Learning Objective 1-1

1) Accounting is the information system that measures business activities, processes the information into reports, and communicates the results to decision makers.
   Answer: TRUE
   Diff: 1
   LO: 1-1
   AICPA Functional: Measurement
   PE Question Type: Concept
   H2: Why is Accounting Important? (H1)

2) Critical thinking and judgment skills are not necessary for accountants because technology has made the activities routine.
   Answer: FALSE
   Diff: 1
   LO: 1-1
   AICPA Functional: Measurement
   PE Question Type: Concept
   H2: Why is Accounting Important? (H1)

3) Accounting starts with economic activities that accountants review and evaluate using critical thinking and judgment to create useful information that helps individuals make good decisions.
   Answer: TRUE
   Diff: 1
   LO: 1-1
   AICPA Functional: Measurement
   PE Question Type: Concept
   H2: Why is Accounting Important? (H1)

4) Accounting is referred to as the language of business because it is the method of communicating business information to decision makers.
   Answer: TRUE
   Diff: 1
   LO: 1-1
   AICPA Functional: Measurement
   PE Question Type: Concept
   H2: Why is Accounting Important? (H1)

5) Managerial accounting focuses on information for external decision makers.
   Answer: FALSE
   Diff: 1
   LO: 1-1
   AICPA Functional: Measurement
   PE Question Type: Concept
   H2: Decision Makers: The Users of Accounting Information
6) Stockholders primarily use managerial accounting information for decision-making purposes.
Answer: FALSE
Diff: 1
LO: 1-1
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

7) A creditor is a person who owes money to the business.
Answer: FALSE
Diff: 1
LO: 1-1
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

8) Local, state, and federal governments use accounting information to calculate income taxes.
Answer: TRUE
Diff: 1
LO: 1-1
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

9) Financial accounting focuses on information for decision makers outside of the business, such as creditors and taxing authorities.
Answer: TRUE
Diff: 1
LO: 1-1
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

10) Business owners use accounting information to set goals, evaluate progress toward those goals, and make adjustments when needed.
Answer: TRUE
Diff: 1
LO: 1-1
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

11) Outside investors would ordinarily use managerial accounting information to decide whether or not to invest in a business.
Answer: FALSE
Diff: 1
LO: 1-1
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information
12) A creditor is any person who has an ownership interest in a business.
Answer: FALSE
Diff: 1
LO: 1-1
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Decision Makers: The Users of Accounting Information

13) Different users of accounting information focus on the information they need to make the best choices.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Interpersonal relations and teamwork
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Decision Makers: The Users of Accounting Information

14) Any person or business to whom a business owes money is called the business's creditor.
Answer: TRUE
Diff: 1
LO: 1-1
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Decision Makers: The Users of Accounting Information

15) The primary objective of financial reporting is to provide information useful for making investment and lending decisions.
Answer: TRUE
Diff: 1
LO: 1-1
AICPA Functional: Reporting
PE Question Type: Concept
H2 : Decision Makers: The Users of Accounting Information

16) Managerial accounting provides information to ________.
A) internal decision makers
B) outside investors and lenders
C) creditors
D) taxing authorities
Answer: A
Diff: 1
LO: 1-1
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Decision Makers: The Users of Accounting Information
17) The field of accounting that focuses on providing information for external decision makers is ________.
A) managerial accounting
B) financial accounting
C) cost accounting
D) nonmonetary accounting
Answer: B
Diff: 1
LO: 1-1
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

18) The field of accounting that focuses on providing information for internal decision makers is ________.
A) managerial accounting
B) financial accounting
C) nonmonetary accounting
D) governmental accounting
Answer: A
Diff: 1
LO: 1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Decision Makers: The Users of Accounting Information

19) Which of the following users would rely on managerial accounting information for decision-making purposes?
A) potential investors
B) creditors
C) customers
D) company managers
Answer: D
Diff: 1
LO: 1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Decision Makers: The Users of Accounting Information
20) Which of the following is an external user of a business’s financial information?
A) customers
B) cost accountant
C) company manager
D) the board of directors
Answer: A
Diff: 1
LO: 1-1
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

21) For each user of accounting information, identify if the user would use financial accounting (FA) or managerial accounting (MA).

<table>
<thead>
<tr>
<th>User of Accounting Information</th>
<th>FA or MA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business manager</td>
<td></td>
</tr>
<tr>
<td>Creditor</td>
<td></td>
</tr>
<tr>
<td>Stockholder</td>
<td></td>
</tr>
<tr>
<td>Human resources director</td>
<td></td>
</tr>
<tr>
<td>Internal Revenue Service</td>
<td></td>
</tr>
</tbody>
</table>

Answer:

<table>
<thead>
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<tr>
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</tr>
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<td>FA</td>
</tr>
<tr>
<td>Human resources director</td>
<td>MA</td>
</tr>
<tr>
<td>Internal Revenue Service</td>
<td>FA</td>
</tr>
</tbody>
</table>

Diff: 1
LO: 1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Decision Makers: The Users of Accounting Information

22) Financial analysts perform reviews of companies to ensure compliance to rules and regulations.
Answer: FALSE
Explanation: Auditors perform reviews of companies to ensure compliance to rules and regulations.
Diff: 1
LO: 1-1
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Accounting Profession
23) Certified Public Accountants are licensed professional accountants who serve the general public.  
Answer: TRUE  
Diff: 1  
LO: 1-1  
AICPA Functional: Measurement  
PE Question Type: Concept  
H2: The Accounting Profession

24) ________ are professional accountants who serve the general public, not one particular company.  
A) Certified public accountants  
B) Certified financial accountants  
C) Audit accountants  
D) Controllers  
Answer: A  
Diff: 1  
LO: 1-1  
AICPA Functional: Measurement  
PE Question Type: Concept  
H2: The Accounting Profession

Learning Objective 1-2

1) The Financial Accounting Standards Board is a U.S. governmental agency that oversees the creation and governance of accounting standards.  
Answer: FALSE  
Explanation: The Financial Standards Board is a private organization.  
Diff: 1  
LO: 1-2  
AICPA Functional: Measurement  
PE Question Type: Concept  
H2: Governing Organizations

2) Which of the following organizations is responsible for the creation and governance of accounting standards in the United States?  
A) Financial Accounting Standards Board  
B) Institute of Management Accountants  
C) American Institute of Certified Public Accountants  
D) Securities and Exchange Commission  
Answer: A  
Diff: 1  
LO: 1-2  
AICPA Functional: Measurement  
PE Question Type: Concept  
H2: Governing Organizations
3) The guidelines for accounting information are called Generally Accepted Accounting Principles (GAAP).
Answer: TRUE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

4) GAAP refer to guidelines for accounting information in the United States. The acronym GAAP in this statement refers to ________.
A) Globally Accepted and Accurate Policies
B) Global Accommodation Accounting Principles
C) Generally Accredited Accounting Policies
D) Generally Accepted Accounting Principles
Answer: D
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

5) What are Generally Accepted Accounting Principles (GAAP)? Which entity is currently responsible for determining GAAP?
Answer: Generally Accepted Accounting Principles are the guidelines for accounting information, currently formulated by the Financial Accounting Standards Board (FASB). GAAP is the main U.S. accounting rule book.
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

6) As per the economic entity assumption, an organization and its owners should be seen as the same entity.
Answer: FALSE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

7) In a sole proprietorship, the owner is personally liable for the debts of the business.
Answer: TRUE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption
8) The most that the owner of a sole proprietorship can lose, as a result of business debts or lawsuits, is the amount he/she has invested in the business.
Answer: FALSE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

9) Members of a limited-liability company (LLC) are not personally liable for the debts of the business.
Answer: TRUE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

10) A business can be organized as a sole proprietorship, partnership, corporation, or limited-liability company (LLC).
Answer: TRUE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

11) In a limited-liability company (LLC), the members are personally liable for the debts of the business.
Answer: FALSE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

12) In a corporation, the board of directors is elected by the chairperson of the company.
Answer: FALSE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

13) The creation of a corporation begins when its incorporators obtain a charter from the state.
Answer: TRUE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption
14) Mutual agency of the owners is not present in a corporation as it is in a partnership.
Answer: TRUE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

15) The formation of a partnership firm requires a minimum of _______.
A) four partners
B) three partners
C) one partner
D) two partners
Answer: D
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

16) Which of the following is a major reason why corporate ownership is popular in the United States?
A) Stockholders have limited liability for the debts of the corporation.
B) Most corporations are small- or medium-sized.
C) The life of a corporation is limited by the death of the owner.
D) A corporation is usually managed by the owners.
Answer: A
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

17) Which of the following is a characteristic of a corporation?
A) A corporation is owned by stockholders.
B) Lenders of a corporation do not have the right to claim the corporation's assets to satisfy their obligations.
C) All shares of a corporation must be held by a single individual.
D) Each stockholder has the authority to commit the corporation to a binding contract through his/her actions.
Answer: A
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption
18) Which of the following actions determines when a corporation comes into existence?
A) The charter is obtained from the state.
B) The incorporators pay fees, sign the charter, and file required documents with the state.
C) The first share of stock is issued.
D) The corporate bylaws are written.
Answer: C
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

