Horngrens Financial and Managerial Accounting The Financial Chapters 7th edition Nobles Test Bank

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Financial and Managerial Accounting: Financial Chapters, 7e **(Miller-Nobles)**
Chapter F:1 Accounting and the Business Environment

Learning Objective F: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: F:1-1
AACSB: Application of knowledge
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
Explanation: Technology plays an important supporting role in performing routine accounting functions. This allows accountants to have more time to focus on reviewing and evaluating economic activities using critical thinking and judgment.
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
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: F:1-1
AACSB: Application of knowledge
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: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Why is Accounting Important? (H1)

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5) A model called the _____ was created to help students and the public understand what accounting is.
A) Decision Making Model
B) Business Model
C) Pathways Vision Model
D) Cost Model
Answer: C
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Why is Accounting Important? (H1)

6) The Pathways Vision Model emphasizes that good decisions have an impact on
A) accounting judgments and economic activity.
B) accounting judgments only.
C) economic activity only.
D) neither accounting judgments nor economic activity.
Answer: A
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Why is Accounting Important? (H1)

7) Managerial accounting focuses on providing information for external decision makers.
Answer: FALSE
Explanation: Managerial accounting focuses on providing information for internal decision makers.
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

8) Investors primarily use managerial accounting information for decision-making purposes.
Answer: FALSE
Explanation: External users (investors) use financial accounting information.
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

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

10) Income tax is calculated using accounting information.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

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

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

13) Outside investors ordinarily use financial accounting information to decide whether or not to invest in a business.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

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14) A creditor is any person who has an ownership interest in a business.
Answer: FALSE
Explanation: A creditor is any person to whom money is owed.
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

15) Managerial accounting focuses on information needed by lenders, customers, and the federal government.
Answer: FALSE
Explanation: Financial accounting focuses on providing information for external decision makers, such as lenders, customers, and the federal government.
Diff: 1
LO: F:1-1
AACSB: Interpersonal relations and teamwork
AICPA Functional: Reporting
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

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

17) Decision makers are looking for an international accounting language because the most significant change in the business world in the last decade has been the huge increase in international commerce.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

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18) Managerial accounting provides information to _____.
A) internal decision makers
B) outside investors and lenders
C) creditors
D) taxing authorities
Answer: A
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

19) 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: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

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

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

22) Which of the following is a decision made by an internal user?
A) Should we lend money to the business?
B) How much money should the business budget for production?
C) Should I invest in the business?
D) All of the above are correct.
Answer: B
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Decision Makers: The Users of Accounting Information

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

Accounting Information User	**FA or MA**
Business manager	
Creditor	
Stockholder	
Human resources director	
Internal Revenue Service Auditor	

Answer:

Accounting Information User	**FA or MA**
Business manager	MA
Creditor	FA
Stockholder	FA
Human resources director	MA
Internal Revenue Service Auditor	FA

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

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24) For each of the following decisions, identify if it applies to a financial accounting (FA) or a managerial accounting (MA) decision maker. Your answer should be either FA or MA. Include only one choice for each accounting decision.

Accounting Decision	**Decision Maker (FA or MA)**
Should the business expand to a new location?	
Is the business profitable?	
How do actual costs compare to budgeted costs?	
Should I invest in the business?	

Answer:

Accounting Decision	**Decision Maker (FA or MA)**
Should the business expand to a new location?	MA
Is the business profitable?	FA
How do actual costs compare to budgeted costs?	MA
Should I invest in the business?	FA

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

25) 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: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

26) Certified Management Accountants (CMAs) specialize only in financial management knowledge and always work for a single company.
Answer: FALSE
Explanation: Certified Management Accountants (CMAs) specialize in accounting and financial management knowledge and typically work for a single company.
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

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27) Certified Public Accountants (CPAs) are licensed professional accountants who serve the general public.
Answer: TRUE
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

28) _____ are professional accountants who serve the general public, not one particular company.
A) Certified public accountants
B) Financial managers
C) Internal auditors
D) Controllers
Answer: A
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

29) Accountants generally work either in public, private or _____ accounting.
A) governmental
B) personal
C) managerial
D) state
Answer: A
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

30) _____ typically work in a manufacturing business and help analyze accounting data.
A) Financial analysts
B) Cost accountants
C) Internal auditors
D) Controllers
Answer: B
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

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31) _____ review financial data and help explain the story behind the numbers.
A) Financial analysts
B) Cost accountants
C) Internal auditors
D) Controllers
Answer: A
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

32) _____ compile financial statements, interact with auditors, and oversee regulatory reporting.
A) Financial analysts
B) Cost accountants
C) Internal auditors
D) Controllers
Answer: D
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

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Match the accounting position to the job description in the following four questions.

A) Specializes in accounting and financial management knowledge
B) Serves the general public
C) Performs reviews of companies to ensure compliance to rules and regulations
D) Compiles financial statements, interacts with auditors, oversees regulatory reporting

33) Controller
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

34) Certified Management Accountant
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

35) Certified Public Accountant
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

36) Auditor
Diff: 1
LO: F:1-1
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Accounting Matters

Answers: 33) D 34) A 35) B 36) C

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Learning Objective F: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 Accounting Standards Board is a privately funded organization.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Governing Organizations

2) The SEC is a governmental agency that oversees world-wide financial markets and organizations that set accounting standards.
Answer: FALSE
Explanation: The SEC is a U.S. governmental agency that oversees the U.S. financial markets.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Governing Organizations

3) 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Governing Organizations

4) The Financial Accounting Standards Board (FASB) works with the following groups. Which of these groups was congressionally created?
A) Institute of Management Accountants
B) Public Company Accounting Oversight Board
C) International Accounting Standards Board
D) American Institute of CPAs
Answer: B
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Governing Organizations

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5) List three private groups that work with the Financial Accounting Standards Board (FASB).
Answer: Private groups that work with FASB are the American Institute of CPAs (AICPA), Institute of Management Accountants (IMA), and International Accounting Standards Board (IASB).
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Governing Organizations

6) The guidelines for accounting information are called Generally Accepted Accounting Principles (GAAP).
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

7) To be useful, accounting must be relevant and have faithful representation.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

8) The primary objective of financial reporting is to ensure that all investment decisions are risk free.
Answer: FALSE
Explanation: The primary objective of financial reporting is to provide information useful for making investment and lending decisions.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

9) The primary objective of financial reporting is to provide information useful for making investment and lending decisions.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

