85,000	+	\$60,000

A) a

B) b

C) c

D) d

Answer: D

Explanation: $\$120,000 + \$25,000 = \$145,000$; $\$60,000 + \$25,000 = \$85,000$

[(Beg. asset tot. + Purch.) = (Beg. liabl. tot. + Purch.) + Beg. stockholders' equity tot.]

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

118) As of June 30, 2027, Actual Tigers Company has assets of \$100,000 and stockholders' equity of \$40,000. What are the liabilities for Actual Tigers Company as of June 30, 2027?

A) \$40,000

B) \$60,000

C) \$100,000

D) \$140,000

Answer: B

Explanation: $\$100,000 - \$40,000 = \$60,000$

(Asset tot. - Stockholders' equity tot. = Liabl. tot.)

Diff: 1

LO: 4

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

119) Stockholders' equity is increased by

- A) dividends.
- B) revenues.
- C) expenses.
- D) liabilities.

Answer: B

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

120) Stockholders' equity is decreased by

- A) assets.
- B) revenues.
- C) expenses.
- D) liabilities.

Answer: C

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

121) If total liabilities increased by \$8,000, then

- A) assets must have decreased by \$8,000.
- B) stockholders' equity must have increased by \$8,000.
- C) assets must have increased by \$8,000, or stockholders' equity must have decreased by \$8,000.
- D) assets and stockholders' equity each increased by \$4,000.

Answer: C

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

122) Collection of a \$1,000 Accounts Receivable

- A) increases an asset \$1,000; decreases an asset \$1,000.
- B) increases an asset \$1,000; decreases a liability \$1,000.
- C) decreases a liability \$1,000; increases stockholders' equity \$1,000.
- D) decreases an asset \$1,000; decreases a liability \$1,000.

Answer: A

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

123) Revenues are

- A) the cost of assets consumed during the period.
- B) gross increases in stockholders' equity resulting from business activities.
- C) the cost of services used during the period.
- D) actual or expected cash outflows.

Answer: B

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

124) If an individual asset account is increased, then

- A) there may be an equal decrease in a specific liability account.
- B) there may be an equal decrease in stockholders' equity.
- C) there may be an equal decrease in another asset account.
- D) All of these answers are possible.

Answer: C

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

125) If services are rendered on account, then

- A) assets will decrease.
- B) liabilities will increase.
- C) stockholders' equity will increase.
- D) liabilities will decrease.

Answer: C

Diff: 1

LO: 4

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

126) If expenses are paid in cash, then

- A) assets will increase.
- B) liabilities will decrease.
- C) stockholders' equity will increase.
- D) assets will decrease.

Answer: D

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

127) If a corporation distributes cash to its stockholders, then

- A) there has been a violation of accounting principles.
- B) stockholders' equity will increase.
- C) stockholders' equity will decrease.
- D) there will be a new liability showing the stockholders owe money to the business.

Answer: C

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

128) If supplies that have been purchased are used in the course of business, then

- A) a liability will increase.
- B) an asset will increase.
- C) stockholders' equity will decrease.
- D) stockholders' equity will increase.

Answer: C

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

129) As of December 31, 2027, Calexico Company has assets of \$42,000 and stockholders' equity of \$20,000. What are the liabilities for Calexico Company as of December 31, 2027?

- A) \$22,000
- B) \$20,000
- C) \$42,000
- D) \$62,000

Answer: A

Explanation: $\$42,000 - \$20,000 = \$22,000$

(Asset tot. - Stockholders' equity tot. = Liabl. tot.)

Diff: 1

LO: 4

Bloom / IFRS: AN

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

130) Which of the following events is **not** a business transaction?

- A) Issuance of stock in exchange for cash
- B) Hired employees
- C) Incurred utility expenses for the month
- D) Earned revenue for services provided

Answer: B

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

131) Net income results when

- A) Assets > Liabilities.
- B) Revenues = Expenses.
- C) Revenues > Expenses.
- D) Revenues < Expenses.

Answer: C

Diff: 1

LO: 5

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

132) 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.

Answer: B

Diff: 1

LO: 5

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

133) 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.

Answer: D

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

134) 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.

Answer: D

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

135) 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) the company must have sold stock.
- D) net income is greater than dividends.

Answer: D

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

136) Mofro's Computer Repair Shop started the year with total assets of \$300,000 and total liabilities of \$200,000. During the year, the business recorded \$500,000 in computer repair revenues, \$300,000 in expenses, and Mofro paid dividends of \$50,000. Stockholders' equity at the end of the year was

- A) \$200,000.
- B) \$100,000.
- C) \$250,000.
- D) \$300,000.

Answer: C

Explanation: $(\$300,000 - \$200,000) + (\$500,000 - \$300,000) - \$50,000 = \$250,000$

[(Beg. assets - Beg. liabl. = Beg. stockholders' equity); (Beg. stockholders' equity + (Repair rev. - Exp.) - Dividends. = End. stockholders' equity)]

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1.5

137) Mofro's Computer Repair Shop started the year with total assets of \$300,000 and total liabilities of \$200,000. During the year, the business recorded \$500,000 in computer repair revenues, \$300,000 in expenses, and Mofro paid dividends of \$50,000. The net income reported by Mofro's Computer Repair Shop for the year was

- A) \$100,000.
- B) \$150,000.
- C) \$200,000.
- D) \$250,000.

Answer: C

Explanation: $\$500,000 - \$300,000 = \$200,000$

(Repair rev. - exp. = Net inc.)

Diff: 1

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

138) Mofro's Computer Repair Shop started the year with total assets of \$300,000 and total liabilities of \$200,000. During the year, the business recorded \$500,000 in computer repair revenues, \$300,000 in expenses, and Mofro paid dividends of \$50,000. Mofro's stockholders' equity changed by what amount from the beginning of the year to the end of the year?

- A) \$100,000.
- B) \$150,000.
- C) \$200,000.
- D) \$250,000.

Answer: B

Explanation: $(\$500,000 - \$300,000) - \$50,000 = \$150,000$

[(Repair rev. - Exp.) - Dividends. = Chg. in stockholders' equity]

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1.5

139) The balance sheet is frequently referred to as

- A) an operating statement.
- B) the statement of financial position.
- C) the statement of cash flows.
- D) the statement of retained earnings.

Answer: B

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

140) 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.

Answer: C

Diff: 1

LO: 5

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

141) All of the financial statements are for a period of time **except** the

- A) income statement.
- B) retained earnings statement.
- C) balance sheet.
- D) statement of cash flows.

Answer: C

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 142) The ending retained earnings amount is shown on
A) the balance sheet only.
B) the retained earnings statement only.
C) both the income statement and the retained earnings statement.
D) both the balance sheet and the retained earnings statement.

Answer: D

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 143) Black Keys Company began the year with stockholders' equity of \$280,000. During the year, the company recorded revenues of \$375,000, expenses of \$285,000, and paid dividends of \$30,000. What was Black Keys' stockholders' equity at the end of the year?

- A) \$280,000
B) \$340,000
C) \$370,000
D) \$400,000

Answer: B

Explanation: $\$280,000 + (\$375,000 - \$285,000) - \$30,000 = \$340,000$

[Beg. stockholders' equity + (Rev. - Exp.) - Dividends. = End. stockholders' equity]

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1.5

- 144) Kennedy Company issued stock to Ed Kennedy in exchange for his investment of \$75,000 cash in the business. The company recorded revenues of \$555,000, expenses of \$420,000, and had paid dividends of \$30,000. What was Kennedy's net income for the year?

- A) \$105,000
B) \$135,000
C) \$165,000
D) \$180,000

Answer: B

Explanation: $\$555,000 - \$420,000 = \$135,000$

(Rev. - Exp. = Net inc.)

Diff: 1

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

145) Centro-matic Company began the year with stockholders' equity of \$30,000. During the year, Centro-matic issued additional shares of stock in exchange for cash of \$42,000, recorded expenses of \$120,000, and paid dividends of \$8,000. If Centro-matic's ending stockholders' equity was \$112,000, what was the company's revenue for the year?

- A) \$160,000
- B) \$168,000
- C) \$202,000
- D) \$210,000

Answer: B

Explanation: $\$30,000 + \$42,000 + (X - \$120,000) - \$8,000 = \$112,000$; $X = \$168,000$

[Beg. stockholders' equity tot. + Add'l. invest. + (Rev. - Exp.) - Dividends = End. stockholders' equity tot.]

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 2

146) Barsuk Company began the year with stockholders' equity of \$108,000. During the year, Barsuk issued shares of stock for \$147,000, recorded expenses of \$420,000, and paid dividends of \$28,000. If Barsuk's ending stockholders' equity was \$290,000, what was the company's revenue for the year?

- A) \$455,000
- B) \$483,000
- C) \$602,000
- D) \$630,000

Answer: B

Explanation: $\$108,000 + \$147,000 + (X - \$420,000) - \$28,000 = \$290,000$; $X = \$483,000$

[Beg. stockholders' equity tot. + Add'l. invest. + (Rev. - Exp.) - Dividends = End. stockholders' equity tot.]

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 2

147) Fat Possum's Service Shop started the year with total assets of \$330,000 and total liabilities of \$240,000. During the year, the business recorded \$630,000 in revenues, \$420,000 in expenses, and paid dividends of \$60,000. Stockholders' equity at the end of the year was

- A) \$90,000.
- B) \$240,000.
- C) \$300,000.
- D) \$360,000.

Answer: B

Explanation: $(\$330,000 - \$240,000) + (\$630,000 - \$420,000) - \$60,000 = \$240,000$
[(Beg. assets - Beg. liabl.) + (Beg. stockholders' equity + (Rev. - Exp.) - Dividends = End. stockholders' equity)]

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1.5

148) Fat Possum's Service Shop started the year with total assets of \$330,000 and total liabilities of \$240,000. During the year, the business recorded \$630,000 in revenues, \$420,000 in expenses, and paid dividends of \$60,000. The net income reported by Fat Possum's Service Shop for the year was

- A) \$150,000.
- B) \$210,000.
- C) \$240,000.
- D) \$270,000.

Answer: B

Explanation: $\$630,000 - \$420,000 = \$210,000$
(Rev. - Exp. - Net inc.)