19) Regarding the separation of corporate ownership and management, which of the following is a true statement?
A) The corporate officers elect the board of directors.
B) The corporation runs better with day-to-day input from stockholders.
C) None of the stockholders have the ability to manage the business of the corporation.
D) Stockholders own the business, but a board of directors appoints corporate officers to manage the business.
Answer: D
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

20) Corporations pay their own income tax on corporate income. Stockholders pay personal income tax on the dividends received from corporations. This is an example of ________.
A) double taxation
B) continuous life
C) no mutual agency
D) a limited liability company
Answer: A
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

21) Which of the following statements is true of the corporate form of business?
A) The board of directors sets policy for the corporation and appoints the officers.
B) Changes in the ownership of stock has a negative effect on the continuity of the corporation.
C) Any stockholder may commit the corporation to a contract.
D) It is easy for stockholders to lodge an effective protest against management.
Answer: A
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption
22) Which of the following statements is true of a sole proprietorship?
A) A sole proprietorship joins two or more individuals as co-owners.
B) The sole proprietor is personally liable for the liabilities of the business.
C) A sole proprietorship is taxed separately from the owner.
D) A sole proprietorship has to pay business income taxes.
Answer: B
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

23) Which of the following is a characteristic of a limited-liability company (LLC)?
A) An LLC's life is terminated at any member's choice or death.
B) Each member of an LLC is liable only for his or her own actions.
C) An LLC must have more than five members.
D) The income of members from an LLC is not taxed.
Answer: B
Diff: 2
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

24) Caleb Brown has been the sole owner of a bicycle sales and repair shop for several years. Which of the following business types would limit Caleb's personal liability exposure to the entity's debts?
A) partnership
B) limited-liability company
C) sole proprietorship
D) limited-liability partnership
Answer: B
Diff: 2
LO: 1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption
25) David has decided to open an auto-detailing business. He will pick up an automobile from the client, take it to his parents’ garage, detail it, and return it to the client. If he does all of the work himself and takes no legal steps to form a special organization, which type of business organization, in effect, has he chosen?
A) A limited-liability company
B) A partnership
C) A corporation
D) A sole proprietorship
Answer: D
Diff: 2
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : The Economic Entity Assumption

26) In a limited-liability company, the ________.
A) members are personally liable to pay the entity’s debts
B) business pays income tax on earnings
C) members are liable for each other’s actions
D) members pay income tax on their share of earnings
Answer: D
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : The Economic Entity Assumption

27) The taxable income of a sole proprietorship is ________.
A) combined with the personal income of the proprietor
B) not combined with the proprietor's personal income
C) not taxable
D) handled similarly to that of a corporation
Answer: A
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : The Economic Entity Assumption
28) Joshua Thomas Corporation manufactures and retails computer hardware. The president of the corporation bought a new car as a gift for his daughter and paid for it using cash from the business. Since the corporation paid for the car, it was recorded in its books as an asset. Which of the following concepts or principles of accounting did the corporation violate?
   A) monetary unit assumption
   B) economic entity assumption
   C) cost principle
   D) going concern assumption
Answer: B
Diff: 2
LO: 1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

29) Which of the following statements is true of a corporation?
   A) Corporations pay the same variety of taxes as other forms of business.
   B) Although a corporation is a separate legal entity, it cannot be sued.
   C) Any stockholder of a corporation can commit the corporation to a binding contract.
   D) The owners of a corporation are called stockholders.
Answer: D
Diff: 2
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

30) The ultimate control of the corporation rests with the ________.
   A) board of directors
   B) stockholders
   C) chairperson
   D) chief operating officer
Answer: B
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

31) Johnson Company purchased land for $30,000. The president of Johnson Company believes that the land is actually worth $35,000. The land can be recorded at $35,000.
Answer: FALSE
Explanation: The cost principle states that acquired assets are recorded at their actual cost.
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Cost Principle
32) Since cost is a reliable measure, the cost principle holds that the accounting records should continue reporting an asset at its historical cost over its useful life.
Answer: TRUE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Cost Principle

33) According to the ________, acquired assets should be recorded at the amount actually paid rather than at the estimated market value.
A) going concern assumption
B) economic entity concept
C) cost principle
D) monetary unit assumption
Answer: C
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Cost Principle

34) Lorna Smith decided to start her own CPA practice as a professional corporation, Smith CPA PC. Her corporation purchased an office building for $35,000 that her real estate agent said was worth $50,000 in the current market. The corporation recorded the building as a $50,000 asset because Lorna believes that is the real value of the building. Which of the following concepts or principles of accounting is being violated?
A) cost principle
B) economic entity assumption
C) monetary unit assumption
D) going concern assumption
Answer: A
Diff: 1
LO: 1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle
35) Thirty years ago, Star Grocer Corporation purchased a building for its grocery store for $30,000. Based on inflation estimates, the amount of the building has been adjusted in the accounting records. The building is now reported at $75,000 in Star Grocer’s financial statements. Which of the following concepts or principles of accounting is being violated?
A) going concern assumption
B) revenue realization concept
C) economic entity assumption
D) cost principle
Answer: D
Diff: 2
LO: 1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle

36) Ten years ago a corporation purchased a building for $160,000. At that time, the corporation felt that the business was worth $185,000. The current market value of the business is $460,000. The building has been assessed at $435,000 for property tax purposes. At which amount should the corporation record the building in its accounting records?
A) $160,000
B) $185,000
C) $435,000
D) $460,000
Answer: A
Diff: 2
LO: 1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle

37) A business purchases a building for $250,000. The current market value is $375,000. The assessment value is $325,000. What value should the building be recorded at, and which accounting principle supports your answer?
Answer: The building should be recorded at the actual cost of $250,000. This is supported by the cost principle.
Diff: 1
LO: 1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle
38) Under the going concern principle, accountants must provide proof that the business will remain in operations long enough to use existing resources for their intended purpose.
Answer: FALSE
Explanation: Accountants base going concern on assumptions. Actual proof is not needed to make this determination.
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : The Going Concern Assumption

39) As per the ________, the entity will remain in operation for the foreseeable future.
A) economic entity concept
B) monetary unit assumption
C) going concern assumption
D) cost principle
Answer: C
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : The Going Concern Assumption

40) Accountants assume that the dollar's purchasing power is stable.
Answer: TRUE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : The Monetary Unit Assumption

41) Genity Corporation records business transactions in dollars and disregards changes in the value of a dollar over time. Which of the following accounting assumptions does this represent?
A) economic entity assumption
B) going concern assumption
C) accounting period assumption
D) monetary unit assumption
Answer: D
Diff: 1
LO: 1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : The Monetary Unit Assumption
42) International Financial Reporting Standards (IFRS) is the main U.S. accounting rule book and is currently created and governed by the Financial Accounting Standards Board.
Answer: FALSE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : International Financial Reporting Standards

43) A publicly traded company in the United States does not come under Securities and Exchange Commission regulations as long as it follows the rules of GAAP.
Answer: FALSE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : International Financial Reporting Standards

44) International Financial Reporting Standards are comparatively more specific and more rule-based than U.S. GAAP.
Answer: FALSE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : International Financial Reporting Standards

A) are the same as
B) are generally less specific than
C) are based less on principle than
D) leave less room for professional judgment than
Answer: B
Diff: 1
LO: 1-2
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2 : International Financial Reporting Standards
46) Which of the following statements, regarding International Financial Reporting Standards (IFRS), is correct?

A) International Financial Reporting Standards are issued by the Financial Accounting Standards Board.
B) The Securities and Exchange Commission is the private organization that oversees the creation and governance of International Financial Reporting Standards.
C) International Financial Reporting Standards represent a set of global accounting standards that are generally more specific and based less on principle than U.S. Generally Accepted Accounting Principles.
D) Companies who are incorporated in or do significant business in another country might be required to publish financial statements using International Financial Reporting Standards.

Answer: D
Diff: 1
LO: 1-2
AICPA Functional: Reporting
PE Question Type: Concept
H2 : International Financial Reporting Standards

47) The Public Company Accounting Oversight Board is a watchdog agency that monitors the work of independent accountants who audit public companies.

Answer: TRUE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Ethics in Accounting and Business

48) An examination of a company’s financial statements and records is called an audit.

Answer: TRUE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Ethics in Accounting and Business

49) The Sarbanes-Oxley Act (SOX) requires companies to review internal control and take responsibility for the accuracy and completeness of their financial reports.