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10) GAAP refers to guidelines for accounting information in the United States. The acronym GAAP in this statement refers to _____.
A) Globally Accepted Accounting Policies
B) Government Approved Accounting Principles
C) Generally Accredited Accounting Policies
D) Generally Accepted Accounting Principles
Answer: D
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

11) Regarding generally accepted accounting principles (GAAP), which of the following statements is INCORRECT?
A) GAAP rests on a conceptual framework that identifies the objectives, characteristics, elements, and implementation of financial statements.
B) The primary objective of financial reporting is to provide information useful for making investment and lending decisions.
C) Relevant information is complete, neutral, and free from error.
D) GAAP is currently formulated by the Financial Accounting Standards Board.
Answer: C
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

12) Which of the following statements regarding the primary objective of financial reporting is correct?
A) The primary objective of financial reporting is to provide information useful for the acquisition of long-term assets.
B) Information that is faithfully representative is complete, neutral, and free from error.
C) Relevant information ensures that users of the information will make the correct decisions.
D) To be useful, information must follow the Generally Accepted Accounting Principles which are created and governed by the Securities and Exchange Commission.
Answer: B
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

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13) The primary objective of financial reporting is to provide information useful for making investment and _____ decisions.
A) spending
B) financial
C) accounting
D) lending
Answer: D
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

14) _____ allows users of the information to make a decision.
A) Relevant information
B) Faithful representation
C) Neutral information
D) Generally Accepted Accounting Principles
Answer: A
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

15) Information that is faithfully representative is complete, neutral, and _____
A) follows GAAP.
B) identifies objectives.
C) free from error.
D) states basic accounting assumptions.
Answer: C
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

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

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17) What is the primary objective of financial reporting?
Answer: The primary objective of financial reporting is to provide information useful for making investment and lending decisions.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Generally Accepted Accounting Principles

18) As per the economic entity assumption, an organization and its owners should be seen as the same entity.
Answer: FALSE
Explanation: An economic entity is an organization that stands apart as a separate economic entity.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

19) An economic entity is an organization that stands apart as a separate economic unit.
Answer: TRUE
Explanation: An economic entity is an organization that stands apart as a separate economic unit.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

20) An entity refers to one business which includes its owners.
Answer: FALSE
Explanation: An entity refers to one business, separate from its owners.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

21) In a sole proprietorship, the owner is personally liable for the debts of the business.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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22) 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
Explanation: The owner of a sole proprietorship is personally liable for the debts of a business.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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

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

25) In a limited-liability company (LLC), the members are personally liable for the debts of the business.
Answer: FALSE
Explanation: In a limited-liability company (LLC), the members are not personally liable for the debts of the business.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

26) A corporation's board of directors is elected by the chairperson of the company.
Answer: FALSE
Explanation: A corporation's board of directors is elected by the stockholders.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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27) A corporation's chief executive officer appoints the members of the board of directors.
Answer: FALSE
Explanation: The stockholders elect the members of the board of directors.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

28) The creation of a corporation begins when its incorporators obtain a charter from the state.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

29) Mutual agency of the owners is not present in a corporation as it is in a partnership.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

30) Regarding a business organized as a partnership, which of the following is an incorrect statement?
A) Partners pay tax on their share of the partnership earnings.
B) Partners are personally liable for the debts of the business.
C) A partnership's life is not dependent on a specific individual's ownership.
D) Mutual agency is present in a partnership.
Answer: C
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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31) 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

32) Which of the following is a characteristic of a corporation?
A) Corporations are separate taxable entities.
B) Lenders of a corporation do not have the right to claim the corporation's assets to satisfy their obligations.
C) Corporations are subjected to less governmental regulation than other forms of businesses.
D) Each stockholder has the authority to commit the corporation to a binding contract through his/her actions.
Answer: A
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

33) Which of the following actions determines when a corporation comes into existence?
A) The charter is obtained from the federal government.
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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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34) 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) Stockholders are required to manage the business.
D) Stockholders own the business, but a board of directors appoints corporate officers to manage the business.
Answer: D
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

35) 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) mutual agency
D) a limited liability company
Answer: A
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

36) 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 have 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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37) 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

38) 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 earnings of an LLC are subject to double taxation.
Answer: B
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

39) Jason Ford has been the sole owner of a bicycle sales and repair shop for several years. Which of the following business types would limit Jason's personal liability exposure to the entity's debts?
A) partnership
B) limited-liability company
C) sole proprietorship
D) Any of the above.
Answer: B
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

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40) Marcus 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

41) In a limited-liability company, the _____.
A) members are personally liable to pay the company's debts
B) business terminates at the death of a member
C) members are liable for each other's actions
D) members pay income tax on their share of earnings
Answer: D
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

42) The earnings of a sole proprietorship are _____.
A) combined with the personal income of the proprietor
B) not combined with the proprietor's personal income
C) subject to double taxation
D) handled similarly to that of a corporation
Answer: A
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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43) Which of the following statements is true of a corporation?
A) Corporations pay the same variety of taxes as partnerships.
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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

44) The ultimate control of the corporation rests with the _____.
A) board of directors
B) stockholders
C) chairperson of Board of Directors
D) chief operating officer
Answer: B
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

45) Stuart Allen Corporation manufactures 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: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Economic Entity Assumption

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46) For each of the following characteristics of a business organization, state whether it applies to a sole proprietorship (SP), partnership (P) or a corporation (C). There may be more than one correct answer for a characteristic.

Business organization characteristic	Entity(ies) to which the characteristic applies - SP, P, C
Separate legal entity	
Owner(s) are personally liable for the business's debts	
Separate taxable entity	
One owner	

Answer:

Business organization characteristic	Entity(ies) to which the characteristic applies - SP, P, C
Separate legal entity	C
Owner(s) are personally liable for the business's debts	SP, P
Separate taxable entity	C
One owner	SP, C

Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

47) Briefly discuss each of the following corporate characteristics.
A. No mutual agency
B. Separate legal entity
C. Separation of ownership and management
Answer: A. No mutual agency - The stockholders of a corporation cannot commit the corporation to a contract unless that stockholder is acting in a different role, such as an officer in the business.
B. Separate legal entity - A corporation is a business entity formed under state law and thus it exists apart from its owners (stockholders).
C. Separation of ownership and management - The board of directors - elected by the stockholders - appoints corporate officers to manage the business. The stockholders are owners of the corporation and do not manage the corporation. The corporate officers manage the business.
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