Diff: 1

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

149) Misra Company compiled the following financial information as of December 31, 2027:

Revenues	\$340,000
Retained earnings (1/1/27)	60,000
Equipment	80,000
Expenses	250,000
Cash	90,000
Dividends	20,000
Supplies	10,000
Accounts payable	40,000
Accounts receivable	70,000
Common stock	80,000

Misra's assets on December 31, 2027 are

- A) \$180,000.
- B) \$250,000.
- C) \$360,000.
- D) \$490,000.

Answer: B

Explanation: $\$80,000 + \$90,000 + \$10,000 + \$70,000 = \$250,000$

(Equip. + Cash + Supp. + Accts. rec. = Tot. assets)

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1.5

150) Misra Company compiled the following financial information as of December 31, 2027:

Revenues	\$340,000
Retained earnings (1/1/27)	60,000
Equipment	80,000
Expenses	250,000
Cash	90,000
Dividends	20,000
Supplies	10,000
Accounts payable	40,000
Accounts receivable	70,000
Common stock	80,000

Misra's stockholders' equity on December 31, 2027 is

- A) \$70,000.
- B) \$90,000.
- C) \$130,000.
- D) \$250,000.

Answer: C

Explanation: $\$60,000 + (\$340,000 - \$250,000) - \$20,000 = \$130,000$

[Beg. stockholders' equity + (Rev. - Exp.) - Dividends. = End. stockholders' equity]

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1.5

151) Teamboo Company's stockholders' equity at the beginning of August 2027 was \$750,000. During the month, the company earned net income of \$175,000 and paid dividends of \$75,000. At the end of August 2027, what is the amount of stockholders' equity?

- A) \$675,000
- B) \$750,000
- C) \$825,000
- D) \$850,000

Answer: D

Explanation: $\$750,000 + \$175,000 - \$75,000 = \$850,000$

(Beg. stockholders' equity + Net inc. - Dividends = End. stockholders' equity)

Diff: 1

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

152) On January 1, 2027, Cat Power Company reported stockholders' equity of \$705,000. During the year, the company paid dividends of \$30,000. At December 31, 2027, the amount of stockholders' equity was \$825,000. What amount of net income or net loss would the company report for 2027?

- A) Net loss of \$30,000
- B) Net income of \$90,000
- C) Net income of \$120,000
- D) Net income of \$150,000

Answer: D

Explanation: $\$705,000 + X - \$30,000 = \$825,000$; $X = \$150,000$

(End. stockholders' equity - Beg. stockholders' equity + Dividends = Net inc.)

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1.5

153) Stahl Consulting started the year with total assets of \$60,000 and total liabilities of \$15,000. During the year, the business recorded \$48,000 in catering revenues and \$30,000 in expenses. Stahl issued stock of \$9,000 and paid dividends of \$15,000 during the year. The stockholders' equity at the end of the year was

- A) \$33,000.
- B) \$54,000.
- C) \$57,000.
- D) \$63,000.

Answer: C

Explanation: $(\$60,000 - \$15,000) + (\$48,000 - \$30,000) + \$9,000 - \$15,000 = \$57,000$

[(Beg. assets - Beg. liabl.) + (Rev. - Exp.) + Add'l. invest. - Dividends = End. stockholders' equity)]

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1.5

154) Stahl Consulting started the year with total assets of \$60,000 and total liabilities of \$15,000. During the year, the business recorded \$48,000 in catering revenues and \$30,000 in expenses. Stahl issued stock of \$9,000 and paid dividends of \$15,000 during the year. The net income reported by Stahl Consulting for the year was

- A) \$3,000.
- B) \$12,000.
- C) \$18,000.
- D) \$27,000.

Answer: C

Explanation: $\$48,000 - \$30,000 = \$18,000$

(Rev. - Exp. = Net inc.)

Diff: 1

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

155) Stahl Consulting started the year with total assets of \$60,000 and total liabilities of \$15,000. During the year, the business recorded \$48,000 in catering revenues and \$30,000 in expenses. Stahl issued stock of \$9,000 and paid dividends of \$15,000 during the year. Stockholders' equity changed by what amount from the beginning of the year to the end of the year?

- A) \$3,000
- B) \$9,000
- C) \$12,000
- D) \$45,000

Answer: C

Explanation: $(\$48,000 - \$30,000) + \$9,000 - \$15,000 = \$12,000$

$[(\text{Rev.} - \text{Exp.}) + \text{Add'l. invest.} - \text{Dividends.} = \text{Chg. in stockholders' equity}]$

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1.5

156) During the year 2027, Dilego Company earned revenues of \$90,000, had expenses of \$56,000, purchased assets with a cost of \$10,000 and paid dividends of \$6,000. Net income for the year is

- A) \$18,000.
- B) \$24,000.
- C) \$28,000.
- D) \$34,000.

Answer: D

Explanation: $\$90,000 - \$56,000 = \$34,000$

(Rev. - Exp. = Net inc.)

Diff: 1

LO: 5

Bloom / IFRS: AN

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

157) At October 1, Arcade Fire Enterprises reported stockholders' equity of \$70,000. During October, no stock was issued and the company earned net income of \$18,000. If stockholders' equity at October 31 totals \$78,000, what amount of dividends were paid during the month?

- A) \$0
- B) \$8,000
- C) \$10,000
- D) \$26,000

Answer: C

Explanation: $\$70,000 + \$18,000 - X = \$78,000$; $X = \$10,000$

[(End. stockholders' equity - Beg. stockholders' equity = Chg. in stockholders' equity); (Chg. in stockholders' equity - Net inc. = Dividends)]

Diff: 1

LO: 5

Bloom / IFRS: AN

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

158) At October 1, Arcade Fire Enterprises reported stockholders' equity of \$72,000. During October, no stock was issued and the company posted a net loss of \$8,000. If stockholders' equity at October 31 totals \$64,000, what amount of dividends were paid during the month?

- A) \$0
- B) \$4,000
- C) \$8,000
- D) \$16,000

Answer: A

Explanation: $\$72,000 - \$8,000 - X = \$64,000$; $X = \$0$

[(End. stockholders' equity - Beg. stockholders' equity = Chg. in stockholders' equity); (Chg. in stockholders' equity + Net loss = Dividends)]

Diff: 1

LO: 5

Bloom / IFRS: AN

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

159) At October 1, Arcade Fire Enterprises reported stockholders' equity of \$70,000. During October, common stock of \$4,000 was issued and the company earned net income of \$14,000. If stockholders' equity at October 31 totals \$80,000, what amount of dividends were paid during the month?

- A) \$0
- B) \$4,000
- C) \$8,000
- D) \$10,000

Answer: C

Explanation: $\$70,000 + \$4,000 + \$14,000 - X = \$80,000$; $X = \$8,000$

[(End. stockholders' equity - Beg. stockholders' equity = Chg. in stockholders' equity); (Chg. in stockholders' equity - Add'l. invest. - Net inc. = Dividends)]

Diff: 2

LO: 5

Bloom / IFRS: AN

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1.5

160) At October 1, Arcade Fire Enterprises reported stockholders' equity of \$70,000. During October, common stock of \$10,000 was issued and the company posted a net loss of \$4,000. If stockholders' equity at October 31 totals \$70,000, what amount of dividends were paid during the month?

- A) \$0
- B) \$4,000
- C) \$6,000
- D) \$10,000

Answer: C

Explanation: $\$70,000 + \$10,000 - \$4,000 - X = \$70,000$; $X = \$6,000$

[(End. stockholders' equity - Beg. stockholders' equity = Chg. in stockholders' equity); (Chg. in stockholders' equity - Add'l. invest. + Net loss = Dividends)]

Diff: 2

LO: 5

Bloom / IFRS: AN

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1.5

161) All of the following are services offered by public accountants **except**

- A) budgeting.
- B) auditing.
- C) tax planning.
- D) consulting.

Answer: A

Diff: 1

LO: 6

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

162) Which list below best describes the major services performed by public accountants?

- A) Bookkeeping, mergers, budgets
- B) Employee training, auditing, bookkeeping
- C) Auditing, taxation, management consulting
- D) Cost accounting, production scheduling, recruiting

Answer: C

Diff: 1

LO: 6

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

163) Preparing tax returns and engaging in tax planning is performed by

- A) public accountants only.
- B) private accountants only.
- C) both public and private accountants.
- D) IRS accountants only.

Answer: C

Diff: 1

LO: 6

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

164) A private accountant can perform many activities in a business organization but would **not** work in

- A) budgeting.
- B) accounting information systems.
- C) external auditing.
- D) tax accounting.

Answer: C

Diff: 1

LO: 6

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

165) Which of the following is **not** part of the accounting process?

- A) Recording
- B) Identifying
- C) Financial decision-making
- D) Communicating

Answer: C

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

166) The first part of the accounting process is

- A) communicating.
- B) identifying.
- C) processing.
- D) recording.

Answer: B

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

167) Keeping a systematic, chronological diary of events that are measured in dollars and cents is called

- A) communicating.
- B) identifying.
- C) processing.
- D) recording.

Answer: D

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

168) Auditing is

- A) the examination of financial statements by a CPA in order to express an opinion on their fairness.
- B) a part of accounting that involves only the recording of economic events.
- C) an area of accounting that involves such activities as cost accounting, budgeting, and accounting information systems.
- D) conducted by the Securities and Exchange Commission to ensure that registered financial statements are presented fairly.

Answer: A

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

169) Internal users of accounting information include all of the following **except**

- A) company officers.
- B) investors.
- C) marketing managers.
- D) production supervisors.

Answer: B

Diff: 1

LO: 1

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

170) The organization(s) primarily responsible for establishing generally accepted accounting principles is(are) the

- A) FASB - no; SEC- no.
- B) FASB - yes; SEC- no.
- C) FASB - no; SEC- yes.
- D) FASB - yes; SEC- yes.

Answer: D

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

171) The primary accounting standard-setting body in the United States is the

- A) Financial Accounting Standards Board.
- B) International Accounting Standards Board.
- C) Internal Revenue Service.
- D) Securities and Exchange Commission.

Answer: A

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

172) A proprietorship is a business

- A) owned by one person.
- B) owned by two or more persons.
- C) organized as a separate legal entity under state corporation law.
- D) owned by a governmental agency.