Answer: TRUE
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Ethics in Accounting and Business
50) The Sarbanes-Oxley Act (SOX) ________.
A) requires independent accountants to take responsibility for the accuracy and completeness of the financial reports
B) created the SEC
C) ensures that financial scandals will no longer occur
D) requires companies to take responsibility for the accuracy and completeness of their financial reports
Answer: D
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Ethics in Accounting and Business

51) Which of the following organizations requires publicly owned companies to be audited by independent accountants (CPAs)?
A) Securities and Exchange Commission (SEC)
B) Public Company Accounting Oversight Board (PCAOB)
C) Financial Accounting Standards Board (FASB)
D) American Institute of Certified Public Accountants (AICPA)
Answer: A
Diff: 1
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Ethics in Accounting and Business

52) The Public Company Accounting Oversight Board (PCAOB) was created ________.
A) by the Sarbanes-Oxley Act (SOX)
B) to perform audits of public companies
C) to make restitution to investors who were defrauded by the issuance of fraudulent financial reports
D) to require auditors to take responsibility for the accuracy and completeness of financial reports
Answer: A
Diff: 2
LO: 1-2
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Ethics in Accounting and Business
Learning Objective 1-3

1) The left side of the accounting equation measures the amount that the business owes to creditors and to the stockholders.
Answer: FALSE
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

2) The total amount of assets a business possesses may or may not be equal to the total of liabilities and equity of the business.
Answer: FALSE
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

3) Which of the following is the correct accounting equation?
A) Assets + Liabilities = Equity
B) Assets = Liabilities + Equity
C) Assets + Revenues = Equity
D) Assets + Revenues = Liabilities + Expenses
Answer: B
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

4) The equity of Autumn Company is $160,000 and the total liabilities are $50,000. The total assets are ________.
A) $320,000
B) $100,000
C) $110,000
D) $210,000
Answer: D
Explanation: Assets = Liabilities + Equity
Assets = 160,000 + 50,000 = 210,000
Diff: 1
LO: 1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Accounting Equation? (H1)
5) Sunlight Company has assets and equity that amount to $200,000 and $90,000, respectively. Liabilities total ________.
A) $90,000
B) $110,000
C) $200,000
D) $290,000
Answer: B
Explanation: Liabilities = Assets - Equity
Liabilities = 200,000 - 90,000 = 110,000
Diff: 1
LO: 1-3
AICSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Accounting Equation? (H1)

6) The assets of Moon Company are $160,000 and the total liabilities are $60,000. The equity is ________.
A) $160,000
B) $220,000
C) $60,000
D) $100,000
Answer: D
Explanation: Equity = Assets - Liabilities
Equity = 160,000 - 60,000 = 100,000
Diff: 1
LO: 1-3
AICSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Accounting Equation? (H1)

7) What is the accounting equation? Briefly explain each of the three parts.
Answer: Assets = Liabilities + Equity.
Assets are economic resources that are expected to benefit the business in the future. They are things of value that a business owns or has control of. Liabilities are debts that are owed to creditors. They are one source of claims against assets. Equity is the other source of claims against assets. Equity is the stockholders’ claims against assets and is the amount of assets that is left over after the company has paid its liabilities. It represents the net worth of the corporation.
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

8) Assets are something of value that the business owns or has control of.
Answer: TRUE
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets
9) Assets are economic resources that have no future benefits for the business.
Answer: FALSE
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

10) The economic resources of a business such as furniture, building, and land are its _______.
A) liabilities
B) revenues
C) assets
D) dividends
Answer: C
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

11) Which of the following is true of assets?
A) Assets include cash, merchandise inventory, and accounts payable.
B) Assets are something of value the business owns or controls.
C) Assets do not need to provide future benefit to the business.
D) Assets can be recorded at the expected cost if acquired at a bargain.
Answer: B
Diff: 2
LO: 1-3
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Assets

12) Define assets. Provide three examples of assets.
Answer: Assets are economic resources that are expected to benefit the business in the future. Assets are something the business owns or has control of. Examples include cash, merchandise inventory, furniture, and land.
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets
13) Liabilities represent creditors' claims on the business's assets.
Answer: TRUE
Diff: 1
LO: 1-3
AACS: Interpersonal relations and teamwork
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

14) A creditor who has loaned money to a business has a claim to some of the assets of the business until the debt is paid.
Answer: TRUE
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

15) A debt that a business owes is called _______.
A) an asset
B) a liability
C) stockholders' equity
D) revenue
Answer: B
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

16) Equity increases when revenues are earned.
Answer: TRUE
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

17) Equity decreases with expenses and revenues.
Answer: FALSE
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity
18) Dividends are the expenses of a business.
Answer: FALSE
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Equity

19) The three types of events that affect retained earnings are dividends, revenues, and expenses.
Answer: TRUE
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Equity

20) Distribution of dividends represents increases in retained earnings.
Answer: FALSE
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Equity

21) Common stock represents the basic ownership of every corporation.
Answer: TRUE
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Equity

22) Jackson Plumbing Services earned $500 by completing a job for Smith Company. The $500 earned by Jackson Plumbing Services is its ________.
A) revenue
B) equity
C) gain
D) debt
Answer: A
Diff: 1
LO: 1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Equity
23) The owners' claims to the assets of the business are called ________.
A) return on assets
B) expenses
C) equity
D) debt
Answer: C
Diff: 1
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

24) Vista Camera Services started the year with total assets of $110,000 and total liabilities of $45,000. The revenues and the expenses for the year amounted to $120,000 and $90,000, respectively. During the year, the company did not issue any common stock, but it distributed dividends of $50,000. What is the amount of stockholders' equity at the end of the year?
A) $90,000
B) $120,000
C) $45,000
D) $50,000
Answer: C
Explanation:
Equity (ending balance) = Equity (beginning balance) - Dividends + Revenues - Expenses
Equity = ($110,000 - $45,000) - $50,000 + $120,000 - $90,000 = $45,000
Diff: 3
LO: 1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

25) Gatto Production Services started the year with total assets of $120,000 and total liabilities of $65,000. The revenues and the expenses for the year amounted to $110,000 and $50,000, respectively. During the year, the company did not issue any common stock, but it distributed dividends of $70,000. Calculate Gatto's net income for the year.
A) $60,000
B) $110,000
C) $50,000
D) $120,000
Answer: A
Explanation:
Net income = Revenues - Expenses
Net income = $110,000 - $50,000 = $60,000
Diff: 2
LO: 1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity
26) York Casting Services started the year with total assets of $110,000 and total liabilities of $50,000. The revenues and the expenses for the year amounted to $140,000 and $50,000, respectively. During the year, the company did not issue any common stock, but it distributed dividends of $70,000. Calculate the amount of increase or decrease in stockholders’ equity for the year.

A) a $20,000 increase  
B) a $80,000 increase  
C) a $60,000 decrease  
D) a $70,000 increase

Answer: A

Explanation:

Equity (at the beginning of the year) = $110,000 - $50,000 = $60,000

Equity (at the end of the year) = Equity (beginning balance) - Dividends + Revenues - Expenses

Equity (at the end of the year) = $60,000 - $70,000 + $140,000 - $50,000 = $80,000

Change in stockholders’ equity for the year = $80,000 - $60,000 = $20,000 increase

Diff: 2
LO: 1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Equity

27) The net income of Avid Camera Services is $20,000. The beginning and ending stockholders’ equity balances were $36,000 and $54,000, respectively. The company issued no common stock. Calculate the amount of dividends.

A) $12,000  
B) $2,000  
C) $16,000  
D) $15,000

Answer: B

Explanation:

Stockholders’ Equity Beginning Balance $36,000
Add: Net Income 20,000
Less: Stockholders’ Equity Ending Balance 54,000
Dividends $2,000

Diff: 2
LO: 1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Equity
28) _______ is the equity earned by profitable operations that is not distributed to stockholders.
A) Assets
B) Dividend
C) Retained earnings
D) Common stock
Answer: C
Diff: 2
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

29) Which of the following is true of retained earnings?
A) Retained earnings decrease with payment of dividends.
B) Retained earnings increase with purchase of assets.
C) Retained earnings decrease with collection of revenue.
D) Retained earnings increase with payment on account.
Answer: A
Diff: 2
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

30) Equity of a corporation is broken out into two components. Which of the following are the two components of the equity of a corporation?
A) current assets and fixed assets
B) common stock and liabilities
C) revenues and expenses
D) contributed capital and retained earnings
Answer: D
Diff: 2
LO: 1-3
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity
Learning Objective 1-4

1) A transaction is any event that affects the financial position of the business and can be easily estimated. Answer: FALSE
Explanation: A transaction is any event that affects the financial position of the business and can be measured reliably.
Diff: 1
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Analyze a Transaction? (H1)

2) Accountants record ________.
   A) economic recessions
   B) estimated future transactions
   C) a transaction or any event that affects the financial position of the business and can be measured with faithful representation
   D) the $20,000 increase in value of a building that actually cost $50,000 but could be sold for $70,000
Answer: C
Diff: 1
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Analyze a Transaction? (H1)

3) John contributed $6,000 to the business by opening a bank account in the name of the business, United Internists. The corporation issued common stock to John. This transaction results in an increase in the assets of the business.
Answer: TRUE
Diff: 1
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

4) For an accounting equation to balance, a transaction must affect both sides of the equation.
Answer: FALSE
Diff: 1
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning
5) Mary Williams contributed $50,000 cash to BCD Corporation in exchange for stock. As a result of this transaction, assets and revenues will increase.
Answer: FALSE
Explanation: Assets and equity will increase.
Diff: 1
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