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48) Briefly discuss each of the following corporate characteristics.
A. Government regulation
B. Limited liability of stockholders
C. Continuous life and transferability of ownership
Answer: A. Government regulation - Corporations are subject to more governmental regulation than other forms of business.
B. Limited liability of stockholders - The most that stockholders can lose is the amount they originally paid for the stock. Stockholders are not personally liable for the corporation's debts.
C. Continuous life and transferability of ownership - Stockholders may transfer stock as they wish. This transfer does not affect the continuity of the corporation. A corporation's life is not dependent on a specific individual's ownership.
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

49) Briefly discuss each of the following corporate characteristics.
A. Corporate taxation
B. Separate legal entity
C. No mutual agency
Answer: A. Corporate taxation - Corporations are separate taxable entities. Corporate earnings are subject to double taxation. First, corporations pay their own income tax on corporate income. Then, the stockholders pay personal income tax on the dividends that they receive from corporations.
B. Separate legal entity - A corporation is a business entity formed under state law and thus it exists apart from its owners (stockholders).
C. No mutual agency - Stockholders cannot commit the corporation to a contract unless the stockholder is also an officer of the company.
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

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50) List and briefly discuss four features that distinguish a corporation from other types of business organizations.
Answer: Students can list any four of the following:

Separate legal entity - A corporation is a business entity formed under state law and thus it exists apart from its owners (stockholders).
Continuous life and transferability of ownership - Stockholders may transfer stock as they wish. This transfer does not affect the continuity of the corporation. A corporation's life is not dependent on a specific individual's ownership.
No mutual agency - The stockholders of a corporation cannot commit the corporation to a contract unless that stockholder is acting in a different role, such as an officer in the business.
Limited liability of stockholders - The most that stockholders can lose is the amount they originally paid for the stock. Stockholders are not personally liable for the corporation's debts.
Separation of ownership and management - The board of directors - elected by the stockholders - appoints corporate officers to manage the business. The owners do not manage the corporation.
Corporate taxation - Corporations are separate taxable entities. Corporations pay more taxes than partnerships or sole proprietorships. Corporate earnings are subject to double taxation. First, corporations pay their own income tax on corporate income. Then, the stockholders pay personal income tax on the dividends that they receive from corporations.
Government regulation - Corporations are subjected to more governmental regulation than other forms of business.
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

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51) Provide the definition of each of the following accounting assumptions.

Assumption	Definition
Monetary Unit	
Economic Entity	

Answer:

Assumption or Principle	Definition
Monetary Unit	The assumption that requires the items on the financial statements to be measured in terms of a monetary unit. The dollar's purchasing power is assumed to be stable.
Economic Entity	An organization that stands apart as a separate economic unit. The business is separate from the owners.

Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Economic Entity Assumption

52) Mason Company purchased land for $50,000. The president of Mason Company believes that the land is actually worth $55,000. The land can be recorded at $55,000.
Answer: FALSE
Explanation: The cost principle states that acquired assets are recorded at their actual cost.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Cost Principle

53) 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Cost Principle

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54) 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Cost Principle

55) Lisa Smith decided to start her CPA practice as a professional corporation, Smith CPA, PC. The corporation purchased an office building for $35,000. The real estate agent said the building was worth $50,000 in the current market. The corporation recorded the building as a $50,000 asset because Lisa 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle

56) Beverly Dalton incorporated her CPA practice 5 years ago. At that time, the corporation purchased land for $40,000. The December 31 of the current year, the market value of the land is $85,000. On the balance sheet for December 31 of the current year, the asset should be reported at _____ under U.S. GAAP.
A) $45,000
B) $125,000
C) $40,000
D) $85,000
Answer: C
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle

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57) Thirty years ago, Citywide Grocery 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 Citywide'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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle

58) Ten years ago, a corporation purchased a building for $180,000. At that time, the corporation felt that the building was worth $205,000. The current market value of the building is $500,000. The building has been assessed at $475,000 for property tax purposes. At which amount should the corporation record the building in its accounting records?
A) $180,000
B) $205,000
C) $475,000
D) $500,000
Answer: A
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle

59) A business purchases a building for $250,000. The current market value is $375,000. The tax assessment value is $325,000. At what value should the building be recorded, 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Cost Principle

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60) Under the going concern principle, accountants must provide proof that the business will remain in operation 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Going Concern Assumption

61) Under the going concern principle, accountants assume that the business will remain in operations long enough to use existing resources for their intended purpose.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Going Concern Assumption

62) 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Going Concern Assumption

63) As per the _____, accountants assume the business will remain in operation long enough to use existing resources for their intended purpose.
A) economic entity concept
B) monetary unit assumption
C) going concern assumption
D) cost principle
Answer: C
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Going Concern Assumption

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64) The _____ assumes that the entity will remain in operation for the foreseeable future.
Answer: going concern assumption
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Going Concern Assumption

65) Provide the definition of each of the following accounting assumptions or principles.

Assumption or Principle	**Definition**
Going Concern Assumption	
Cost Principle	

Answer:

Assumption or Principle	**Definition**
Going Concern Assumption	This assumption assumes that the entity will remain in operation for the foreseeable future.
Cost Principle	This principle states that the acquired assets and services should be recorded at their actual cost.

Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Going Concern Assumption

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

67) In the United States, transactions are recorded in dollars because the dollar's purchasing power does not change over time.
Answer: FALSE
Explanation: In the United States, transactions are recorded in dollars because the dollar is the medium of exchange.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Monetary Unit Assumption

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68) Lawton 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Monetary Unit Assumption

69) Regarding the monetary unit assumption, which of the following statements is correct?
A) This assumption requires that the items on the financial statements be measured at their current market value.
B) Accountants assume that the dollar's purchasing power is stable.
C) The value of a dollar does not change over time.
D) During periods of inflation, a dollar will purchase more.
Answer: B
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: The Monetary Unit Assumption

70) Under U.S. GAAP, the monetary unit assumption states that transactions are recorded in dollars. What is the basis for this assumption?
Answer: Under U.S. GAAP, transactions are recorded in dollars because accountants assume that the dollar's purchasing power is stable, and the dollar is the medium of exchange.
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: The Monetary Unit Assumption

71) 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
Explanation: Generally Accepted Accounting Principles (GAAP) represents the accounting guidelines, currently formulated by the Financial Accounting Standards Board. GAAP is the main U.S. accounting rule book.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: International Financial Reporting Standards

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72) The Securities and Exchange Commission allows U.S. businesses to choose whether they follow U.S. Generally Accepted Accounting Principles or International Financial Reporting Standards.
Answer: FALSE
Explanation: The Securities and Exchange Commission requires that U.S. businesses follow U.S. GAAP.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: International Financial Reporting Standards