Answer: A

Diff: 1

LO: 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

173) A net loss will result during a time period when

- A) assets exceed liabilities.
- B) assets exceed stockholders' equity.
- C) expenses exceed revenues.
- D) revenues exceed expenses.

Answer: C

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

174) Bright Eyes Downtown Diner received a bill of \$600 from the Ironand Wine Advertising Agency. The owner, A. A. Bondy, is postponing payment of the bill until a later date. The effect on specific items in the basic accounting equation is

- A) a decrease in Cash and an increase in Accounts Payable.
- B) a decrease in Cash and an increase in Retained Earnings.
- C) an increase in Accounts Payable and a decrease in Retained Earnings.
- D) a decrease in Accounts Payable and an increase in Retained Earnings.

Answer: C

Diff: 2

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1.5

175) Matador Company purchases \$1,300 of equipment from Danger Mouse Inc. for cash. The effect on the basic accounting equation of Matador Company is

- A) an increase in assets and liabilities.
- B) a decrease in assets and liabilities.
- C) no change in total assets.
- D) an increase in assets and a decrease in liabilities.

Answer: C

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

176) Druganaut Company buys a \$21,000 van on credit. The transaction will affect the

- A) income statement only.
- B) balance sheet only.
- C) income statement and retained earnings statement only.
- D) income statement, retained earnings statement, and balance sheet.

Answer: B

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

177) The financial statement that summarizes the financial position of a company is the

- A) income statement.
- B) balance sheet.
- C) operating statement.
- D) retained earnings statement.

Answer: B

Diff: 1

LO: 5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

178) Which of the following is **not** a reason international accounting standards are needed?

- A) Multinational corporations
- B) Mergers and acquisitions
- C) Information technology
- D) All of these answer choices are correct.

Answer: D

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

179) Which of the following is **not** a reason international accounting standards are needed?

- A) Multinational corporations
- B) Financial markets
- C) Information technology
- D) All of the above are reasons international accounting standards are needed.

Answer: D

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

180) International standards are referred to as

- A) IFRS.
- B) GAAP.
- C) IASB.
- D) FASB.

Answer: A

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

181) U.S. standards are referred to as

- A) IFRS.
- B) GAAP.
- C) IASB.
- D) FASB.

Answer: B

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

182) International standards are developed by the

- A) IFRS.
- B) GAAP.
- C) IASB.
- D) FASB.

Answer: C

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

183) U.S. standards are developed by the

- A) IFRS.
- B) GAAP.
- C) IASB.
- D) FASB.

Answer: D

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

184) The United States and the international standard-setting environment are primarily driven by meeting the needs of

- A) investors and creditors.
- B) tax authorities.
- C) central government planners.
- D) academic researchers.

Answer: A

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

185) The internal control standards applicable to Sarbanes-Oxley apply to

- A) all U.S. and international companies.
- B) U.S. and international companies listed on U.S. exchanges.
- C) International companies listed on U.S. exchanges.
- D) U.S. companies listed on U.S. exchanges.

Answer: D

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

186) The concern about international companies adopting SOX-type standards centers on

- A) cost-benefit analysis.
- B) ethics issues.
- C) the governing authorities.
- D) comparability.

Answer: A

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 187) Financial accounting ethics violations are
- A) not a problem in the U.S. or internationally.
 - B) much more common in the U.S. than internationally.
 - C) much more common internationally than in the U.S.
 - D) a major problem both in the U.S. and internationally.

Answer: D

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 188) IFRS, compared to GAAP, tends to be more

- A) detailed.
- B) rules-based.
- C) principles-based.
- D) full of disclosure requirements.

Answer: C

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

- 189) GAAP, compared to IFRS, tends to be more

- A) simple in accounting requirements.
- B) rules-based.
- C) principles-based.
- D) simple in disclosure requirements.

Answer: B

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

190) Proprietorships, partnerships, and corporations

- A) are the three most common forms of business organizations in the U.S.
- B) are the three most common forms of business organizations internationally.
- C) are used in different proportions in different countries.
- D) All of these answers are correct.

Answer: D

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

191) The conceptual framework that underlies IFRS

- A) is very similar to that used to develop GAAP.
- B) does not define assets or liabilities.
- C) does not define equity.
- D) does not define income or expenses.

Answer: A

Diff: 1

LO: 7

Bloom / IFRS: K / Yes

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 1

192) Match the following external users of financial accounting information with the type of decision that user will make with the information.

- a. Creditor
- b. Investor
- c. Regulatory Agency
- d. Internal Revenue Service

- _____ (1) Is the company operating within prescribed guidelines?
- _____ (2) Is the company complying with tax laws?
- _____ (3) Is the company able to pay its debts?
- _____ (4) Is the company a good investment?

Answer:

- 1. c
- 2. d
- 3. a
- 4. b

Diff: 1

LO: 1

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 3

193) Match the following terms and definitions.

- | | |
|------------------------|---------------------|
| a. Accounts receivable | c. Accounts payable |
| b. Creditor | d. Notes payable |

- _____ (1) Amounts due from customers
- _____ (2) Amounts owed to suppliers for goods and services purchased
- _____ (3) Amounts owed to bank
- _____ (4) Party to whom money is owed

Answer:

- 1. a
- 2. c
- 3. d
- 4. b

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 3

194) Indicate which of these items is an asset (A), liability (L) or stockholders' equity (SE) account.

- _____ (1) Supplies
- _____ (2) Dividends
- _____ (3) Buildings
- _____ (4) Notes Payable
- _____ (5) Salaries and Wages Payable

Answer:

- 1. Assets (A)
- 2. Stockholders' equity (SE)
- 3. Asset (A)
- 4. Liability (L)
- 5. Liability (L)

Diff: 1

LO: 3

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 3

195) Use the accounting equation to answer the following questions.

- 1. Picaresque Sails Co. has total assets of \$140,000 and total liabilities of \$45,000. What is stockholders' equity?
- 2. The Natenal Fun Center has total assets of \$225,000 and stockholders' equity of \$100,000. What are total liabilities?
- 3. Okkervil River Restaurant has total liabilities of \$50,000 and stockholders' equity of \$100,000. What are total assets?

Answer:

- 1. $\$140,000 - \$45,000 = \$95,000$ stockholders' equity
- 2. $\$225,000 - \$100,000 = \$125,000$ total liabilities
- 3. $\$50,000 + \$100,000 = \$150,000$ total assets

Diff: 1

LO: 3

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

196) Determine the missing items.

Assets	=	Liabilities + Stockholders' Equity
\$85,000		\$52,000 (a)
(b)		\$28,000 \$34,000
\$84,000		(c) \$50,000

Answer:

- a. \$33,000
- b. \$62,000
- c. \$34,000

Diff: 1

LO: 3

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

197) 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. Utilities expense
- _____ 6. Cash
- _____ 7. Notes payable
- _____ 8. Equipment

Answer: (5 min.)

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

Diff: 1

LO: 3

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

198) Identify the impact on the accounting equation of each of the following transactions.

1. Purchase office supplies on account
2. Paid secretary weekly salary
3. Purchased office furniture for cash
4. Received monthly utility bill to be paid at a later time

Answer: (5 min.)

1. Increase assets and increase liabilities
2. Decrease assets and decrease stockholders' equity
3. Increase assets and decrease assets
4. Increase liabilities and decrease stockholders' equity

Diff: 2

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

199) Balance sheet amounts as of December 31, 2027 for Matt Pond's Tutoring Service are listed below. Prepare a balance sheet in good form.

Accounts Payable	\$ 400
Accounts Receivable	1,000
Cash	300
Common Stock	?

Answer: (5 min.)

MATT POND's TUTORING SERVICE
Balance Sheet
December 31, 2027

<u>Assets</u>		<u>Liabilities and Stockholders' Equity</u>	
Cash	\$ 300	Accounts Payable	\$ 400
Accounts Receivable	<u>1,000</u>	Common Stock	<u>900</u>
Total assets	<u>\$1,300</u>	Total liabilities and stockholders' equity	<u>\$1,300</u>

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

200) Identify whether the following items would be reported on the income statement (IS) or balance sheet (BS).

1. Cash
2. Service Revenue
3. Notes Payable
4. Interest Expense
5. Accounts Receivable

Answer:

1. Balance Sheet (BS)
2. Income Statement (IS)
3. Balance Sheet (BS)
4. Income Statement (IS)
5. Balance Sheet (BS)

Diff: 1

LO: 5

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 3

201) Use the following information to calculate for the year ended December 31, 2027 (a) net income, (b) ending retained earnings, and (c) total assets.

Supplies	\$ 3,000	Revenues	\$25,000
Operating expenses	12,000	Cash	15,000
Accounts payable	9,000	Dividends	1,000
Accounts receivable	3,000	Notes payable	1,000
Beginning retained earnings	5,000	Equipment	6,000

Answer:

(a) $\$25,000 - \$12,000 = \$13,000$

(b) $\$5,000 + \$13,000 - \$1,000 = \$17,000$

(c) $\$3,000 + \$3,000 + \$15,000 + \$6,000 = \$27,000$

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

202) Listed below in alphabetical order are the balance sheet items of Madjack Company at December 31, 2027. Prepare a balance sheet and include a complete heading.

Accounts payable	\$ 21,000
Accounts receivable	15,000
Buildings	91,000
Cash	6,000
Common stock	108,000
Equipment	17,000

Answer:

MADJACK COMPANY

Balance Sheet December 31, 2027

ASSETS

Cash	\$ 6,000
Accounts receivable	15,000
Equipment	17,000
Buildings	<u>91,000</u>
Total assets	<u>\$129,000</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities	
Accounts payable	\$ 21,000
Stockholders' equity	
Common stock	<u>108,000</u>
Total liabilities and stockholders' equity	<u>\$129,000</u>

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

203) Below is a list of important abbreviations widely used in business. For each abbreviation, give the full designation.