6) A corporation purchased office supplies on account. As a result of this transaction, expenses and liabilities will increase.
Answer: FALSE
Explanation: Assets and liabilities increase.
Diff: 1
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

7) A law firm provides legal services for clients who do not pay immediately. There is no effect on the counting equation until the client pay for the services.
Answer: FALSE
Explanation: Assets and revenues are increased.
Diff: 1
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

8) A law firm provides legal services for clients who do not pay immediately. As a result of this transaction, assets and revenues increase.
Answer: TRUE
Diff: 1
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

9) An accounting firm collected cash on account. As a result of this transaction, assets and revenues increase.
Answer: FALSE
Explanation: The asset Cash increases and the asset Accounts Receivable decreases.
Diff: 1
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning
10) An accounting firm collected cash on account. As a result of this transaction, total assets, liabilities, and equity are all unchanged.
Answer: TRUE
Explanation: The asset Cash increases and the asset Accounts Receivable decreases. Liabilities and equity are not affected.
Diff: 1
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

11) Bubble Wraps Company receives cash from a stockholder, John Trent, and issues common stock to him. The two accounts involved in this transaction are ________.
A) Accounts Payable and Cash
B) Cash and Common Stock
C) Common Stock and Accounts Payable
D) Common Stock and Accounts Receivable
Answer: B
Diff: 1
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

12) Lush Lawns Corporation earned $1,000 for lawn mowing services rendered. The customer promised to pay at a later time. Which of the following accounts increased as a result of this transaction?
A) Accounts Payable
B) Supplies
C) Cash
D) Accounts Receivable
Answer: D
Diff: 2
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning
13) Aventis Company distributes cash dividends. How does this transaction affect the accounting equation?
A) The assets, liabilities, and equity remain the same.
B) The assets decrease and equity decreases.
C) The assets increase and liabilities decrease.
D) The assets decrease and equity increases.
Answer: B
Diff: 2
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Transaction Analysis for Smart Touch Learning

14) Hamilton Lawn Services incurred $800 as a repair expense and paid for it in cash. This transaction will ______.
A) decrease the stockholders' equity
B) increase the assets of the business
C) increase the liabilities of the business
D) decrease the liabilities of the business
Answer: A
Diff: 2
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Transaction Analysis for Smart Touch Learning

15) Harris Landscaping Services incurred $500 as a labor expense and promised to pay the labor agency within 30 days. Which of the following accounts will increase as a result of this transaction?
A) Accounts Receivable
B) Cash
C) Accounts Payable
D) Retained Earnings
Answer: C
Diff: 2
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Transaction Analysis for Smart Touch Learning
16) Wallace Repair Corporation incurred $1,500 as a labor expense and promised to pay the labor agency within 30 days. Which of the following will decrease as a result of this transaction?
A) Assets
B) Stockholders’ equity
C) Liabilities
D) Revenues
Answer:  B
Diff: 2
LO:  1-4
AACSB:  Application of knowledge
AICPA Functional:  Measurement
PE Question Type:  Application
H2 :  Transaction Analysis for Smart Touch Learning

17) Marsh Supply Services paid $350 cash to a materials supplier, the amount owed from the previous month. Which of the following accounts decreases?
A) Accounts Receivable
B) Accounts Payable
C) Retained Earnings
D) Office Supplies
Answer:  B
Diff: 2
LO:  1-4
AACSB:  Application of knowledge
AICPA Functional:  Measurement
PE Question Type:  Application
H2 :  Transaction Analysis for Smart Touch Learning

18) Fitch Supply Services received $1,000 cash from a customer; the amount was owed to the business from the previous month. What is the effect of this transaction on the accounting equation?
A) Accounts Receivable increases and Service Revenue increases
B) Cash increases and Accounts Receivable decreases
C) Cash increases and Service Revenue increases
D) Cash increases and Accounts Payable decreases
Answer:  B
Diff: 2
LO:  1-4
AACSB:  Application of knowledge
AICPA Functional:  Measurement
PE Question Type:  Application
H2 :  Transaction Analysis for Smart Touch Learning
19) Homeward Supply Services received $1,000 cash from a customer; the amount was owed to the business from the previous month. Which of the following accounts will decrease as a result of this transaction?
A) Cash
B) Revenue
C) Accounts Payable
D) Accounts Receivable
Answer: D
Diff: 2
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Transaction Analysis for Smart Touch Learning

20) Ace, Inc. had the following transactions during June:
Performed services for $5,000 on account; received cash on account, $7,000; paid $600 for repair expense; paid $2,000 to a supplier that it owed from the previous month. What is the combined effect on Cash of the June transactions?
A) $4,400 increase
B) $4,400 decrease
C) $7,000 increase
D) $2,600 decrease
Answer: A
Explanation: Cash = $7,000 - $600 - $2,000 = $4,400 increase
Diff: 3
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Transaction Analysis for Smart Touch Learning

21) Venus, Inc. paid $12,000 on accounts payable. How does this transaction affect the accounting equation of Venus?
A) assets decrease by $12,000 and equity increases by $12,000
B) assets decrease by $12,000 and liabilities decrease by $12,000
C) assets increase by $12,000 and equity decreases by $12,000
D) assets increase by $12,000 and liabilities increase by $12,000
Answer: B
Diff: 2
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Transaction Analysis for Smart Touch Learning

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22) Myers Landscaping Corporation performs lawn mowing services for its customers. Payments for the current month's services are expected to be received next month. How does this transaction affect the accounting equation of Myers Landscaping?
A) liabilities increase and equity decreases
B) assets and equity increase
C) assets and equity decrease
D) liabilities and equity increase
Answer: B
Diff: 2
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

23) Zetom Company receives a bill from one of its suppliers for services received and will pay the supplier next month. How does the receipt of the bill from the supplier affect the accounting equation of Zetom?
A) assets and equity decrease
B) liabilities increase and equity decreases
C) assets and liabilities increase
D) liabilities and equity increase
Answer: B
Diff: 2
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

24) Bliss Corporation settles a liability by making a payment in cash. How does paying this liability affect the accounting equation of the business?
A) assets and liabilities decrease
B) liabilities decrease and equity increases
C) assets and liabilities increase
D) assets increase and equity decreases
Answer: A
Diff: 2
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning
25) Murphy Corporation had originally purchased land for $38,000. It later sold it for $38,000 in cash. Which of the following is true of the effect of the sale of land on the accounting equation?

A) assets increase and liabilities decrease by $38,000
B) assets and equity increase by $76,000
C) assets increase by $38,000; equity increases by $38,000
D) the amount of total assets remains the same

Answer: D
Diff: 2
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Transaction Analysis for Smart Touch Learning

26) Accord Corporation purchased land for $100,000 by making a cash payment of $30,000 and promising to pay the remaining amount in a later accounting period. What is the net effect of this transaction on Accord’s accounting equation?

A) assets increase by $100,000 and liabilities decrease by $30,000
B) assets increase by $100,000 and liabilities decrease by $70,000
C) assets and equity increase by $70,000
D) assets and liabilities increase by $70,000

Answer: D
Diff: 3
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Transaction Analysis for Smart Touch Learning

27) Exchange Corporation collected $8,000 from one of its customers, the amount owed from the previous month. How does this affect the accounting equation for Exchange?

A) assets increase by $8,000; liabilities decrease by $8,000
B) assets increase by $8,000; assets decrease by $8,000
C) assets increase by $8,000; liabilities increase by $8,000
D) assets increase by $8,000; equity increases by $8,000

Answer: B
Diff: 2
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Transaction Analysis for Smart Touch Learning
28) Star Homes Corporation just recorded a transaction in its books. If this transaction increased the total liabilities by $12,000, then ________.
A) assets must increase, or equity must decrease by $12,000
B) either assets or equity must decrease by $12,000
C) both assets and equity must each decrease by $6,000
D) assets must decrease by $12,000
Answer: A
Diff: 3
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

29) Which of the following can be an effect of a transaction that increased an asset of a corporation for the accounting equation to balance?
A) there is an equal decrease in another asset
B) there is an equal decrease in equity
C) there is an equal decrease in a liability account
D) both liabilities and equity decrease
Answer: A
Diff: 2
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning
30) Reliable Waterworks Corporation provides plumbing services. Transactions of Reliable Waterworks during the first year of operations are given below.

a) Received $11,000 cash and issued common stock to Sharon.
b) Paid $2,000 for equipment to be used for plumbing repairs.
c) Borrowed $10,000 from a local bank and deposited the money in the checking account.
d) Paid $300 in rent for the year.
e) Paid $200 for plumbing supplies to be used on various jobs next year.
f) Completed a plumbing repair for a law firm and received $3,000.