73) International Financial Reporting Standards are comparatively more specific and more rule-based than U.S. Generally Accepted Accounting Principles.
Answer: FALSE
Explanation: International Financial Reporting Standards are comparatively less specific and based more on principle than U.S. GAAP.
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: International Financial Reporting Standards

74) International Financial Reporting Standards (IFRS) allows periodic revaluation of certain assets and liabilities to restate them to market value.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: International Financial Reporting Standards

75) International Financial Reporting Standards _____ U.S. Generally Accepted Accounting Principles.
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: F:1-2
AACSB: Analytical thinking
AICPA Functional: Reporting
PE Question Type: Critical thinking
H2: International Financial Reporting Standards

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76) 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Reporting
PE Question Type: Concept
H2: International Financial Reporting Standards

77) 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethics in Accounting and Business

78) An audit is an examination of a company's financial statements and records.
Answer: TRUE
Diff: 1
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethics in Accounting and Business

79) 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethics in Accounting and Business

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80) 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethics in Accounting and Business

81) 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: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethics in Accounting and Business

82) 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 from firms they audit
Answer: A
Diff: 2
LO: F:1-2
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Ethics in Accounting and Business

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Learning Objective F: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
Explanation: Assets appear on the left side of the accounting equation .
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
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
Explanation: The accounting equation is an equation; thus, the left side of the equation always equals the right side of the equation.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

3) The left side of the accounting equation always equals the right side of the accounting equation.
Answer: TRUE
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

4) 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: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

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5) The equity of Alliance Company is $100,000 and the total liabilities are $90,000. The total assets are _____.
A) $200,000
B) $180,000
C) $10,000
D) $190,000
Answer: D
Explanation: Assets = Liabilities + Equity
Assets = 100,000 + 90,000 = 190,000
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Accounting Equation? (H1)

6) Spring Company has assets and equity that amount to $290,000 and $60,000, respectively. Liabilities total _____.
A) $60,000
B) $230,000
C) $290,000
D) $350,000
Answer: B
Explanation: Liabilities = Assets - Equity
Liabilities = 290,000 - 60,000 = 230,000
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Accounting Equation? (H1)

7) The assets of Star Company are $100,000 and the total liabilities are $40,000. The equity is _____.
A) $100,000
B) $140,000
C) $40,000
D) $60,000
Answer: D
Explanation: Equity = Assets - Liabilities
Equity = 100,000 - 40,000 = 60,000
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Accounting Equation? (H1)

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8) Regarding the accounting equation, which of the following is a correct statement?
A) The accounting equation is made up of three parts.
B) The accounting equation is the basic tool of accounting.
C) Assets - Liabilities = Equity.
D) All of the statements are correct.
Answer: D
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

9) Using the following information, provide the complete accounting equation.

Use this information to	**Provide the accounting equation**
Assets $150,000; Equity $60,000	
Liabilities $200,000; Equity $45,000	
Assets $75,000; Liabilities $40,000	

Answer:

Use this information to	**Provide the accounting equation**
Assets $150,000; Equity $60,000	**Assets** = Liabilities + Equity $150,000 = $90,000 + $60,000
Liabilities $200,000; Equity $45,000	**Assets** = Liabilities + Equity $245,000 = $200,000 + $45,000
Assets $75,000; Liabilities $40,000	**Assets** = Liabilities + Equity $75,000 = $40,000 + $35,000

Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Accounting Equation? (H1)

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10) Using the following information, provide the complete accounting equation.

Use this information to	**Provide the accounting equation to**
Equity $200,000; Assets $360,000	
Liabilities $180,000; Assets $320,000	
Equity $725,000 Liabilities $350,000	

Answer:

Use this information to	**Provide the accounting equation**
Equity $200,000; Assets $360,000	Assets = Liabilities + Equity $360,000 = $160,000 + $200,000
Liabilities $180,000; Assets $320,000	Assets = Liabilities + Equity $320,000 = $180,000 + $140,000
Equity $725,000 Liabilities $350,000	Assets = Liabilities + Equity $1,075,000 = $350,000 + $725,000

Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: What is the Accounting Equation? (H1)

11) 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 controls. 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 deducted its liabilities. It represents the net worth of the corporation.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: What is the Accounting Equation? (H1)

12) Assets are something of value that the business owns or has control of.
Answer: TRUE
Explanation: Assets are economic resources that are expected to benefit the business in the future.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

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13) Assets are economic resources that have no future benefits for the business.
Answer: FALSE
Explanation: Assets are economic resources that are expected to benefit the business in the future.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

14) 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: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

15) 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 market value if acquired at a bargain.
Answer: B
Diff: 2
LO: F:1-3
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Assets

16) Which of the following is NOT an asset?
A) Cash
B) Accounts Payable
C) Accounts Receivable
D) Land
Answer: B
Diff: 2
LO: F:1-3
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Assets

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17) Which of the following is an asset?
A) Accounts Payable
B) Service Revenue
C) Merchandise Inventory
D) Advertising Expense
Answer: C
Diff: 2
LO: F:1-3
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Assets

18) 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: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Assets

19) Liabilities represent creditors' claims on the business's assets.
Answer: TRUE
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

20) Many liabilities have the word *receivable* in their titles.
Answer: FALSE
Explanation: Many liabilities have the word *payable* in their titles.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

21) 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: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

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

23) Regarding liabilities, which of the following statements is INCORRECT?
A) Liabilities represent one of the two claims to assets.
B) A creditor who has loaned money to a business has a claim to some of the business's assets until the business pays the debt.
C) Liabilities are economic resources that are expected to benefit the business in the future.
D) Many, but not all, liabilities have the word *payable* in their titles.
Answer: C
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

24) _____ is something the business owes to another business or individual.
A) An asset
B) A liability
C) Equity
D) Revenue
Answer: B
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

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25) Many liabilities have the word _____ in the title.
A) expense
B) revenue
C) receivable
D) payable
Answer: D
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

26) Define liabilities. Provide three examples of liabilities.
Answer: Liabilities are debts that are owed to creditors. Liabilities are something the business owes and represent the creditors' claims on the business's assets. Examples include Accounts Payable, Notes Payable, and Salaries Payable.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Liabilities

27) Equity increases when revenues are earned.
Answer: TRUE
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

28) Equity decreases with expenses and revenues.
Answer: FALSE
Explanation: Equity decreases with expenses and distributions to owners.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