1. CPA _____
2. IRS _____
3. FASB _____
4. GAAP _____
5. SEC _____

Answer:

1. Certified Public Accountant
2. Internal Revenue Service
3. Financial Accounting Standards Board
4. Generally Accepted Accounting Principles
5. Securities and Exchange Commission

Diff: 2

LO: 1, 2

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

204) Determine the missing amount for each of the following.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
1.	(a)		\$55,000		\$95,000
2.	\$125,000		(b)		\$85,000
3.	\$160,000		\$65,000		(c)

Answer:

1. (a) = \$150,000 (\$55,000 + \$95,000)

2. (b) = \$40,000 (\$125,000 - \$85,000)

3. (c) = \$95,000 (\$160,000 - \$65,000)

Diff: 1

LO: 3

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

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

	<u>Code</u>
Asset	A
Liability	L
Stockholders' Equity	SE
_____ 1. Rent Expense	_____ 6. Cash
_____ 2. Equipment	_____ 7. Accounts Receivable
_____ 3. Accounts Payable	_____ 8. Dividends
_____ 4. Common Stock	_____ 9. Service Revenue
_____ 5. Insurance Expense	_____ 10. Notes Payable

Answer:

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

Diff: 1

LO: 3

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

206) At the beginning of the year, Shaolin Company had total assets of \$520,000 and total liabilities of \$210,000. Answer the following questions viewing each situation as being independent of the others.

(1) If total assets increased \$200,000 during the year, and total liabilities decreased \$75,000, what is the amount of stockholders' equity at the end of the year?

(2) During the year, total liabilities increased \$230,000 and stockholders' equity decreased \$90,000. What is the amount of total assets at the end of the year?

(3) If total assets decreased \$40,000 and stockholders' equity increased \$130,000 during the year, what is the amount of total liabilities at the end of the year?

Answer:	<u>Total Assets</u>		<u>Total Liabilities</u>		<u>Stockholders' Equity</u>
Beginning	\$520,000		\$210,000		
Change	<u>200,000</u>		<u>(75,000)</u>		
Ending	\$720,000	-	\$135,000	=	<u>\$585,000</u> (1)

	<u>Total Assets</u>		<u>Total Liabilities</u>		<u>Stockholders' Equity</u>
Beginning	\$520,000		\$210,000		\$310,000
Change			<u>230,000</u>		<u>(90,000)</u>
Ending	<u>\$660,000</u> (2)	=	\$440,000	+	\$220,000

	<u>Total Assets</u>		<u>Total Liabilities</u>		<u>Stockholders' Equity</u>
Beginning	\$520,000		\$210,000		\$310,000
Change	<u>(40,000)</u>				<u>130,000</u>
Ending	\$480,000	=	<u>\$ 40,000</u> (3)	+	\$440,000

Diff: 2

LO: 3

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

207) Magnolia Electric Car Cleaning has the following accounts:

Equipment	Notes Payable
Accounts Payable	Common Stock
Cash	Dividends
Supplies	Accounts Receivable

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

Answer:

- (1) Assets—Equipment, Cash, Supplies, Accounts Receivable
- (2) Liabilities—Accounts Payable, Notes Payable
- (3) Stockholders' Equity—Common Stock, Dividends

Diff: 1

LO: 3

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 0.5

208) On June 1, 2027, Secretly Canadian Company prepared a balance sheet that shows the following:

Assets (no cash).....	\$100,000
Liabilities.....	45,000
Stockholders' Equity.....	55,000

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	<u>Balances Immediately After Sale</u>		
		<u>Assets</u>	- <u>Liabilities</u>	= <u>Stockholders' Equity</u>
Case A	\$110,000	\$ _____	\$ _____	\$ _____
Case B	100,000	_____	_____	_____
Case C	90,000	_____	_____	_____

Answer:

	Cash Received for the Assets	<u>Balances Immediately After Sale</u>		
		<u>Assets</u>	- <u>Liabilities</u>	= <u>Stockholders' Equity</u>
Case A	\$110,000	\$110,000	\$45,000	\$65,000
Case B	100,000	100,000	45,000	55,000
Case C	90,000	90,000	45,000	45,000

Diff: 2

LO: 3

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

209) At the beginning of 2027, Hold Steady Company had total assets of \$520,000 and total liabilities of \$250,000. Answer each of the following questions.

1. If total assets increased \$60,000 and stockholders' equity decreased \$90,000 during the year, determine the amount of total liabilities at the end of the year.
2. During the year, total liabilities decreased \$75,000 and stockholders' equity increased \$50,000. Compute the amount of total assets at the end of the year.
3. If total assets decreased \$100,000 and total liabilities increased \$55,000 during the year, determine the amount of stockholders' equity at the end of the year.

Answer:

1. Ending Total Liabilities

$$= (\$520,000 + \$60,000) - (\$520,000 - \$250,000 - \$90,000)$$

$$= \$580,000 - \$180,000 = \$400,000$$
2. Ending Total Assets

$$= (\$250,000 - \$75,000) + (\$520,000 - \$250,000 + \$50,000)$$

$$= \$175,000 + \$320,000 = \$495,000$$
3. Ending Stockholders' Equity

$$= (\$520,000 - \$100,000) - (\$250,000 + \$55,000)$$

$$= \$420,000 - \$305,000 = \$115,000$$

Diff: 2

LO: 3

Bloom / IFRS: AN

AACSB/ IMA: Analytic / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

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

	<u>Assets</u>	<u>Liabilities</u>	<u>Stockholders' Equity</u>
(a)	\$319,000	\$?	\$143,000
(b)	\$223,000	\$ 79,000	\$?
(c)	\$?	\$ 233,000	\$325,000

Answer:

- (a) \$176,000 ($\$319,000 - \$143,000 = \$176,000$).
- (b) \$144,000 ($\$223,000 - \$79,000 = \$144,000$).
- (c) \$558,000 ($\$233,000 + \$325,000 = \$558,000$).

Diff: 1

LO: 3

Bloom / IFRS: AN

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

211) From the following list of selected accounts taken from the records of Ward Homeopathic Center, identify those that would appear on the balance sheet.

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

Answer: a, c, e, f, g, i

Diff: 1

LO: 3

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

212) Selected transactions for Mountain Goats Tree Service are listed below.

1. Sold common stock for cash to start business
2. Paid for monthly advertising
3. Purchased supplies on account
4. Billed customers for services performed
5. Paid cash dividends
6. Received cash from customers billed in (4)
7. Incurred utilities expense on account
8. Purchased additional supplies for cash
9. Received cash from customers when service was performed

Instructions

List the numbers of the above transactions and describe the effect of each transaction on assets, liabilities, and stockholders' equity. For example, the first answer is: (1) Increase in assets and increase in stockholders' equity.

Answer:

1. Increase in assets and increase in stockholders' equity
2. Decrease in assets and decrease in stockholders' equity
3. Increase in assets and increase in liabilities
4. Increase in assets and increase in stockholders' equity
5. Decrease in assets and decrease in stockholders' equity
6. Increase in assets and decrease in assets
7. Increase in liabilities and decrease in stockholders' equity
8. Increase in assets and decrease in assets
9. Increase in assets and increase in stockholders' equity

Diff: 1

LO: 3, 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 3

213) Wilco Legal Eagles Company entered into the following transactions during March 2027.

1. Purchased office equipment for \$23,000 from Business Equipment, Inc. on account
2. Paid \$3,000 cash for March rent
3. Received \$15,000 cash from customers for legal work billed in February
4. Provided legal services to Amy Construction Company for \$3,500 cash
5. Paid Northern States Power Co. \$2,700 cash for electric usage in March
6. Stockholders invested an additional \$32,000 in the business
7. Paid Business Equipment, Inc. for the office equipment purchased in (1) above
8. Incurred advertising expense for March of \$1,900 on account

Instructions

Indicate with the appropriate letter whether each of the transactions above results in:

- (a) an increase in assets and a decrease in assets
- (b) an increase in assets and an increase in stockholders' equity
- (c) an increase in assets and an increase in liabilities
- (d) a decrease in assets and a decrease in stockholders' equity
- (e) a decrease in assets and a decrease in liabilities
- (f) an increase in liabilities and a decrease in stockholders' equity
- (g) an increase in stockholders' equity and a decrease in liabilities

Answer:

- | | |
|--------|--------|
| 1. (c) | 5. (d) |
| 2. (d) | 6. (b) |
| 3. (a) | 7. (e) |
| 4. (b) | 8. (f) |

Diff: 1

LO: 3, 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 3

214) Two items are omitted from each of the following summaries of balance sheet and income statement data for two proprietorships for the year 2027, Holly Enterprises and Cat Stevens.

	<u>Holly Enterprises</u>	<u>Cat Stevens</u>
Beginning of year:		
Total assets	\$ 98,000	\$129,000
Total liabilities	60,000	(c)
Total stockholders' equity	(a)	85,000
End of year:		
Total assets	160,000	180,000
Total liabilities	100,000	50,000
Total stockholders' equity	60,000	130,000
Changes during year in stockholders' equity:		
Additional investment	(b)	25,000
Dividends	25,000	(d)
Total revenues	215,000	100,000
Total expenses	185,000	65,000

Instructions

Determine the missing amounts.

Answer:

(a) Total assets (beginning of year)		\$98,000
Total liabilities (beginning of year)		<u>(60,000)</u>
Total stockholders' equity (beginning of year)		<u>\$38,000</u>
 (b) Total stockholders' equity (end of year)		\$60,000
Total stockholders' equity (beginning of year)		<u>(38,000)</u>
Increase in stockholders' equity		<u>\$22,000</u>
 Total revenues		\$215,000
Total expenses		<u>185,000</u>
Net income		<u>\$ 30,000</u>
 Increase in stockholders' equity		\$22,000
Less: Net income	\$(30,000)	
Add: Dividends	<u>25,000</u>	<u>(5,000)</u>
Additional investment		<u>\$17,000</u>
 (c) Total assets (beginning of year)		\$129,000
Total stockholders' equity (beginning of year)		<u>(85,000)</u>
Total liabilities (beginning of year)		<u>\$ 44,000</u>
 (d) Total stockholders' equity (end of year)		\$130,000
Total stockholders' equity (beginning of year)		<u>(85,000)</u>
Increase in stockholders' equity		<u>\$ 45,000</u>
 Total revenues		\$100,000
Total expenses		<u>(65,000)</u>
Net income		<u>\$ 35,000</u>
 Increase in stockholders' equity		\$ 45,000
Less: Net income	\$ 35,000	
Additional investment	<u>25,000</u>	<u>(60,000)</u>
Dividends		<u>\$(15,000)</u>

Diff: 2

LO: 3, 4

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

215) An analysis of the transactions made by White Stripes & Co., a law firm, for the month of July is shown below. Each increase and decrease in stockholders' equity is explained.