Calculate the amount of total assets at the end of the first year. Assume the plumbing supplies of $3,000 are left at the end of the year.
A) $2,200
B) $2,000
C) $21,000
D) $23,700
Answer: D

Explanation:
Cash  ($11,000 + $10,000 + $3,000 - $2,000 - $300 - $200)  $21,500
Equipment  2,000
Supplies  200
Total assets  $23,700

Diff: 3
LO: 1-4
AACSBS: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning
31) Merchant Corporation provides plumbing services. Transactions of Merchant during the first year of operations are given below.

a) Received $12,000 cash and issued common stock to Sharon.
b) Paid $1,600 cash for equipment to be used for plumbing repairs.
c) Borrowed $14,000 from a local bank and deposited the money in the checking account.
d) Paid $600 rent for the year.
e) Purchased $200 of office supplies by cash.
f) Completed a plumbing repair project for a local lawyer and received $3,000 cash.

Calculate the amount of total liabilities at the end of the first year.
A) $14,000
B) $12,000
C) $24,400
D) $3,000
Answer: A
Explanation: Borrowings from bank = $14,000
Diff: 2
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Transaction Analysis for Smart Touch Learning

32) Crusoe Waterworks Corporation provides plumbing services. Transactions of Crusoe Waterworks during the first year of operations are given below.

a) Received $4,000 cash and issued common stock to Robinson.
b) Paid $3,000 cash for equipment to be used for plumbing repairs.
c) Borrowed $27,000 from a local bank and deposited the money in the checking account.
d) Paid $900 rent for the year.
e) Purchased $1,000 of office supplies on account.
f) Completed a plumbing repair project for a local lawyer and received $3,200 cash.

Calculate the amount of total stockholders' equity after recording the transactions. Assume office supplies of $1,000 are left at the end of the year.
A) $6,300
B) $3,200
C) $4,000
D) $27,000
Answer: A
Explanation:
Equity (ending) = Common Stock – Dividends + Revenues - Expenses
Stockholders’ Equity = $4,000 + $3,200 - $900 = $6,300
Diff: 3
LO: 1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Transaction Analysis for Smart Touch Learning
33) Glendale Corporation had the following transactions in August:

Earned $5,000 of revenues on account; collected $5,000 from a customer for services provided last month; incurred $500 of repair expense and paid cash; paid $600 for rent that it owed from the previous month.

What is the net income in August?
A) $500
B) $5,000
C) $9,500
D) $4,500
Answer: D
Explanation: Net income = Revenue - Expenses = $5,000 - $500 = $4,500.
Diff: 3
LO: 1-4
AICSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

34) ________ represent the right to receive cash in the future from customers for goods sold or for services performed.
A) Accounts Receivable
B) Accounts Payable
C) Equity
D) Expenses
Answer: A
Diff: 1
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

35) ________ represents a short-term liability created by purchasing "on account."
A) Accounts Receivable
B) Notes Payable
C) Accounts Payable
D) Expenses
Answer: C
Diff: 1
LO: 1-4
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning
36) Indicate the effects on the accounting equation of the following business transactions of Smith Service Corporation for b) to d) below. Use proper account titles. Transaction a) is answered as a guide.

a) Received cash from Don Jones; issued common stock to him.
   Answer: Increase asset (Cash); Increase equity (Common Stock)

b) Purchased equipment; signed a note payable.
c) Performed services for a customer on account.
d) At the end of the first month, paid office rent.
   Answer:
   b) Increase asset (Equipment); Increase liability (Note Payable)
c) Increase asset (Accounts Receivable); Increase equity (Service Revenue)
d) Decrease equity (Rent Expense); Decrease asset (Cash)
   Diff: 1
   LO: 1-4
   AACSB: Application of knowledge
   AICPA Functional: Measurement
   PE Question Type: Application
   H2: Transaction Analysis for Smart Touch Learning

37) Indicate the effects on the accounting equation of the following business transactions of Mayflower Service Corporation for b) to d) below. Use proper account titles. Transaction a) is answered as a guide.

a) Received cash from Don Jones; issued common stock to him.
   Answer: Increase asset (Cash); Increase equity (Common Stock)

b) Received cash from a customer on accounts receivable.
c) Paid cash dividends to stockholders.
d) Paid cash on accounts payable.
   Answer:
   b) Increase asset (Cash); Decrease asset (Accounts Receivable)
c) Decrease asset (Cash); Decrease equity (Dividend)
d) Decrease asset (Cash); Decrease liability (Accounts Payable)
   Diff: 1
   LO: 1-4
   AACSB: Application of knowledge
   AICPA Functional: Measurement
   PE Question Type: Application
   H2: Transaction Analysis for Smart Touch Learning
38) Analyze each of the following transactions in terms of their effects on the accounting equation of Hawkins Delivery Service. Enter the correct amounts in the columns of the spreadsheet.

a) James Hawkins contributes $75,000 to the business. The business issues common stock to James.
b) The business purchases $750 of office supplies on account.
c) The business pays cash to purchase a delivery van for $25,000.
d) Services are performed for clients and $5,000 cash is received.
e) Cash is paid for office rent expense, $800 and utilities expense, $400.
f) Cash dividends of $1,000 are paid to stockholders.

<table>
<thead>
<tr>
<th>Cash</th>
<th>Accounts Receivable</th>
<th>Office Supplies</th>
<th>Assets Delivery Van</th>
<th>Liabilities Accounts Payable</th>
<th>Common Stock</th>
<th>Dividends</th>
<th>Equity Service Revenue</th>
<th>Rent Expense</th>
<th>Utilities Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>75000</td>
<td>750</td>
<td>25000</td>
<td>750</td>
<td>75000</td>
<td>5000</td>
<td>1000</td>
<td>800</td>
<td>400</td>
</tr>
<tr>
<td>b)</td>
<td>5000</td>
<td>500</td>
<td>1200</td>
<td>300</td>
<td>75000</td>
<td>5000</td>
<td>1000</td>
<td>800</td>
<td>400</td>
</tr>
<tr>
<td>c)</td>
<td>(25000)</td>
<td>750</td>
<td>25000</td>
<td>750</td>
<td>75000</td>
<td>5000</td>
<td>1000</td>
<td>800</td>
<td>400</td>
</tr>
<tr>
<td>d)</td>
<td>5000</td>
<td>500</td>
<td>1200</td>
<td>300</td>
<td>75000</td>
<td>5000</td>
<td>1000</td>
<td>800</td>
<td>400</td>
</tr>
<tr>
<td>e)</td>
<td>(1000)</td>
<td>750</td>
<td>25000</td>
<td>750</td>
<td>75000</td>
<td>5000</td>
<td>1000</td>
<td>800</td>
<td>400</td>
</tr>
<tr>
<td>f)</td>
<td>5000</td>
<td>500</td>
<td>1200</td>
<td>300</td>
<td>75000</td>
<td>5000</td>
<td>1000</td>
<td>800</td>
<td>400</td>
</tr>
</tbody>
</table>

Diff: 2
LO: 1-4
AACS8: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning
Learning Objective 1-5

1) Financial statements are business documents used to communicate information needed to make business decisions.
Answer: TRUE
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : How Do You Prepare Financial Statements? (H1)

2) Which of the following statements best defines financial statements?
A) Financial statements are the information systems that record monetary and nonmonetary business transactions.
B) Financial statements are the verbal statements made to business news organizations by chief financial officers.
C) Financial statements are documents that report on a business in monetary terms, providing information to help people make informed business decisions.
D) Financial statements are plans and forecasts for future time periods based on information from past financial periods.
Answer: C
Diff: 2
LO: 1-5
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2 : How Do You Prepare Financial Statements? (H1)

3) Which of the following is the correct order of preparation of financial statements?
A) Income statement → statement of retained earnings → balance sheet → statement of cash flows
B) Statement of retained earnings → balance sheet → income statement → statement of cash flows
C) Balance sheet → statement of retained earnings → income statement → statement of cash flows
D) Balance sheet → income statement → statement of retained earnings → statement of cash flows
Answer: A
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : How Do You Prepare Financial Statements? (H1)
4) Prepare an income statement and a statement of retained earnings for the month of May. Also, prepare a balance sheet as of May 31, 2017, for McGuire Corporation. The financial transactions of McGuire Corporation for the month of May, their first month of operations, are as follows:

- On May 1, 2017, McGuire Corporation issued common stock in exchange for $20,000 cash from a stockholder, Deborah Merchant.
- On May 3, the corporation borrowed $5,000 from a creditor and executed a note payable with the principal and interest to be due in one year.
- On May 7, the corporation purchased $15,000 of equipment for cash.
- On May 8, McGuire Corporation rendered service to a client and earned $3,000 in cash.
- On May 12, the corporation incurred a repair expense of $1,800 and promised to pay the repair contractor the following month.
- On May 18, the corporation rendered service to a new client in the amount of $8,000 on account, as the client promised to pay the following month.
- At the end of May, McGuire Corporation distributed cash dividends of $1,500.
Answer:

McGuire Corporation  
Income Statement  
Month Ended May 31, 2017

Revenues:  
Service Revenue $11,000

Expenses:  
Repair Expense $1,800
Total Expenses 1,800
Net Income $ 9,200

McGuire Corporation  
Statement of Retained Earnings  
Month Ended May 31, 2017

Retained Earnings, May 1, 2017 $0  
Net Income for the month 9,200  
9,200  
Dividends (1,500)  
Retained Earnings, May 31, 2017 $ 7,700