29) Dividends are the expenses of a business.
Answer: FALSE
Explanation: Dividends are a distribution of a corporation's earnings to stockholders.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

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30) Dividends are a distribution of a corporation's earnings to stockholders.
Answer: TRUE
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

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

32) The distribution of dividends represents an increase in retained earnings.
Answer: FALSE
Explanation: Distribution of dividends represents decreases in retained earnings.
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

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

34) Maxwell Plumbing Services earned $500 by completing a job for Smith Company. The $500 earned by Maxwell Plumbing Services is its _____.
A) revenue
B) equity
C) gain
D) debt
Answer: A
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

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35) 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: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

36) Precision Camera Services started the year with total assets of $130,000 and total liabilities of $60,000. The revenues and the expenses for the year amounted to $150,000 and $90,000, respectively. During the year, the company did not issue any common stock, but it distributed dividends of $70,000. What is the amount of stockholders' equity at the end of the year?
A) $90,000
B) $150,000
C) $60,000
D) $70,000
Answer: C
Explanation: Equity (ending balance) = Equity (beginning balance) - Dividends + Revenues - Expenses
Equity = ($130,000 – $60,000) – $70,000 + $150,000 – $90,000 = $60,000
Diff: 3
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

37) Dynamic Production Services started the year with total assets of $90,000 and total liabilities of $50,000. The revenues and the expenses for the year amounted to $100,000 and $60,000, respectively. During the year, the company did not issue any common stock, but it distributed dividends of $40,000. Calculate Dynamic's net income for the year.
A) $40,000
B) $100,000
C) $60,000
D) $90,000
Answer: A
Explanation: Net income = Revenues - Expenses
Net income = $100,000 - $60,000 = $40,000
Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

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38) Metropolitan Casting Services started the year with total assets of $80,000 and total liabilities of $65,000. The revenues and the expenses for the year amounted to $120,000 and $60,000, respectively. During the year, the company did not issue any common stock, but it distributed dividends of $50,000. Calculate the amount of increase or decrease in stockholders' equity for the year.
A) a $10,000 increase
B) a $25,000 increase
C) a $15,000 decrease
D) a $50,000 increase
Answer: A
Explanation: Equity (at the beginning of the year) = $80,000 - $65,000 = $15,000
Equity (at the end of the year) = Equity (beginning balance) - Dividends + Revenues - Expenses
Equity (at the end of the year) = $15,000 – $50,000 + $120,000 – $60,000 = $25,000
Change in stockholders' equity for the year = $25,000 – $15,000 = $10,000 increase
Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Equity

39) The net income of Hollywood Talent Services is $22,000. The beginning and ending stockholders' equity balances were $34,000 and $50,000, respectively. The company issued no common stock. Calculate the amount of dividends.
A) $16,000
B) $6,000
C) $12,000
D) $11,000
Answer: B
Explanation:

Stockholders' Equity Beginning Balance		$34,000
Add: Net Income	22,000	
Less: Stockholders' Equity Ending Balance	50,000	
Dividends		$6,000

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

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40) _____ 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: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

41) 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: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

42) 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: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

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43) Owner contributions to a corporation are referred to as:
A) Retained Earnings
B) Revenues
C) Assets
D) Contributed Capital
Answer: D
Diff: 2
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

44) Earnings that result from delivering goods or services to customers are referred to as:
A) Retained Earnings
B) Revenues
C) Assets
D) Contributed Capital
Answer: B
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

45) _____ are the costs of selling goods or services.
A) Retained Earnings
B) Revenues
C) Assets
D) Expenses
Answer: D
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

46) A profitable corporation may make distributions to stockholders in the form of
A) Dividends
B) Revenues
C) Assets
D) Common Stock
Answer: A
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

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47) When revenues are greater than expenses, the result is a
A) Dividend
B) Contributed Capital
C) Net Income
D) Net Loss
Answer: C
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

48) When expenses are greater than revenues, the result is a
A) Dividend
B) Contributed Capital
C) Net Income
D) Net Loss
Answer: D
Diff: 1
LO: F:1-3
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Equity

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49) For each of the following events:
(1) State whether the event increases (INC) or decreases (DEC) retained earnings. If the event does not affect retained earnings, state NE for no effect.
(2) State which equity account is affected.

Event	1. **Retained earnings: INC, DEC, NE** **2. Which equity account is affected?**
Distribution of a corporation's earnings to stockholders	
Creditor loaned money to the business	
Costs of selling goods or services	

Answer:

Event	1. **Retained earnings: INC, DEC, NE** **2. Which equity account is affected?**
Distribution of a corporation's earnings to stockholders	1. DEC 2. Dividends
Creditor loaned money to the business	1. NE 2. None
Costs of selling goods or services	1. DEC 2. COGS, Expense

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

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50) For each of the following events:
(1) State whether the event increases (INC) or decreases (DEC) retained earnings. If the event does not affect retained earnings, state NE for no effect.
(2) State which equity account is affected.

Event	1. **Retained earnings: INC, DEC , NE** **2. Which equity account is affected?**
Owner contributions to a corporation	
Amounts earned from delivering goods or services to customers	
Cash paid to acquire land for use in the business	

Answer:

Event	1. **Retained earnings: INC, DEC , NE** **2. Which equity account is affected?**
Owner contributions to a corporation	1. NE 2. Common Stock
Amounts earned from delivering goods or services to customers	1. INC 2. Sales Revenue, Service Revenue
Cash paid to acquire land for use in the business	1. NE 2. None

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

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51) Provide the definition of each of the following:

Term:	**Definition**
Contributed Capital	
Revenues	
Expenses	
Dividends	

Answer:

Term:	**Definition**
Contributed Capital	Owner contributions to a corporation
Revenues	Earnings that result from delivering goods or services to customers
Expenses	The costs of selling goods or services
Dividends	Distributions to stockholders

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

52) Provide the definition of each of the following:

Term:	**Definition**
Net Income	
Net Loss	

Answer: Provide the definition of each of the following:

Term:	**Definition**
Net Income	When revenues are greater than expenses.
Net Loss	When expenses are greater than revenues.