Assets				=	Liab.	+	Stockholders' Equity			
							<u>Retained Earnings</u>			
	Cash	Accounts Receivable	Supplies	Equipment		Accounts Payable	Com Stock	Rev.	Exp-	Div.
1.	+\$15,000						+\$15,000			
2.	- 2,000			+\$5,000		+\$3,000				
3.	- 750		+\$750							
4.	+ 2,500	+\$6,600						+\$9,100		Rev.
5.	- 1,500					- 1,500				
6.	- 2,500								- 2,500	Div.
7.	- 750							-\$750		Rent.
8.	+ 550	-550								
9.	- 3,500							-\$4,500		Sal.
10.	+ 500					+500		-500		Util.

Instructions

- Determine how much stockholders' equity increased for the month.
- Compute the amount of net income for the month.

Answer:

(a) Investment	\$15,000
Service revenue	9,100
Dividends	(2,500)
Rent expense	(750)
Salaries expense	(4,500)
Utilities expense	<u>(500)</u>
Increase in stockholders' equity	<u>\$15,850</u>

(b) Service revenue	\$9,100
Rent expense	(750)
Salaries expense	(4,500)
Utilities expense	<u>(500)</u>
Net income	<u>\$3,350</u>

Diff: 1

LO: 4

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

216) The Constantine Company had the following assets and liabilities on the dates indicated.

December 31	Total Assets	Total Liabilities
2025	\$480,000	\$250,000
2026	\$460,000	\$220,000
2027	\$590,000	\$300,000

Constantine began business on January 1, 2027, with an investment of \$100,000.

Instructions

From an analysis of the change in stockholders' equity during the year, compute the net income (or loss) for:

(a) 2025, assuming Constantine's dividends were \$45,000 for the year.

(b) 2026, assuming Constantine made an additional investment of \$50,000 and paid no dividends in 2026.

(c) 2027, assuming Constantine made an additional investment of \$15,000 and paid dividends of \$40,000 in 2027.

Answer:

(a) Stockholders' equity—12/31/25 (\$480,000 - \$250,000)	\$230,000
Stockholders' equity—1/1/25	<u>(100,000)</u>
Increase in stockholders' equity	130,000
Add: Dividends	<u>45,000</u>
Net income for 2025	<u>\$175,000</u>
 (b) Stockholders' equity—12/31/26 (\$460,000 - \$220,000)	\$240,000
Stockholders' equity—1/1/26—see (a)	<u>(230,000)</u>
Increase in stockholders' equity	10,000
Less: Additional investment	<u>50,000</u>
Net loss for 2026	<u>\$ (40,000)</u>
 (c) Stockholders' equity—12/31/27 (\$590,000 - \$300,000)	\$290,000
Stockholders' equity—1/1/27—see (b)	<u>240,000</u>
Increase in stockholders' equity	50,000
Less: Additional investment	<u>(15,000)</u>
	35,000
Add: Dividends	<u>40,000</u>
Net income for 2027	<u>\$ 75,000</u>

Diff: 2

LO: 4

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

217) For each of the following, indicate whether the transaction affects revenue (R), expense (E), dividends (D), common stock (CS), or no effect on stockholders' equity (NOE).

1. Made an investment to start the business.
2. Billed customers for services performed.
3. Purchased equipment on account.
4. Paid monthly rent.
5. Paid dividends.

Answer:

1. Common stock (CS)
2. Revenue (R)
3. No effect (NOE)
4. Expense (E)
5. Dividends (D)

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

218) Presented below is a balance sheet for Jim Henson Yard Service at December 31, 2027.

JIM HENSON YARD SERVICE

Balance Sheet
December 31, 2027

Assets		Liabilities and Stockholders' Equity	
Cash	\$13,000	Liabilities	
Accounts receivable	6,000	Accounts payable	\$ 8,000
Supplies	9,000	Notes payable	15,000
Equipment	11,000	Stockholders' equity	
	_____	Retained Earnings	15,000
		Common stock	<u>1,000</u>
Total assets	<u>\$39,000</u>	Total liabilities & stockholders' equity	<u>\$39,000</u>

The following additional data are available for the year which began on January 1: All expenses (excluding supplies expense) total \$6,000. Supplies on January 1, were \$11,000 and \$7,000 of supplies were purchased during the year. Net income for the year was \$8,000 and dividends paid were \$9,000.

Instructions

Determine the following: (Show all computations.)

1. Supplies used during the year.
2. Total expenses for the year.
3. Service revenues for the year.
4. Stockholders' equity on January 1.

Answer:

1. Computation of Supplies Used:	
Beginning Supplies, Jan. 1	\$11,000
Add: Purchases	7,000
Less: Ending Supplies, Dec. 31	<u>(9,000)</u>
Equals: Supplies Used	<u>\$ 9,000</u>
2. Computation of Total Expenses:	
All Expenses (excluding supplies expense)	\$ 6,000
Plus: Supplies Used	<u>9,000</u>
Total Expenses	<u>\$15,000</u>
3. Computation of Revenues:	
Net Income	\$ 8,000
Plus: Total Expenses	<u>15,000</u>
Total Revenues	<u>\$23,000</u>
4. Computation of Stockholders' Equity on January 1:	
Stockholders' equity, December 31	\$16,000
Plus: Dividends	9,000
Less: Net Income	<u>(8,000)</u>
Stockholders' equity, January 1	<u>\$17,000</u>

Diff: 3

LO: 4

Bloom / IFRS: AN

AACSB/ IMA: Analytic / Reporting

AICPA: BB: Critical Thinking; PC: Problem Solving

Minutes: 10

219) Analyze the transactions of a business organized as a corporation described below and indicate their effect on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (-) to indicate a decrease.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders'</u> <u>Equity</u>
1. Received cash for services provided	_____		_____		_____
2. Purchased office equipment on credit	_____		_____		_____
3. Paid employees' salaries	_____		_____		_____
4. Received cash from customer in payment on account	_____		_____		_____
5. Paid telephone bill for the month	_____		_____		_____
6. Paid for office equipment purchased in transaction 2	_____		_____		_____
7. Purchased office supplies on credit	_____		_____		_____
8. Paid dividends	_____		_____		_____
9. Obtained a loan from the bank	_____		_____		_____
10. Billed customers for services rendered	_____		_____		_____

Answer:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders'</u> <u>Equity</u>
1. Received cash for services provided	+				+
2. Purchased office equipment on credit	+		+		
3. Paid employees' salaries	-				-
4. Received cash from customer in payment on account	+,-				
5. Paid telephone bill for the month	-				-
6. Paid for office equipment purchased in transaction 2	-		-		
7. Purchased office supplies on credit	+		+		
8. Paid dividends	-				-
9. Obtained a loan from the bank	+		+		
10. Billed customers for services rendered	+				+

Diff: 2

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 10

220) For each of the following, indicate whether the transaction increased (+), decreased (-), or had no effect (NE) on assets, liabilities, and stockholders' equity using the following format.

$$\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$$

1. Issued stock in exchange for cash
2. Billed customers for services performed
3. Purchased equipment on account
4. Paid dividends
5. Paid for equipment purchased in 3 above

Answer:

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
1.	+		NE		+
2.	+		NE		+
3.	+		+		NE
4.	-		NE		-
5.	-		-		NE

Diff: 1

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 10

221) Neko Case decides to open a cleaning and laundry service near the local college campus that will operate as a corporation. Analyze the following transactions for the month of June in terms of their effect on the basic accounting equation. Record each transaction by increasing (+) or decreasing (-) the dollar amount of each item affected. Indicate the new balance of each item after a transaction is recorded. It is not necessary to identify the cause of changes in stockholders' equity.

Transactions

- (1) Issued stock in exchange for \$20,000 cash on June 1.
- (2) Purchased equipment for \$5,000 paying \$3,000 in cash and the remainder due in 30 days.
- (3) Purchased supplies for \$1,200 cash.
- (4) Received a bill from College News for \$300 for advertising in the campus newspaper.
- (5) Cash receipts from customers for cleaning and laundry amounted to \$2,400.
- (6) Paid salaries of \$600 to student workers.
- (7) Billed the Lion Soccer Team \$450 for cleaning and laundry services.
- (8) Paid \$300 to College News for advertising that was previously billed in Transaction 4.
- (9) Paid dividends of \$1,200.
- (10) Incurred utility expenses for the month on account, \$500.

Trans- action	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Common Stock	+	Retained Earnings
(1)													
Balance													
(2)													
Balance													
(3)													
Balance													
(4)													
Balance													
(5)													
Balance													
(6)													
Balance													
(7)													
Balance													
(8)													
Balance													
(9)													
Balance													
(10)													
Totals													

Answer:

Trans- action (1)	Cash + +\$20,000	Accounts Receivable	+Supplies	+ Equipment	= Accounts Payable	+ Common Stock + +\$20,000	Retained Earnings
Balance (2)	\$20,000 - 3,000			+\$5,000	+\$2,000	\$20,000	
Balance (3)	\$17,000 - 1,200		+\$1,200	\$5,000	\$2,000	\$20,000	
Balance (4)	\$15,800		\$1,200	\$5,000	\$2,000 + 300	\$20,000	- \$300
Balance (5)	\$15,800 + 2,400		\$1,200	\$5,000	\$2,300	\$20,000	- \$300 + 2,400
Balance (6)	\$18,200 - 600		\$1,200	\$5,000	\$2,300	\$20,000	\$2,100 - 600
Balance (7)	\$17,600	+\$450	\$1,200	\$5,000	\$2,300	\$20,000	\$1,500 + 450
Balance (8)	\$17,600 - 300	\$450	\$1,200	\$5,000	\$2,300 - 300	\$20,000	\$1,950
Balance (9)	\$17,300 - 1,200	\$450	\$1,200	\$5,000	\$2,000	\$20,000	\$1,950 - 1,200
Balance (10)	\$16,100	\$450	\$1,200	\$5,000	\$2,000 + 500	\$20,000	\$750 - 500
Totals	\$16,100	\$450	\$1,200	\$5,000	\$2,500	\$20,000	\$250

Diff: 2

LO: 4

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 20

222) For each of the following, describe a transaction that will have the stated effect on the elements of the accounting equation.