McGuire Corporation  
Balance Sheet  
May 31, 2017

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash $11,500</td>
<td>Accounts Payable $1,800</td>
</tr>
<tr>
<td>Accounts Receivable 8,000</td>
<td>Notes Payable 5,000</td>
</tr>
<tr>
<td>Equipment 15,000</td>
<td>Total Liabilities 6,800</td>
</tr>
</tbody>
</table>

**Stockholders’ Equity**

Common Stock 20,000  
Retained Earnings 7,700  
Total Stockholders’ Equity 27,700

Total Assets $34,500  
Total Liabilities and Stockholders’ Equity $34,500
Note:
Calculation of cash balance, May 31, 2017:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock issued</td>
<td>$20,000</td>
</tr>
<tr>
<td>Borrowing from creditor</td>
<td>5,000</td>
</tr>
<tr>
<td>Service fees received</td>
<td>3,000</td>
</tr>
<tr>
<td>Receipts</td>
<td>28,000</td>
</tr>
<tr>
<td><strong>Less payments:</strong></td>
<td></td>
</tr>
<tr>
<td>Purchase of equipment</td>
<td>(15,000)</td>
</tr>
<tr>
<td>Dividends</td>
<td>(1,500)</td>
</tr>
<tr>
<td><strong>Cash balance, May 31, 2017</strong></td>
<td>$11,500</td>
</tr>
</tbody>
</table>

Diff: 3
LO: 1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Prepare Financial Statements? (H1)

5) Prepare an income statement and a statement of retained earnings for the month of June. Also, prepare a balance sheet at June 30. The transactions of Magna Designer Corporation for the first month of their operations are as follows:

- On June 1, 2017, Magna Designer Corporation received $25,000 cash from its stockholders and gave common stock to the stockholders.
- The company rendered services to three clients on account with total revenues earned of $9,000.
- It then incurred an advertising expense on four different websites and promised to pay a total of $1,200 at a later date.
- On June 13, Magna Designers purchased $1,000 worth of office supplies for cash. (The supplies are not used by June 30.)
- On June 22, it received $2,000 on account from a client and deposited it into the business account.
- On June 23, it incurred $1,300 for a legal expense and paid cash.
- On June 30, Magna Designers made a payment of $500 to one of the websites that it owed for advertising provided earlier in the month.
- No dividends were paid during the month.
Magna Designer Corporation

Income Statement
Month Ended June 30, 2017

Revenues:
- Service Revenue: $9,000

Expenses:
- Advertising Expense: $1,200
- Legal Expense: $1,300
  - Total Expenses: $2,500

Net Income: $6,500

Magna Designer Corporation

Statement of Retained Earnings
Month Ended June 30, 2017

Retained Earnings, June 1, 2017: $0
Net Income for the month: $6,500
Dividends: $0
Retained Earnings, June 30, 2017: $6,500

Magna Designer Corporation

Balance Sheet
June 30, 2017

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
<th>Stockholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Accounts Payable</td>
<td></td>
</tr>
<tr>
<td>$24,200</td>
<td>$700</td>
<td></td>
</tr>
<tr>
<td>Account Receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7,000</td>
<td></td>
<td>25,000</td>
</tr>
<tr>
<td>Office Supplies</td>
<td></td>
<td>Retained Earnings</td>
</tr>
<tr>
<td>1,000</td>
<td></td>
<td>6,500</td>
</tr>
<tr>
<td>Total Assets</td>
<td>Total Liabilities and Stockholders' Equity</td>
<td></td>
</tr>
<tr>
<td>$32,200</td>
<td>$32,200</td>
<td></td>
</tr>
</tbody>
</table>
Note:
Calculation of cash balance, June 30, 2017

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock issued</td>
<td>$25,000</td>
</tr>
<tr>
<td>Service fees received</td>
<td>2,000</td>
</tr>
<tr>
<td>Receipts</td>
<td>27,000</td>
</tr>
<tr>
<td>Less payments:</td>
<td></td>
</tr>
<tr>
<td>Legal expense</td>
<td>(1,300)</td>
</tr>
<tr>
<td>Office supplies</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Advertising expenses</td>
<td>(500)</td>
</tr>
<tr>
<td>Cash balance, June 30, 2017</td>
<td>$24,200</td>
</tr>
</tbody>
</table>

Diff: 3
LO: 1-5

AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Prepare Financial Statements? (H1)

6) The income statement also is called the statement of financial position.
Answer: FALSE

Diff: 1
LO: 1-5

AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

7) The income statement presents a summary of an entity’s revenues and expenses for a period of time.
Which of the following statements is true of an income statement?
A) There is net income when total expenses are greater than total revenues.
B) There is a net loss when total expenses are less than total revenue.
C) There is a net loss when total expenses are greater than total liabilities.
D) There is net income when total revenues are greater than total expenses.

Answer: D

Diff: 1
LO: 1-5

AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement
8) Which of the following financial statements reports expenses in decreasing order of their amounts, by stating the largest expense first?
A) Statement of cash flows  
B) Income statement  
C) Statement of retained earnings  
D) Balance sheet  
Answer: B  
Diff: 1  
LO: 1-5  
AICPA Functional: Measurement  
PE Question Type: Concept  
H2: Income Statement

9) Best Plumbing Corporation provides plumbing services. Selected transactions of Best Plumbing Corporation are described as follows:

a) Received $9,000 cash and issued common stock to Sharon.  
b) Paid $5,000 cash for equipment to be used for plumbing repairs.  
c) Borrowed $10,000 from a local bank and deposited the money in the checking account.  
d) Paid $900 rent for the year.  
e) Paid $400 cash for plumbing supplies to be used next year.  
f) Completed a plumbing repair project for a local lawyer and received $4,000 cash.  

Calculate the net income. Assume plumbing supplies of $400 are left.
A) $500  
B) $3,600  
C) $4,000  
D) $3,100  
Answer: D  
Explanation:  
Net income = Revenues - Expenses  
Net income = $4,000 - $900 = $3,100  
Diff: 3  
LO: 1-5  
AACSB: Application of knowledge  
AICPA Functional: Measurement  
PE Question Type: Application  
H2: Income Statement
10) Following is a list of account balances of Morris Mowing Services as of December 31 of the first year of operations.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>$6,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>7,000</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>6,000</td>
</tr>
<tr>
<td>Repairs Expense</td>
<td>900</td>
</tr>
<tr>
<td>Truck</td>
<td>12,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>9,000</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>24,000</td>
</tr>
<tr>
<td>Cash</td>
<td>12,000</td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>9,000</td>
</tr>
<tr>
<td>Service Revenue</td>
<td>24,000</td>
</tr>
<tr>
<td>Gasoline Expense</td>
<td>7,100</td>
</tr>
<tr>
<td>Salaries Payable</td>
<td>1,500</td>
</tr>
</tbody>
</table>

Calculate the net income.
A) $1,000
B) $31,300
C) $2,800
D) $34,100

Answer: A

Explanation:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Revenue</td>
<td>$24,000</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Repairs Expense</td>
<td>(900)</td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>(9,000)</td>
</tr>
<tr>
<td>Gasoline Expense</td>
<td>(7,100)</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td><strong>$1,000</strong></td>
</tr>
</tbody>
</table>

Diff: 2

LO: 1-5

AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application

H2: Income Statement
11) The total assets and the total liabilities of Smart Financial Services are shown below. The company issued no common stock and paid no dividends during the year.

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>$405,000</td>
<td>$270,000</td>
</tr>
<tr>
<td>End of year</td>
<td>455,000</td>
<td>300,000</td>
</tr>
</tbody>
</table>

What was the amount of net income for the year?
A) $50,000  
B) $30,000  
C) $20,000  
D) $80,000

Answer: C

Explanation:
Calculations:

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>End of year total</td>
<td>$455,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>Less: beginning of year total</td>
<td>(405,000)</td>
<td>(270,000)</td>
</tr>
<tr>
<td>Increase or (decrease)</td>
<td>$50,000</td>
<td>$30,000</td>
</tr>
</tbody>
</table>

Net increase or (decrease) = $50,000 - $30,000 = $20,000

Diff: 3

LO: 1-5  
AACS8: Application of knowledge  
AICPA Functional: Measurement  
PE Question Type: Application  
H2: Income Statement
12) Jeffery Company has just completed operations for the year ended December 31, 2016. This is the second year of operations for the company. The following data have been assembled for the business.

<table>
<thead>
<tr>
<th>Accounts Payable</th>
<th>$12,200</th>
<th>Office Expense</th>
<th>$6,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>14,500</td>
<td>Rent Expense</td>
<td>9,600</td>
</tr>
<tr>
<td>Cash</td>
<td>8,200</td>
<td>Retained Earnings, Jan. 1, 2016</td>
<td>8,300</td>
</tr>
<tr>
<td>Common Stock</td>
<td>9,000</td>
<td>Salaries Expense</td>
<td>36,000</td>
</tr>
<tr>
<td>Dividends</td>
<td>13,500</td>
<td>Service Revenue</td>
<td>84,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>15,000</td>
<td>Utilities Expense</td>
<td>6,200</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Prepare the income statement. Use a proper heading.