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

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Learning Objective F: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 with faithful representation.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
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) only those events that have dollar amounts than can be measured reliably
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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Analyze a Transaction? (H1)

3) Which of the following events is NOT recorded by accountants?
A) purchase of a building for $200,000 cash
B) effects of an economic boom
C) sale of merchandise on account
D) signing a $400,000 note to purchase land
Answer: B
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: How Do You Analyze a Transaction? (H1)

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

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5) For the accounting equation to balance, a transaction must affect both sides of the equation.
Answer: FALSE
Explanation: As long as an increase and decrease of the same amount is recorded on one side of the accounting equation, the accounting equation remains in balance.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

6) As long as an increase and decrease of the same amount is recorded on one side of the accounting equation, the accounting equation remains in balance.
Answer: TRUE
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

7) A payable is always a liability.
Answer: TRUE
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

8) Office Supplies is an expense because the supplies will be used up in the future.
Answer: FALSE
Explanation: Office Supplies in an asset because the supplies will be used up in the future.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

9) Dividends affect the business's net income or net loss and are recorded as an expense.
Answer: FALSE
Explanation: Dividends do not represent an expense because they are not related to the earning of revenue.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

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10) Janice Wilford contributed $50,000 cash to JW 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

11) 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

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

13) 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

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14) 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

15) 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

16) Mars Electronic Company receives cash from a stockholder, John Tilden, 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

17) Green Lawns Corporation earned $500 for landscaping 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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18) Adventures Unlimited 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

19) Jackson Electric Services incurred $800 as a repair expense and paid for it in cash. This transaction will _____.
A) decrease the stockholders' equity of the business
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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

20) Nick's Landscaping Services incurred $500 as a repair expense and promised to pay the repair company 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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21) Jason Repair Corporation incurred $1,500 as advertising expense and promised to pay the advertising 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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

23) Montgomery Equipment Rental Company 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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24) Westwood 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

25) Diamond, Inc. had the following transactions during June:
Performed services for $3,000 on account; received cash on account, $6,000; paid $900 for repair expense; paid $1,900 to a supplier that it owed from the previous month. What is the combined effect on Cash of these June transactions?
A) $3,200 increase
B) $3,200 decrease
C) $6,000 increase
D) $2,800 decrease
Answer: A
Explanation: Cash = $6,000 - $900 - $1,900 = $3,200 increase
Diff: 3
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

26) Saturn, Inc. paid $8,000 on accounts payable. How does this transaction affect the accounting equation of Saturn?
A) Assets decrease by $8,000 and equity increases by $8,000.
B) Assets decrease by $8,000 and liabilities decrease by $8,000.
C) Assets increase by $8,000 and equity decreases by $8,000.
D) Assets increase by $8,000 and liabilities increase by $8,000.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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27) Brooks Landscaping Corporation performs lawn mowing services for its customers in May. Payments for May's services are expected to be received in June. How does the transaction for performing services in May affect the accounting equation of Brooks 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

28) Gena's Cleaning Services performs services for its customers during March. Payments for the March services are received in June. How does the transaction for the collection of cash from customers affect the accounting equation of Gena's Cleaning Services?
A) Liabilities increase and assets increase.
B) Total assets remain the same.
C) Assets increase and revenues increase.
D) Assets increase and equity decreases.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

29) Mitchell Company receives a bill from one of its suppliers for advertising services received and will pay the supplier next month. How does the receipt of the bill from the supplier affect the accounting equation of Mitchell?
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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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30) Newton 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

31) Lamar Corporation purchased land for $22,000 with cash. Which of the following is true of the effect of the purchase of land on the accounting equation?
A) Assets increase by $22,000 and liabilities decrease by $22,000.
B) Assets and equity increase by $44,000.
C) Assets increase by $22,000; equity increases by $22,000.
D) The amount of total assets remains the same.
Answer: D
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

32) Rosewood Corporation purchased land for $120,000 by making a cash payment of $40,000 and promising to pay the remaining amount in a later accounting period. What is the net effect of this transaction on Rosewood's accounting equation?
A) Assets increase by $120,000 and liabilities decrease by $40,000.
B) Assets increase by $120,000 and liabilities decrease by $80,000.
C) Assets and equity increase by $80,000.
D) Assets and liabilities increase by $80,000.
Answer: D
Diff: 3
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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33) Mulberry Corporation collected $16,000 from one of its customers, the amount owed from the previous month. How does this affect the accounting equation for Mulberry?
A) Assets increase by $16,000; liabilities decrease by $16,000.
B) Assets increase by $16,000; assets decrease by $16,000.
C) Assets increase by $16,000; liabilities increase by $16,000.
D) Assets increase by $16,000; equity increases by $16,000.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

34) Country Homes Corporation just recorded a transaction in its books. If this transaction increased the total liabilities by $5,000, then _____.
A) assets must increase, or equity must decrease by $5,000
B) either assets or equity must decrease by $5,000
C) both assets and equity must each decrease by $2,500
D) assets must decrease by $5,000
Answer: A
Diff: 3
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

35) 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

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36) Johnson Waterworks Corporation provides plumbing services. Transactions during the first year of operations are provided below.

a) Received $11,000 cash and issued common stock to Mitchell Johnson.
b) Paid $1,000 for equipment to be used for plumbing repairs.
c) Borrowed $11,000 from a local bank and deposited the money in the checking account.
d) Paid $600 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 $3,400.

Calculate the amount of total assets at the end of the first year. Assume the plumbing supplies of $200 are left at the end of the year.
A) $1,200
B) $1,000
C) $22,000
D) $24,800
Answer: D
Explanation:

Cash ($11,000 + $11,000 + $3,400 - $1,000 - $600 - $200)	$23,600
Equipment	1,000
Supplies	200
Total assets	$24,800

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

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37) McCoy Corporation provides plumbing services. Transactions during the first year of operations are provided below.

a) Received $13,000 cash and issued common stock to Sharon McCoy.
b) Paid $1,100 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 $300 rent for the year.
e) Purchased $200 of office supplies by cash.
f) Completed a plumbing repair project for a local lawyer and received $3,200 cash.

Calculate the amount of total liabilities at the end of the first year.
A) $14,000
B) $13,000
C) $25,900
D) $3,200
Answer: A
Explanation: Borrowings from bank = $14,000
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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

a) Received $8,000 cash and issued common stock to Jason Robinson.
b) Paid $2,000 cash for equipment to be used for plumbing repairs.
c) Borrowed $29,000 from a local bank and deposited the money in the checking account.
d) Paid $900 rent for the year.
e) Purchased $1,900 of office supplies on account.
f) Completed a plumbing repair project for a local lawyer and received $3,100 cash.