- (a) Increase one asset and decrease another asset.
- (b) Increase an asset and increase a liability.
- (c) Decrease an asset and decrease a liability.
- (d) Increase an asset and increase stockholders' equity.
- (e) Increase one asset, decrease one asset, and increase a liability.

Answer:

- (a) Receive cash from customers on account.
Purchase supplies for cash.
- (b) Purchase supplies on account.
Purchase equipment and signed a note payable.
- (c) Pay cash to reduce accounts payable.
Pay cash to reduce a note payable.
- (d) Issued common stock in exchange for cash.
Render services on account (or for cash).
- (e) Buy equipment with a cash down payment with the remainder financed by a note payable.

Diff: 2

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

223) The following transactions represent part of the activities of Bloc Party Company for the first month of its existence. Indicate the effect of each transaction upon the total assets of the business by one of the following phrases: increased total assets, decreased total assets, or no change in total assets.

- (a) Issued stock in exchange for cash.
- (b) Purchased a computer for cash.
- (c) Purchased office equipment with money borrowed from the bank.
- (d) Paid the first month's utility bill.
- (e) Collected an accounts receivable.
- (f) Paid dividends.

Answer:

- (a) Increased total assets.
- (b) No change in total assets.
- (c) Increased total assets.
- (d) Decreased total assets.
- (e) No change in total assets.
- (f) Decreased total assets.

Diff: 2

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

224) Selected transactions for Parton Company are listed below. List the number of the transaction and then describe the effect of each transaction on assets, liabilities, and stockholders' equity.

Sample: Issued common stock in exchange for cash investment.

The answer would be—Increase in assets and increase in stockholders' equity.

1. Paid monthly utility bill
2. Purchased new display case for cash
3. Paid cash for repair work on security system
4. Billed customers for services performed
5. Received cash from customers billed in 4
6. Paid dividends
7. Incurred advertising expenses on account
8. Paid monthly rent
9. Received cash from customers when service was rendered

Answer:

1. Decrease in assets and decrease in stockholders' equity
2. No net change in assets
3. Decrease in assets and decrease in stockholders' equity
4. Increase in assets and increase in stockholders' equity
5. No net change in assets
6. Decrease in assets and decrease in stockholders' equity
7. Increase in liabilities and decrease in stockholders' equity
8. Decrease in assets and decrease in stockholders' equity
9. Increase in assets and increase in stockholders' equity

Diff: 2

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

225) A service company shows five transactions summarized below. The effect of each transaction on the accounting equation is shown, and also the new balance of each item in the equation. For each transaction (a) to (e) write an explanation of the nature of the transaction.

	Cash	+	Accounts Rec.	+	Equip- ment	+	Land	+	Building	=	Accounts Payable	+	Stockholders' Equity
	\$5,000		\$6,500		\$10,000		\$7,500		\$50,000		\$3,000		\$76,000
a)	<u>-2,000</u>		<u>6,500</u>		<u>10,000</u>		<u>7,500</u>		<u>50,000</u>		<u>-2,000</u>		<u>76,000</u>
	3,000										1,000		
b)	<u>+1,000</u>		<u>- 1,000</u>		<u>10,000</u>		<u>7,500</u>		<u>50,000</u>		<u>1,000</u>		<u>76,000</u>
	4,000		5,500										
c)					<u>+ 5,000</u>						<u>+5,000</u>		
	<u>4,000</u>		<u>5,500</u>		<u>15,000</u>		<u>7,500</u>		<u>50,000</u>		<u>6,000</u>		<u>76,000</u>
d)	<u>+2,500</u>												<u>+ 2,500</u>
	6,500		5,500		15,000		7,500		50,000		6,000		78,500
e)			<u>+3,000</u>										<u>+ 3,000</u>
	<u>\$6,500</u>		<u>\$8,500</u>		<u>\$15,000</u>		<u>\$7,500</u>		<u>\$50,000</u>		<u>\$6,000</u>		<u>\$81,500</u>

Answer:

- (a) Paid cash to creditors
- (b) Received cash from customers on account
- (c) Bought equipment on account
- (d) Issued stock in exchange for cash or services rendered to customers for cash
- (e) Services rendered on account

Diff: 2

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Analytic / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

226) There are ten transactions listed below. Match the transactions that have the identical effect on the accounting equation. You should end up with 5 matches.

- a. Receive cash from customers on account
- b. Issue stock in exchange for cash
- c. Pay cash to reduce an account payable
- d. Purchase supplies for cash
- e. Pay cash to reduce a note payable
- f. Purchase supplies on account
- g. Receive additional investment from a stockholder
- h. Purchase equipment in exchange for a note payable
- i. Pay utilities with cash
- j. Pay dividends

Answer:

Match #1 = a, d
#2 = c, e
#3 = f, h
#4 = b, g
#5 = i, j

Diff: 2

LO: 4

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 10

227) An analysis of the transactions made by Cookie Mountain Legal, a law firm, for the month of July is shown below. Each increase and decrease in stockholders' equity is explained.

<u>Assets</u>				=	<u>Liab.</u>	+	<u>Stockholders' Equity</u>							
							<u>Retained Earnings</u>							
<u>Accounts</u>					<u>Accts.</u>		<u>Com</u>							
<u>Cash</u>	+	<u>Receiv.</u>	+	<u>Supplies</u>	+	<u>Equipmt.</u>	=	<u>Payable</u>	+	<u>Stock</u>	+	<u>Rev.</u>	<u>-Exp</u>	<u>-Div.</u>
1.	+	\$15,000								+	\$15,000			
2.	-	2,000				+\$5,000		+\$3,000						
3.	-	750			+\$750									
4.	+	2,500		+\$6,600								+\$9,100		Rev.
5.	-	1,500						- 1,500						
6.	-	2,500												-\$2,500Div.
7.	-	750											-\$750	Rent
8.	+	550		-550										
9.	-	4,500											-\$4,500	Sal.
10.								+	500				-500	Util.

Answer:

(a)

COOKIE MOUNTAIN LEGAL
Income Statement
For the Month Ended July 31, 2027

Revenues		
Service revenue		\$9,100
Expenses		
Salaries and wages expense	\$4,500	
Rent expense	750	
Utilities expense	<u>500</u>	
Total expenses		<u>5,750</u>
Net income	<u>\$3,350</u>	

(b)

COOKIE MOUNTAIN LEGAL
Retained Earnings Statement
For the Month Ended July 31, 2027

Retained earnings, July 1	\$ -0-
Add: Net income	<u>3,350</u>
	3,350
Less: Dividends	<u>2,500</u>
Retained earnings, July 31	<u>\$ 850</u>

Diff: 1

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

228) An analysis of the transactions made by Cookie Mountain Legal, a law firm, for the month of July is shown below. Each increase and decrease in retained earnings is explained.

Assets				=	Liab.	+	Stockholders' Equity										
							<u>Retained Earnings</u>										
Accounts					Accts.		<u>Com</u>										
	<u>Cash</u>	+	<u>Receiv.</u>	+	<u>Supplies</u>	+	<u>Equipmt.</u>	=	<u>Payable</u>	+	<u>Stock</u>	+	<u>Rev.</u>	-	<u>Exp</u>	-	<u>Div.</u>
1.	+\$15,000										+\$15,000						
2.	- 2,000						+\$5,000		+\$3,000								
3.	- 750					+\$750											
4.	+ 2,500		+\$6,600										+\$9,100				Rev.
5.	- 1,500								- 1,500								
6.	- 2,500															-\$2,500	Div.
7.	- 750														-\$750		Rent
8.	+ 550		-550														
9.	- 4,500														-\$4,500		Sal.
10.									+ 500						-500		Util.

229) The following information relates to Bonnie Billy Co. for the year 2027.

Retained earnings, January 1, 2027	\$ 67,000	Advertising expense	\$6,500
Dividends	6,000	Rent expense	9,500
Service revenue	65,500	Utilities expense	1,400
Salaries and wages expense	29,000		

Instructions

After analyzing the data, prepare an income statement and a retained earnings statement for the year ending December 31, 2027.

Answer: **BONNIE BILLY CO.**

Income Statement

For the Year Ended December 31, 2027

Revenues		
Service revenue		\$65,500
Expenses		
Salaries and wages expense	\$29,000	
Rent expense	9,500	
Advertising expense	6,500	
Utilities expense	<u>1,400</u>	
Total expenses		<u>46,400</u>
Net income		<u>\$19,100</u>

BONNIE BILLY CO.

Retained Earnings Statement

For the Year Ended December 31, 2027

Retained earnings, January 1	\$67,000
Add: Net income	<u>19,100</u>
	86,100
Less: Dividends	<u>6,000</u>
Retained earnings, December 31	<u>\$80,100</u>

Diff: 1

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 7

230) Van Occupanther is the bookkeeper for Roscoe Company. Van has been trying to get the balance sheet of Roscoe Company to balance. Roscoe's balance sheet is as follows.

ROSCOE COMPANY

Balance Sheet
December 31, 2027

Assets		Liabilities	
Cash	\$9,400	Accounts payable	\$25,000
Supplies	7,100	Accounts receivable	(19,500)
Equipment	45,000	Common stock	40,000
Dividends	<u>9,200</u>	Retained earnings	<u>25,200</u>
Total assets	<u>\$70,700</u>	Total liabilities and stockholders' equity	<u>\$70,700</u>

Instructions

Prepare a correct balance sheet.

Answer:

ROSCOE COMPANY

Balance Sheet
December 31, 2027

Assets	
Cash	\$ 9,400
Accounts receivable	19,500
Supplies	7,100
Equipment	<u>45,000</u>
Total assets	<u>\$81,000</u>

Liabilities and Stockholders' Equity

Liabilities	
Accounts payable	\$25,000
Stockholders' equity	
Common stock	\$40,000
Retained earnings (\$25,200 - \$9,200)	<u>16,000</u>
Total liabilities and stockholders' equity	<u>\$81,000</u>

Diff: 2

LO: 5

Bloom / IFRS: AN

AACSB/ IMA: Analytic / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

231) Presented below is information related to Anthony Scalici Company.