Answer:

Jeffery Company
Income Statement
Year Ended December 31, 2016

Revenues:
Service Revenue $84,000

Expenses:
Insurance Expense $4,000
Office Expense 6,500
Rent Expense 9,600
Salaries Expense 36,000
Utilities Expense 6,200
Total Expenses 62,300

Net Income $21,700

Diff: 3
LO: 1-5
AACS: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

13) By looking at a statement of retained earnings, the effect of dividends on the ending balance of retained earnings can be determined.

Answer: TRUE
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings
14) The balance of stockholders’ equity at the beginning of the year and the end of the year was $50,000 and $60,000, respectively. The company issued no common stock during the year. Dividends were $20,000. What was the net income or loss for the year?
A) Net income of $80,000
B) Net loss of $80,000
C) Net loss of $30,000
D) Net income of $30,000
Answer: D
Explanation:
Stockholders’ equity at the end of the year $60,000
Add: Dividends 20,000
$80,000
Less: Stockholders’ equity at the beginning of the year (50,000)
Net income 30,000
Diff: 2
LO: 1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Statement of Retained Earnings

15) The net income of Edwards Corporation amounted to $73,000 for this year. The beginning balance of stockholders’ equity was $30,000 and the ending balance was $70,000. The company issued no common stock during the year. What was the amount of dividends distributed during the year?
A) $70,000
B) $33,000
C) $143,000
D) $30,000
Answer: B
Explanation:
Stockholders’ equity, beginning balance $30,000
Add:
Stock issued during the year 0
Net income 73,000
Less: Stockholders’ equity, ending balance (70,000)
Dividends $33,000
Diff: 2
LO: 1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Statement of Retained Earnings
16) Which of the following transactions will affect the balance of Retained Earnings?
A) issued common stock for cash
B) paid rent expense for the month
C) purchased land for cash
D) collection on account
Answer: B
Diff: 2
LO: 1-5
AACS: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Statement of Retained Earnings

17) In a statement of retained earnings, decreases in retained earnings result from ________.
A) issuance of stock
B) net losses
C) net income
D) revenues earned
Answer: B
Diff: 2
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Statement of Retained Earnings

18) The amount of net income is transferred from ________ to ________.
A) the income statement; the statement of retained earnings
B) the balance sheet; the statement of cash flows
C) the balance sheet; the income statement
D) the income statement; the statement of expenditures
Answer: A
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Statement of Retained Earnings

19) Which of the following appears on both the income statement and statement of retained earnings?
A) Ending stockholders’ equity
B) Total revenues
C) Net income
D) Dividends
Answer: C
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Statement of Retained Earnings
20) Which of the following financial statements shows the dividends distributed to stockholders?
A) Income statement
B) Statement of retained earnings
C) Budgeted balance sheet
D) Balance sheet
Answer: B
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings

21) Marisol Company has just completed operations for the year ended December 31, 2016. This is the second year of operations for the company. The following data have been assembled for the business.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$ 12,200</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>14,500</td>
</tr>
<tr>
<td>Cash</td>
<td>8,200</td>
</tr>
<tr>
<td>Common Stock</td>
<td>9,000</td>
</tr>
<tr>
<td>Dividends</td>
<td>13,500</td>
</tr>
<tr>
<td>Equipment</td>
<td>15,000</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>4,000</td>
</tr>
<tr>
<td>Office Expense</td>
<td>$ 6,500</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>9,600</td>
</tr>
<tr>
<td>Retained Earnings, Jan. 1, 2016</td>
<td>8,300</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>36,000</td>
</tr>
<tr>
<td>Service Revenue</td>
<td>84,000</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>6,200</td>
</tr>
</tbody>
</table>

Prepare the statement of retained earnings. Use a proper heading.
Answer:

Marisol Company
Statement of Retained Earnings
Year Ended December 31, 2016

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retained Earnings, January 1, 2016</td>
<td>$ 8,300</td>
</tr>
<tr>
<td>Net Income for the month</td>
<td>21,700</td>
</tr>
<tr>
<td>Dividends</td>
<td>(13,500)</td>
</tr>
<tr>
<td>Retained Earnings, December 31, 2016</td>
<td>$ 16,500</td>
</tr>
</tbody>
</table>

Diff: 3
LO: 1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Statement of Retained Earnings

22) The balance sheet of a business summarizes an entity’s revenues and expenses.
Answer: FALSE
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet
23) The heading of a balance sheet will show the date as a specific date, not a period of time.
Answer: TRUE
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

24) The balance sheet is a snapshot of the entity. Which of the following is included on the balance sheet?
A) Revenues
B) Expenses
C) Assets
D) Dividends
Answer: C
Diff: 1
LO: 1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

25) Which financial statement includes a specific date in its heading?
A) Statement of retained earnings
B) Statement of cash flows
C) Income statement
D) Balance sheet
Answer: D
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

26) Which of the following financial statements reports that total assets are equal to total liabilities plus total stockholders' equity?
A) Statement of retained earnings
B) Statement of cash flows
C) Income statement
D) Balance sheet
Answer: D
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet
27) Which of the following appears on both the statement of retained earnings and the balance sheet?
A) Ending retained earnings
B) Total assets
C) Total revenues
D) Net income
Answer: A
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

28) Which of the following financial statements lists the entity's assets, liabilities, and stockholders' equity as of a specific date?
A) Balance sheet
B) Statement of retained earnings
C) Income statement
D) Statement of cash flows
Answer: A
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet
29) Following is an extract of account balances of Wilson Mowing Services as of December 31 of the first year of operation.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>$4,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>7,000</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>5,000</td>
</tr>
<tr>
<td>Repairs Expense</td>
<td>500</td>
</tr>
<tr>
<td>Truck</td>
<td>8,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>8,000</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>8,100</td>
</tr>
<tr>
<td>Cash</td>
<td>7,300</td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>1,500</td>
</tr>
<tr>
<td>Service Revenue</td>
<td>31,000</td>
</tr>
<tr>
<td>Gasoline Expense</td>
<td>3,900</td>
</tr>
<tr>
<td>Salaries Payable</td>
<td>100</td>
</tr>
</tbody>
</table>

What is the amount of total assets at the end of the year?

A) $12,000  
B) $27,300  
C) $16,000  
D) $23,300

Answer: B

Explanation:

Accounts Receivable $4,000  
Truck 8,000  
Equipment 8,000  
Cash 7,300  
Total assets $27,300

Diff: 2

LO: 1-5

AACSB: Application of knowledge  
AICPA Functional: Measurement  
PE Question Type: Application  
H2: Balance Sheet
30) Following is a list of account balances of Suburban Lawn Services as of December 31 of the first year of operation.

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>$4,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$6,000</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>$7,000</td>
</tr>
<tr>
<td>Repairs Expense</td>
<td>$600</td>
</tr>
<tr>
<td>Truck</td>
<td>$10,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>$9,000</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>$8,300</td>
</tr>
<tr>
<td>Cash</td>
<td>$7,200</td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>$1,500</td>
</tr>
<tr>
<td>Service Revenue</td>
<td>$31,000</td>
</tr>
<tr>
<td>Gasoline Expense</td>
<td>$3,100</td>
</tr>
<tr>
<td>Salaries Payable</td>
<td>$300</td>
</tr>
</tbody>
</table>

What is the amount of total liabilities at the end of the year?
A) $14,600  
B) $26,800  
C) $23,700  
D) $14,300

Answer: A

Explanation:
Accounts Payable $6,000
Notes Payable $8,300
Salaries Payable $300
Total liabilities $14,600

Diff: 2
LO: 1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet
31) Felix Company has just completed operations for the year ended December 31, 2016. This is the second year of operations for the company. The following data have been assembled for the business.

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$ 12,200</td>
<td>Office Expense</td>
<td>$ 6,500</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>14,500</td>
<td>Rent Expense</td>
<td>9,600</td>
</tr>
<tr>
<td>Cash</td>
<td>8,200</td>
<td>Retained Earnings, Jan. 1, 2016</td>
<td>8,300</td>
</tr>
<tr>
<td>Common Stock</td>
<td>9,000</td>
<td>Salaries Expense</td>
<td>36,000</td>
</tr>
<tr>
<td>Dividends</td>
<td>13,500</td>
<td>Service Revenue</td>
<td>84,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>15,000</td>
<td>Utilities Expense</td>
<td>6,200</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Prepare the balance sheet. Use a proper heading.