Calculate the amount of total stockholders' equity at the end of the first year after recording the transactions. Assume office supplies of $1,900 are left at the end of the year.
A) $10,200
B) $3,100
C) $8,000
D) $29,000
Answer: A
Explanation: Equity (ending) = Common Stock – Dividends + Revenues – Expenses
Stockholders' Equity = $8,000 + $3,100 - $900 = $10,200
Diff: 3
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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39) _____ represent(s) 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

40) _____ represent(s) 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: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

41) Jason White contributes $20,000 cash to Basic Company. What is the effect on the accounting equation for Basic Company?
A) Assets increase by $20,000 and liabilities decrease by $20,000.
B) Assets increase by $20,000 and equity decreases by $20,000.
C) Assets increase by $20,000 and equity increases by $20,000.
D) The amount of total assets remains the same.
Answer: C
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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42) Smith Corporation purchased land for $10,000 with cash. Which of the following is true of the effect of the purchase of land on the accounting equation?
A) Cash will increase by $10,000
B) Land will decrease by $10,000
C) No effect to cash
D) Cash will decrease by $10,000
Answer: D
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

43) ABC Company earns $20,000 of revenue and collects this amount in cash. What is the effect on the accounting equation?
A) Assets increase by $20,000 and liabilities decrease by $20,000.
B) Assets increase by $20,000 and equity decreases by $20,000.
C) Assets increase by $20,000 and equity increases by $20,000.
D) The amount of total assets remains the same.
Answer: C
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

44) Smith Company earns $50,000 of revenue and collects this amount in cash. What is the effect on the accounting equation?
A) Cash increases by $50,000 and Accounts Payable decreases by $50,000.
B) Cash increases by $50,000 and Service Revenue decreases by $50,000.
C) Cash increases by $50,000 and Service Revenue increases by $50,000.
D) The amount of total assets remains the same.
Answer: C
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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45) ABC Company pays $2,000 cash for expenses. What is the effect on the accounting equation?
A) Assets decrease by $2,000 and liabilities decrease by $2,000.
B) Assets decrease by $2,000 and equity decreases by $2,000.
C) Assets increase by $2,000 and equity increases by $2,000.
D) The amount of total assets remains the same.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

46) Smith Company pays $3,000 cash for Rent Expense. What is the effect on the accounting equation?
A) Cash decreases by $3,000 and Accounts Payable decreases by $3,000.
B) Cash decreases by $3,000 and Service Revenue decreases by $3,000.
C) Cash decreases by $3,000 and Equity decreases by $3,000.
D) The amount of total assets remains the same.
Answer: C
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

47) ABC Company distributes a $2,000 cash dividend to the stockholders. What is the effect on the accounting equation?
A) Assets decrease by $2,000 and liabilities decrease by $2,000.
B) Assets decrease by $2,000 and equity decreases by $2,000.
C) Assets increase by $2,000 and equity increases by $2,000.
D) The amount of total assets remains the same.
Answer: B
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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48) Smith Company distributes a $3,000 cash dividend to the stockholders. What is the effect on the accounting equation?
A) Cash decreases by $3,000 and Accounts Payable decreases by $3,000.
B) Cash decreases by $3,000 and Service Revenue decreases by $3,000.
C) Cash decreases by $3,000 and Equity decreases by $3,000.
D) The amount of total assets remains the same.
Answer: C
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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

a) Received cash from Mary Johnson; issued common stock to her.
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: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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

a) Received cash from Maxwell 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 the stockholder.

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

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

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

b) Collected cash on accounts receivable (created 20 days earlier).
c) Purchased office supplies on account.
d) Paid cash for the current month's electric bill.
Answer:
b) Increase asset (Cash); Decrease asset (Accounts Receivable)
c) Increase asset (Office Supplies); Increase liability (Accounts Payable)
d) Decrease asset (Cash); Decrease Equity (Utility Expense)
Diff: 2
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Transaction Analysis for Smart Touch Learning

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52) Analyze each of the following transactions in terms of their effects on the accounting equation of Osgood Delivery Service. Enter the correct amounts in the columns of the spreadsheet.

a) James Osgood 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.

	Assets				=	**Liabilities**	+	**Equity**				
	Cash	Accts.Rec	Office Supps.	Deliv. Van		Accounts Payable	+	Common Stock	Dividends	Service Revenue	Rent Expense	Utilities Expense
a												
b												
c												
d												
e												
f												

Answer:

	Assets				=	**Liabilities**	+	**Equity**				
	Cash	Accts.Rec.	Office Supps.	Deliv. Van		Accounts Payable	+	Common Stock	Dividends	Service Revenue	Rent Expense	Utilities Expense
a	75000							75000				
b			750			750						
c	(25000)			25000								
d	5000									5000		
e	(1200)										(800)	(400)
f	(1000)								(1000)			
	52800	0	750	25000	0	750	0	75000	(1000)	5000	(800)	(400)

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

53) List the steps, in the correct order, that are used when analyzing transactions.
Answer: Step 1: Identify the accounts and the account type.
Step 2: Decide if each account increases or decreases.
Step 3: Determine if the accounting equation is in balance.
Diff: 1
LO: F:1-4
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Transaction Analysis for Smart Touch Learning

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54) Analyze each of the following transactions in terms of their effects on the accounting equation of Smith Consulting. Enter the correct amounts in the columns of the spreadsheet.

a) Joe Smith contributes $50,000 to the business. The business issues common stock to Joe.
b) The business purchases $500 of office supplies on account.
c) The business pays cash to purchase land for $20,000.
d) Services are performed for clients and $15,000 cash is received.
e) Cash is paid for office rent expense, $1,500 and salaries expense, $1,000.
f) Cash dividends of $2,000 are paid to stockholders.

		Accounts	Office		Accounts	Common		Service	Salaries	Rent
	Cash	Receivable	Supplies	Land	Payable	Stock	Dividends	Revenue	Expense	Expense
a.										
b.										
c.										
d.										
e.										
f.										
Total										

Answer:

		Accts	Office		Accounts	Common		Service	Salaries	Rent
	Cash	Rec.	Supplies	Land	Payable	Stock	Dividends	Revenue	Expense	Expense
a.	50,000					50,000				
b.			500		500					
c.	(20,000)			20,000						
d.	15,000							15,000		
e.	(2,500)								(1,000)	(1,500)
f.	(2,000)						(2,000)			
Total	40,500	-	500	20,000	500	50,000	(2,000)	15,000	(1,000)	(1,500)

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

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Learning Objective F:1-5

1) Financial statements are business documents used to communicate information needed to make business decisions.
Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
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 business documents that report on a business in monetary terms, providing information to help users 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: F: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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Prepare Financial Statements? (H1)

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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, 2025, 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, 2025, 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 received $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, and the client promised to pay the following month.
- At the end of May, McGuire Corporation distributed cash dividends of $1,500.