Retained earnings, January 1, 2027	\$ 21,000
Service revenue—2027	320,000
Total expenses—2027	213,000
Assets, January 1, 2027	85,000
Liabilities, January 1, 2027	64,000
Assets, December 31, 2027	165,000
Liabilities, December 31, 2027	90,000
Dividends—2027	?

Instructions

Prepare the 2027 retained earnings statement for Anthony Scalici Company.

Answer:

ANTHONY SCALICI, COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2027

Retained earnings, January 1	\$ 21,000
Add: Net income	<u>107,000*</u>
	128,000
Less: Dividends	<u>53,000</u>
Retained earnings, December 31	<u><u>\$ 75,000</u></u>

*Service revenue	\$320,000
Total expenses	<u>(213,000)</u>
Net income	<u><u>\$107,000</u></u>

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 7

232) Prepare an income statement, a retained earnings statement, and a balance sheet for the acupuncture practice of Golda Bear, from the items listed below for the month of September, 2027.

Retained earnings, September 1	\$17,000
Common stock	30,000
Accounts payable	7,000
Equipment	35,000
Service revenue	28,000
Dividends	6,000
Supplies expense	4,500
Cash	3,000
Utilities expense	700
Supplies	4,800
Salaries and wages expense	9,000
Accounts receivable	14,000
Rent expense	5,000

GOLDA BEAR, ACUPUNCTURIST
Income Statement
For the Month Ended September 30, 2027

Revenues		\$
Expenses	\$	\$
Total expenses		\$
Net income		\$

GOLDA BEAR, ACUPUNCTURIST
Retained Earnings Statement
For the Month Ended September 30, 2027

Retained Earnings, September 1	\$
Add:	
	\$
Less:	
	\$

GOLDA BEAR, ACUPUNCTURIST
Balance Sheet
September 30, 2027

	Assets	
		\$
Total assets		<u>\$</u>
	Liabilities and Stockholders' Equity	
Liabilities		\$
Stockholders' Equity		<u>\$</u>
Total liabilities and stockholders' equity		<u>\$</u>

Answer: GOLDA BEAR, ACUPUNCTURIST
 Income Statement
 For the Month Ended September 30, 2027

Revenues		
Service revenue		\$28,000
Expenses		
Salaries and wages expense	\$9,000	
Rent expense	5,000	
Supplies expense	4,500	
Utilities expense	<u>700</u>	
Total expenses		<u>19,200</u>
Net income		<u>\$ 8,800</u>

 GOLDA BEAR, ACUPUNCTURIST
 Retained Earnings Statement
 For the Month Ended September 30, 2027

Retained earnings, September 1	\$17,000
Add: Net income	<u>8,800</u>
	25,800
Less: Dividends	<u>6,000</u>
Retained earnings, September 30	<u>\$19,800</u>

GOLDA BEAR, ACUPUNCTURIST
Balance Sheet
September 30, 2027

Assets	
Cash	\$ 3,000
Accounts receivable	14,000
Supplies	4,800
Equipment	<u>35,000</u>
Total assets	<u>\$56,800</u>

Liabilities and Stockholders' Equity	
Liabilities	
Accounts payable	\$ 7,000
Stockholders' Equity	
Common stock	\$30,000
Retained earnings	<u>19,800</u>
Total liabilities and stockholders' equity	<u>\$56,800</u>

Diff: 3

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 15

233) Indicate whether the following items would appear on the balance sheet (BS), income statement (IS), or retained earnings statement (RE).

1. Advertising expense
2. Accounts receivable
3. Dividends
4. Rent revenue
5. Salaries and wages payable
6. Supplies

Answer: (5 min.)

- | | |
|-------------------------------------|--------------------------|
| 1. Income statement (IS) | 4. Income statement (IS) |
| 2. Balance sheet (BS) | 5. Balance sheet (BS) |
| 3. Retained earnings statement (RE) | 6. Balance sheet (BS) |

Diff: 1

LO: 5

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

234) Listed below in alphabetical order are the balance sheet items of Rock Plaza Company at December 31, 2027. Prepare a balance sheet and include a complete heading.

Accounts Payable	\$ 24,000
Accounts Receivable	15,000
Buildings	51,000
Cash	7,000
Common Stock	102,000
Land	42,000
Equipment	11,000

Answer:

(5 min.)

ROCK PLAZA COMPANY
Balance Sheet
December 31, 2027

ASSETS

Cash	\$ 7,000
Accounts receivable	15,000
Land	42,000
Buildings	51,000
Equipment	<u>11,000</u>
Total assets	<u>\$126,000</u>

LIABILITIES

Accounts payable	\$ 24,000
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STOCKHOLDERS' EQUITY

Common stock	<u>102,000</u>
Total liabilities and stockholders' equity	<u>\$126,000</u>

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

235) One item is omitted in each of the following summaries of balance sheet and income statement data for three different sole corporations, X, Y, and Z. Determine the amounts of the missing items, identifying each corporation by letter.

	Corporation		
	X	Y	Z
Beginning of the Year:			
Assets	\$390,000	\$150,000	\$219,000
Liabilities	250,000	105,000	168,000
End of the Year:			
Assets	450,000	175,000	195,000
Liabilities	280,000	95,000	169,000
During the Year:			
Issued additional shares of stock	?	79,000	80,000
Dividends	90,000	83,000	?
Revenue	195,000	?	187,000
Expenses	170,000	113,000	175,000

Answer:

Corporation X (\$95,000)

Beginning stockholders' equity (\$390,000 - \$250,000)	\$140,000
Additional investments (\$260,000 - \$140,000 - \$25,000)	95,000
Net income for year (\$195,000 - \$170,000)	<u>25,000</u>
	260,000
Less dividends <u>90,000</u>	
Ending stockholders' equity (\$450,000 - \$280,000)	<u>\$170,000</u>

Corporation Y (\$152,000)

Beginning stockholders' equity (\$150,000 - \$105,000)	\$ 45,000
Additional investments	79,000
Net income for year	<u>39,000</u>
[Revenues = \$152,000 (\$113,000 + \$39,000)]	163,000
Less dividends <u>83,000</u>	
Ending stockholders' equity (\$175,000 - \$95,000)	<u>\$ 80,000</u>

Corporation Z (\$117,000)

Beginning stockholders' equity (\$219,000 - \$168,000)	\$ 51,000
Additional investments	80,000
Net income for year (\$187,000 - \$175,000)	<u>12,000</u>
	143,000
Less dividends (\$143,000 - \$26,000)	<u>117,000</u>
Ending stockholders' equity (\$195,000 - \$169,000)	<u>\$ 26,000</u>

Diff: 3

LO: 5

Bloom / IFRS: AN

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; PC: Problem Solving

Minutes: 10

236) 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 | g. _____ Accounts Receivable |
| b. _____ Utilities Expense | h. _____ Retained Earnings (ending) |
| c. _____ Cash | i. _____ Equipment |
| d. _____ Accounts Payable | j. _____ Advertising Expense |
| e. _____ Supplies | k. _____ Dividends |
| f. _____ Salaries Expense | l. _____ Notes Payable |

Answer:

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

Diff: 1

LO: 5

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

237) Maria Queen was reviewing her business activities at the end of the year (2027) and decided to prepare a Retained Earnings Statement. At the beginning of the year, her assets were \$700,000 and her liabilities were \$210,000. At the end of the year the assets had grown to \$930,000 but liabilities had also increased to \$340,000. Common Stock was \$200,000 in at the beginning and end of 2027. The net income for the year was \$220,000. The company paid dividends of \$120,000 during the year.

Prepare a Retained Earnings statement in good form.

Answer:

MARIA QUEEN
Retained Earnings Statement
For the Year Ended 2027

Beginning retained earnings	\$290,000
Add: Net Income	<u>220,000</u>
	510,000
Less: Dividends	<u>120,000</u>
Ending retained earnings	<u>\$390,000</u>

Diff: 2

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

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

Accounts Payable	\$ 3,800	Land	\$33,000
Accounts Receivable	9,600	Common Stock	50,000
Buildings	68,000	Notes Payable	48,000
Cash	10,000	Supplies	6,600
Equipment	18,700	Retained Earnings	?

The following transactions occurred during the next two days:

The company issued additional shares of stock for \$22,000 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, 2027.

Answer:

STANLEY'S RESTAURANT
Balance Sheet
September 3, 2027

ASSETS

Cash	\$ 28,200
Accounts receivable	9,600
Supplies	6,600
Land	33,000
Buildings	68,000
Equipment	<u>18,700</u>
Total assets	<u>\$164,100</u>

LIABILITIES

Accounts payable	\$ -0-
Notes payable	48,000

STOCKHOLDERS' EQUITY

Common stock	72,000
Retained earnings	<u>44,100</u>
Total liabilities and stockholders' equity	<u>\$164,100</u>

Cash ($\$10,000 + \$22,000 - \$3,800$) = \$28,200

Accounts Payable ($\$3,800 - \$3,800$) = \$0

Common Stock ($\$50,000 + \$22,000$) = \$72,000

Retained Earnings: Beginning balance ($\$145,900 - \$51,800 - \$50,000$)	\$ 44,100
Changes	<u>-0-</u>

Ending balance	<u>\$ 44,100</u>
----------------	------------------

Diff: 3

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: None / Reporting

AICPA: BB: Critical Thinking; PC: Problem Solving

Minutes: 10

239) Presented below are balance sheet items for Black Angel Company at December 31, 2027.

Accounts payable	\$35,000
Accounts receivable	36,000
Cash	17,000
Equipment	77,000
Common stock	45,000
Notes payable	50,000

Instructions

Compute each of the following:

1. Total assets
2. Total liabilities

Answer:

1. Total assets = \$130,000 (\$36,000 + \$17,000 + \$77,000)
2. Total liabilities = \$85,000 (\$35,000 + \$50,000)

Diff: 1

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

240) Accounting is an information system that identifies, _____, and _____ the economic events of an organization.

Answer: records, communicates

Diff: 1

LO: 1-5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting, Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

241) The recording of economic events is called _____, and is just one part of the _____ process.

Answer: bookkeeping, accounting

Diff: 1

LO: 1-5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting, Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

242) The three major services rendered by a certified public accountant are _____, _____, and management _____.

Answer: auditing, taxation, consulting

Diff: 1

LO: 1-5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting, Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

243) Accountants who are employees of business enterprises are referred to as _____ accountants.