Answer:

Felix Company
Balance Sheet
December 31, 2016

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Accounts Payable</td>
</tr>
<tr>
<td></td>
<td>$8,200</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Total Liabilities</td>
</tr>
<tr>
<td></td>
<td>14,500</td>
</tr>
<tr>
<td>Equipment</td>
<td>15,000</td>
</tr>
<tr>
<td>Total Assets</td>
<td>Total Liabilities and Stockholders' Equity</td>
</tr>
<tr>
<td></td>
<td>$37,700</td>
</tr>
</tbody>
</table>

Stockholders' Equity

<table>
<thead>
<tr>
<th>Stockholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock</td>
</tr>
<tr>
<td>9,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
</tr>
<tr>
<td>16,500</td>
</tr>
<tr>
<td>Total Stockholders' Equity</td>
</tr>
<tr>
<td>25,500</td>
</tr>
</tbody>
</table>

Diff: 3
LO: 1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2 : Balance Sheet

32) Financial statements are prepared after an entity’s transactions are analyzed and recorded. Which of the following reports is one of the required financial statements?

A) Statement of cash flows
B) Statement of return on assets
C) Statement of dividends
D) Expense statement

Answer: A
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Statement of Cash Flows
33) Which of the following financial statements reports cash receipts and cash payments during a period of time?
A) Statement of cash flows
B) Balance sheet
C) Cash receipts budget
D) Statement of retained earnings
Answer: A
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Statement of Cash Flows

34) Which of the following financial statements reports an increase or decrease in net cash during the time period covered?
A) Income statement
B) Statement of retained earnings
C) Statement of cash flows
D) Cash budget
Answer: C
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Statement of Cash Flows

35) Which of the following will be categorized as an operating activity on the statement of cash flows?
A) Cash received by selling old equipment
B) Cash paid for purchase of new machinery
C) Cash paid for purchase of office supplies
D) Cash received from issuance of shares of common stock
Answer: C
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Statement of Cash Flows

36) Which of the following will be categorized as a financing activity on the statement of cash flows?
A) Cash received by selling old equipment
B) Cash paid for purchase of new machinery
C) Cash paid for purchase of office supplies
D) Cash received from issuance of shares of common stock
Answer: D
Diff: 1
LO: 1-5
AICPA Functional: Measurement
PE Question Type: Concept
H2 : Statement of Cash Flows
37) Which of the following will be categorized as an investing activity on the statement of cash flows?  
A) Purchase of land with a mortgage  
B) Cash paid for purchase of new machinery  
C) Cash paid for purchase of office supplies  
D) Cash received from issuance of shares of common stock  
Answer: B  
Diff: 1  
LO: 1-5  
AICPA Functional: Measurement  
PE Question Type: Concept  
H2: Statement of Cash Flows  

38) Which of the following is shown on the balance sheet as well as the statement of cash flows?  
A) Stockholders’ equity (ending balance)  
B) Net income  
C) Total assets (ending balance)  
D) Cash (ending balance)  
Answer: D  
Diff: 1  
LO: 1-5  
AICPA Functional: Measurement  
PE Question Type: Concept  
H2: Statement of Cash Flows  

Learning Objective 1-6  

1) The income statement shows whether or not a business can generate enough cash to pay its liabilities.  
Answer: FALSE  
Diff: 1  
LO: 1-6  
AICPA Functional: Measurement  
PE Question Type: Concept  
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)  

2) The balance sheet shows whether or not a business is earning profits.  
Answer: FALSE  
Diff: 1  
LO: 1-6  
AICPA Functional: Measurement  
PE Question Type: Concept  
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)  

3) The statement of retained earnings informs users about how much of the earnings were kept and reinvested in the company.  
Answer: TRUE  
Diff: 1  
LO: 1-6  
AICPA Functional: Measurement  
PE Question Type: Concept  
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)
4) The relative proportion of economic resources and obligations would be shown by the balance sheet. 
   Answer: TRUE 
   Diff: 2 
   LO: 1-6 
   AICPA Functional: Measurement 
   PE Question Type: Concept 
   H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

5) The statement of cash flows informs users about how much of the earnings were kept and reinvested in the company. 
   Answer: FALSE 
   Diff: 1 
   LO: 1-6 
   AICPA Functional: Measurement 
   PE Question Type: Concept 
   H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

6) The balance sheet helps analyze the business performance in terms of profitability. 
   Answer: FALSE 
   Diff: 1 
   LO: 1-6 
   AICPA Functional: Measurement 
   PE Question Type: Concept 
   H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

7) Which of the following financial statements is used to analyze the economic resources, debt, and overall financial position of a company? 
   A) income statement 
   B) balance sheet 
   C) statement of cash flows 
   D) statement of retained earnings 
   Answer: B 
   Diff: 1 
   LO: 1-6 
   AICPA Functional: Measurement 
   PE Question Type: Concept 
   H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)

8) The explanation of why the net income differs from the change in cash balance for the period is explained in the ________. 
   A) income statement 
   B) balance sheet 
   C) statement of retained earnings 
   D) statement of cash flows 
   Answer: D 
   Diff: 1 
   LO: 1-6 
   AICPA Functional: Measurement 
   PE Question Type: Concept 
   H2 : How Do You Use Financial Statements to Evaluate Business Performance? (H1)
9) Which of the following financial statements would be most useful if an analyst wants to know the likelihood of repayment of business debts?
A) income statement
B) balance sheet
C) statement of retained earnings
D) statement of cash flows
Answer: B
Diff: 2
LO: 1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

10) Which of the following financial statements would be most useful if an analyst wants to know the profitability of a company?
A) income statement
B) balance sheet
C) statement of retained earnings
D) statement of cash flows
Answer: A
Diff: 2
LO: 1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

11) The return on assets is calculated by ________.
A) subtracting net income from average total assets
B) adding net income and average total assets
C) dividing net income by average total assets
D) multiplying net income and average total assets
Answer: C
Diff: 2
LO: 1-6
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)

12) Which of the following formulae is used to calculate average total assets for the return on assets ratio?
A) Average total assets = (Beginning total assets + Ending total assets) × 2
B) Average total assets = (Beginning total assets - Ending total assets) × 2
C) Average total assets = (Beginning total assets - Ending total assets) / 2
D) Average total assets = (Beginning total assets + Ending total assets) / 2
Answer: D
Diff: 2
LO: 1-6
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)
13) Assume MetAmbit Corporation had a net income of $2,300 for the year ending December 2016. Its beginning and ending total assets were $33,500 and $18,000, respectively. Calculate MetAmbit’s return on assets (ROA). (Round your percentage answer to two decimal places.)

A) 6.87%
B) 12.78%
C) 8.93%
D) 4.47%

Answer: C

Explanation: Return on assets (ROA) = $2,300 / [($33,500 + $18,000) / 2] = 8.93%.

Diff: 2

LO: 1-6

AACSB: Application of knowledge

AICPA Functional: Measurement

PE Question Type: Application

H2: Return on Assets (ROA)
14) Johnson Repair Service had net income for the year of $125,000. In addition, the balance sheet reports the following balances:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>$  5,600</td>
<td>$ 14,200</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>12,000</td>
<td>9,500</td>
</tr>
<tr>
<td>Building</td>
<td>125,000</td>
<td>125,000</td>
</tr>
<tr>
<td>Cash</td>
<td>37,500</td>
<td>35,000</td>
</tr>
<tr>
<td>Office Furniture</td>
<td>25,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>3,200</td>
<td>1,500</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>60,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Total Stockholders' Equity</td>
<td>124,300</td>
<td>141,200</td>
</tr>
</tbody>
</table>

Calculate the return on assets (ROA) for Johnson Repair Service for the year ending December 31, 2016.

Answer:

<table>
<thead>
<tr>
<th>Total Assets</th>
<th>1/1/2016</th>
<th>12/31/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>$  5,600</td>
<td>$ 14,200</td>
</tr>
<tr>
<td>Building</td>
<td>125,000</td>
<td>125,000</td>
</tr>
<tr>
<td>Cash</td>
<td>37,500</td>
<td>35,000</td>
</tr>
<tr>
<td>Office Furniture</td>
<td>25,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>3,200</td>
<td>1,500</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$196,300</td>
<td>$225,700</td>
</tr>
</tbody>
</table>

Return on Assets = Net Income / Average total assets

Average total assets = (Beginning total assets + Ending total assets) / 2

Return on Assets = $125,000 [($196,300 + 225,700) / 2]
= $125,000 / 211,000
= 5.9%

Diff: 2
LO: 1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Return on Assets (ROA)
15) Frazier Service Company had a net income of $14,500 for the year ending December 31, 2016. The total assets on January 1, 2016 were $28,000. The total assets on December 31, 2016 were $16,000. Calculate Frazier's return on assets (ROA). Show your computations and label your work. Round your answer to one decimal place.

Answer:
Return on Assets = Net Income / Average total assets
Average total assets = (Beginning total assets + Ending total assets) / 2

Return on Assets = $14,500 / [($28,000 + $16,000) / 2]
                  = $14,500 / $220,000
                  = 6.59%

Diff: 2
LO: 1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Return on Assets (ROA)

16) What is the calculation for return on assets (ROA)? What does ROA measure?

Answer: Return on Assets = Net income / Average total assets.
ROA measures how profitably a company uses its assets.

Diff: 1
LO: 1-6
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)