Answer: private (or managerial)

Diff: 1

LO: 1-5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting, Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

244) A common set of standards that provides guidelines to accountants and indicates how to report economic events is called _____.

Answer: generally accepted accounting principles

Diff: 1

LO: 1-5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting, Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

245) The _____ principle states that assets should be recorded at the value exchanged at the time the asset is acquired.

Answer: historical cost

Diff: 1

LO: 1-5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting, Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

246) The _____ assumption requires that the activities of an entity be kept separate from the activities of its owner.

Answer: economic entity

Diff: 1

LO: 1-5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting, Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

247) The residual claim on total assets of a business is known as _____ and is equal to total assets minus total liabilities.

Answer: stockholders' equity

Diff: 1

LO: 1-5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting, Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

248) Dividends _____ stockholders' equity but are not expenses.

Answer: decrease

Diff: 1

LO: 1-5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting, Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

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

Answer: balance sheet

Diff: 1

LO: 1-5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting, Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

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

- | | |
|-------------------------------|-----------------|
| A. CPA | F. Corporation |
| B. Budgeting | G. Assets |
| C. SEC | H. Equities |
| D. Proprietorship | I. Expenses |
| E. Economic entity assumption | J. Transactions |

- _____ 1. Activities of an entity must be kept separate from its owner's activities
- _____ 2. Consumed assets or services
- _____ 3. Ownership is limited to one person
- _____ 4. Offers expert accounting service to the general public
- _____ 5. Creditor and ownership claims against the assets of the business
- _____ 6. A separate legal entity under state laws
- _____ 7. Government agency that can mandate accounting rules
- _____ 8. Quantifying goals and objectives
- _____ 9. Future economic benefits
- _____ 10. Economic events recorded by accountants

Answer:

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

Diff: 1

LO: 1-5

Bloom / IFRS: K

AACSB/ IMA: Reflective Thinking / Reporting, Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 3

251) The accounting profession provides many career opportunities for individuals. Identify the major fields that exist in accounting and comment on the major functions performed by individuals in each of these areas.

Answer: The major fields that exist in accounting are in the areas of (1) public accounting, (2) private accounting, and (3) not-for-profit accounting. In public accounting, an accountant may practice as: (1) an auditor who examines the financial statements of companies and expresses an opinion as to the fairness of presentation; (2) a tax specialist who gives tax advice, prepares tax returns, and represents clients before governmental agencies; and (3) a management accountant who engages in the development of accounting and computer systems and the design of organizational systems.

Private (managerial) accountants perform many different activities within a company. Private accountants may be involved in: cost accounting, budgeting, general financial accounting, accounting information systems, and tax accounting.

Diff: 2

LO: 6

Bloom / IFRS: K

AACSB/ IMA: Communication / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

252) 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?

Answer: 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.

Diff: 2

LO: 3

Bloom / IFRS: C

AACSB/ IMA: Communication / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 4

253) Your friend, Angela, made this comment:

My major is biology and I plan to research for cures for major illnesses. Thus, I have no need to study accounting.

What is your response to Angela?

Answer: Angela, 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.

Diff: 3

LO: 1

Bloom / IFRS: S

AACSB/ IMA: Communication / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

254) 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.

Answer: 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?

Diff: 2

LO: 1

Bloom / IFRS: C

AACSB/ IMA: Reflective Thinking / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

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

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

Required:

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

Answer:

1. The stakeholders include

Joanna Newsom

Vivian Girls

Newton, Ohio

Students of City College

City College

Persons financing the purchase of Joanna's Burgers

2. Joanna did not act ethically in not revealing fully her 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 Joanna should have said something about her problems. She 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. Joanna has shown an intent to deceive that is unethical and might be actionable in court as well.

Diff: 2

LO: 2

Bloom / IFRS: E

AACSB/ IMA: Ethics / Business Operations, Ethics

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

256) (Communication)

Rachel Bells Havens 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. Answer: Answers will vary. The instructor's requirements concerning proper form should be followed. The letter may be either business or personal. As a minimum, the letter should be in a recognizable form, and proper grammar and spelling should be used. A suggested personal letter follows:

1245 Lily Lane
Buena Vista, AR 77661
(Date)

Dear Rachel,

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. They will be in the best position to explain the results.

Thanks for the question. It really made me think.

Sincerely,
(signature)

Diff: 2

LO: 5

Bloom / IFRS: C

AACSB/ IMA: Communication / Business Operations

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 5

257) The total assets and liabilities of Browning Company at January 1 and December 31, 2027 are presented below.

	January 1	December 31
Assets	\$95,000	\$140,000
Liabilities	30,000	36,000

Instructions:

1. Assume dividends of \$10,800 were paid and no additional stock was issued during the year. Revenues were \$110,000. Compute (a) net income, and (b) expenses.
2. Assume additional stock was issued for \$4,800 and no dividends were paid during the year. Expenses were \$42,000. Compute (a) net income, and (b) revenues.
3. Assume additional stock was issued for \$62,000 and dividends of \$15,600 were paid during the year. Compute net loss.
4. Assume additional stock was issued for \$6,000 and net income was \$51,000. Compute dividends paid.

Answer:

1. a. January 1 stockholders' equity = $\$95,000 - \$30,000 = \$65,000$
December 31 stockholders' equity = $\$140,000 - \$36,000 = \$104,000$
The change in stockholders' equity = $\$104,000 - \$65,000 = \$39,000$
 $\$39,000 = \text{Net income} + \text{investments by owners} - \text{dividends}$
 $\$39,000 = \text{NI} + \$0 - \$10,800$
 $\text{NI} = \$49,800$.
b. Revenues – expenses = net income
 $\$110,000 - \text{expenses} = \$49,800$
Expenses = $\$60,200$
2. a. January 1 stockholders' equity = $\$95,000 - \$30,000 = \$65,000$
December 31 stockholders' equity = $\$140,000 - \$36,000 = \$104,000$
The change in stockholders' equity = $\$104,000 - \$65,000 = \$39,000$
 $\$39,000 = \text{Net income} + \text{investments by owners} - \text{dividends}$
 $\$39,000 = \text{NI} + \$4,800 - \$0$
 $\text{NI} = \$34,200$
b. Revenues – expenses = net income
Revenues – $\$42,000 = \$34,200$
Revenues = $\$76,200$
3. a. January 1 stockholders' equity = $\$95,000 - \$30,000 = \$65,000$
December 31 stockholders' equity = $\$140,000 - \$36,000 = \$104,000$
The change in stockholders' equity = $\$104,000 - \$65,000 = \$39,000$
 $\$39,000 = \text{Net loss} + \text{investments by owners} - \text{dividends}$
 $\$39,000 = \text{NL} + \$62,000 - \$15,600$
 $\text{NL} = \$7,400$
4. a. January 1 stockholders' equity = $\$95,000 - \$30,000 = \$65,000$
December 31 stockholders' equity = $\$140,000 - \$36,000 = \$104,000$
The change in stockholders' equity = $\$104,000 - \$65,000 = \$39,000$
 $\$39,000 = \text{Net income} + \text{investments by owners} - \text{dividends}$
 $\$39,000 = \$51,000 + \$6,000 - \text{dividends}$
Dividends = $\$18,000$

Diff: 3

LO: 3

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 15

258) Windsor Service had the following financial information at the end of 2027.

	<u>1/1/27</u>	<u>2027</u>	<u>12/31/27</u>
Accounts Payable			\$19,000
Accounts Receivable			25,000
Advertising Expense		\$1,000	
Cash			16,000
Common Stock			15,000
Dividends		9,000	
Equipment			38,000
Notes Payable			20,000
Rent Expense		3,500	
Retained Earnings	\$6,000		
Salaries and Wages Expense		20,000	
Service Revenue		55,000	
Utilities Expense		2,500	

Instructions:

Prepare a 2027 income statement, 2027 retained earnings statement, and a 12/31/27 balance sheet for Windsor Service.

Answer:

Windsor Service
Income Statement
For the Year Ended December 31, 2027

Revenue		
Service revenue		\$55,000
Expenses		
Salaries and wages expense	\$20,000	
Rent expense	3,500	
Utilities expense	2,500	
Advertising expense	<u>1,000</u>	<u>27,000</u>
Net income		<u>\$28,000</u>

Windsor Service
Retained Earnings Statement
For the Year Ended December 31, 2027

Retained earnings, 1/1/27	\$ 6,000
Add: net income	<u>28,000</u>
	34,000
Less: dividends	<u>9,000</u>
Retained earnings, 12/31/27	<u>\$25,000</u>

Windsor Service
Balance Sheet
December 31, 2027

Assets		
Cash		\$16,000
Accounts receivable		25,000
Equipment		<u>38,000</u>
Total assets		<u>\$79,000</u>
Liabilities		
Accounts payable	\$19,000	
Notes payable	<u>20,000</u>	
Total liabilities		\$39,000
Stockholders' Equity		
Common stock	\$15,000	
Retained earnings	<u>25,000</u>	
		<u>40,000</u>
Total liabilities and stockholders' equity		<u>\$79,000</u>

Diff: 3

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 15

259) This information is for Downing Company for the year ended December 31, 2027.

Cash received from revenues from customers	\$930,000
Cash received for issuance of common stock	420,000
Cash paid for new equipment	150,000
Cash dividends paid	30,000
Cash paid for expenses	640,000
Cash balance 1/1/27	50,000

Instructions

Prepare the 2027 statement of cash flows for Downing Company.

Answer:

DOWNING COMPANY
Statement of Cash Flows
For the Year Ended December 31, 2027

Cash flows from operating activities		
Cash receipts from customers		\$930,000
Cash payments for expenses		<u>(640,000)</u>
Net cash provided by operating activities		290,000
Cash flows from investing activities		
Purchase of equipment.....		(150,000)
Cash flows from financing activities		
Sale of common stock.....	\$420,000	
Payment of cash dividends.....	<u>(30,000)</u>	<u>390,000</u>
Net increase in cash		530,000
Cash at the beginning of the period		<u>50,000</u>
Cash at the end of the period.....		<u>\$580,000</u>

Diff: 3

LO: 5

Bloom / IFRS: AP

AACSB/ IMA: Reflective Thinking / Reporting

AICPA: BB: Critical Thinking; FN: Reporting

Minutes: 15

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