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Answer:

McGuire Corporation
Income Statement
Month Ended May 31, 2025

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, 2025

Retained Earnings, May 1, 2025	$0
Net Income for the month	9,200
	9,200
Dividends	(1,500)
Retained Earnings, May 31, 2025	$7,700

McGuire Corporation
Balance Sheet
May 31, 2025

Assets		**Liabilities**	
Cash	$11,500	Accounts Payable	$1,800
Accounts Receivable	8,000	Notes Payable	5,000
Equipment	15,000	Total Liabilities	6,800
		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

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Note:
Calculation of cash balance, May 31, 2025:

Common stock issued	$20,000
Borrowing from creditor	5,000
Service fees received	3,000
Receipts	28,000
Less payments:	
Purchase of equipment	(15,000)
Dividends	(1,500)
Cash balance, May 31, 2025	$11,500

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

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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 Modern Designer Corporation for the first month of their operations are as follows:

- On June 1, 2025, Modern Designer Corporation received $25,000 cash from its stockholders and issued 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 web sites and promised to pay a total of $1,200 at a later date.
- On June 13, Modern Designer 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, Modern Designer made a payment of $500 to one of the web sites that it owed for advertising provided earlier in the month.
- No dividends were paid during the month.

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Answer:

Modern Designer Corporation
Income Statement
Month Ended June 30, 2025

Revenues:		
Service Revenue		$9,000
Expenses:		
Advertising Expense	$1,200	
Legal Expense	1,300	
Total Expenses		2,500
Net Income		$6,500

Modern Designer Corporation
Statement of Retained Earnings
Month Ended June 30, 2025

Retained Earnings, June 1, 2025	$0
Net income for the month	6,500
	6,500
Dividends	0
Retained Earnings, June 30, 2025	$6,500

Modern Designer Corporation
Balance Sheet
June 30, 2025

Assets		**Liabilities**	
Cash	$24,200	Accounts Payable	$ 700
Account Receivable	7,000		
Office Supplies	1,000		
		Stockholders' Equity	
		Common Stock	25,000
		Retained Earnings	6,500
		Total Stockholders' Equity	31,500
Total Assets	$32,200	Total Liabilities and Stockholders' Equity	$32,200

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Note:
Calculation of cash balance, June 30, 2025

Common stock issued	$25,000
Service fees received	2,000
Receipts	27,000
Less payments:	
Legal expense	(1,300)
Office supplies	(1,000)
Advertising expenses	(500)
Cash balance, June 30, 2025	$24,200

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

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6) List the four financial statements and briefly explain how each is prepared.

Financial statement	How it is prepared
1.	
2.	
3.	
4.	

Answer:

Financial statement	How it is prepared
1. Income statement	Revenues -Expenses = Net Income or Net Loss
2. Statement of retained earnings	Retained Earnings, Beginning +Net income for the period or - Net Loss for the period -Dividends for the period =Retained Earnings, Ending
3. Balance sheet	Assets = Liabilities + Stockholders' Equity
4. Statement of cash flows	Cash flows from operating activities Cash flows from investing activities Cash flows from financing activities

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Prepare Financial Statements? (H1)

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7) List the four financial statements and describe the information provided by each.

Financial statement	Information provided
1.	
2.	
3.	
4.	

Answer:

Financial statement	Information provided
1. Income statement	Profitability for a particular period of time
2. Statement of retained earnings	How much of the earnings were kept and reinvested in the company
3. Balance Sheet	Economic resources the company has (assets); debts the company owes (liabilities); elements of stockholders' equity
4. Statement of cash flows	Cash receipts and cash payments for a period of time

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Prepare Financial Statements? (H1)

8) Determine the amount of total expenses if net income is $4,000 and Service Revenues are $10,000.
Answer: $10,000 - $4,000 = $6,000 for total expenses.
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Prepare Financial Statements? (H1)

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9) Determine the amount of total liabilities if total assets are $10,000 and total equity is $7,000.
Answer: $10,000 - $7,000 = $3,000 for total liabilities.
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Prepare Financial Statements? (H1)

10) The income statement is also called the statement of financial position.
Answer: FALSE
Explanation: The income statement is also called the statement of earnings.
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

11) The income statement is also called the statement of earnings.
Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

12) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

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13) Which of the following financial statements reports expenses in decreasing order of their amounts, 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Income Statement

14) Regent Plumbing Corporation provides plumbing services. Selected transactions of Regent Plumbing Corporation are described as follows:

a) Received $7,000 cash and issued common stock to Sharon Regent.
b) Paid $4,000 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 $100 cash for plumbing supplies to be used next year.
f) Completed a plumbing repair project for a local lawyer and received $3,000 cash.

Calculate the net income. Assume plumbing supplies of $100 are left at the end of the accounting period.
A) $800
B) $2,900
C) $3,000
D) $2,100
Answer: D
Explanation: Net income = Revenues - Expenses
Net income = $3,000 - $900 = $2,100
Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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15) Springer Corporation had the following transactions in August:
Earned $3,200 of revenues on account; collected $5,100 from a customer for services provided last month; incurred $900 of repair expense and paid cash; paid $180 for rent that it owed from the previous month.
What is the net income in August?
A) $9,200
B) $2,120
C) $7,220
D) $2,300
Answer: D
Explanation: Net income = Revenue - Expenses = $3,200 - $900 = $2,300.
Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

16) Baxtor Corporation provides consulting services. Selected transactions of Baxtor Corporation are described as follows:

a) Received $10,700 cash and issued common stock to Joe Jones.
b) Paid $2,800 cash for computer equipment for office use.
c) Borrowed $11,700 from a local bank and deposited the money in the checking account.
d) Paid $1,500 rent for the month.
e) Paid $260 cash for office supplies to be used next year.
f) Completed a consulting project for a local business and received $5,400 cash.

Calculate the net income.
A) $1,500
B) $840
C) $3,640
D) $3,900
Answer: D
Explanation: Net income = Revenues - Expenses
Net income = $5,400 - $1,500 = $3,900
Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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17) Following is a list of account balances of Tanner Lawn Services as of December 31, after the first year of operations.

Accounts Receivable	$7200
Accounts Payable	6800
Salaries Expense	7500
Repairs Expense	1700
Truck	12,000
Equipment	13,000
Notes Payable	27,100
Cash	23,300
Supplies Expense	1600
Service Revenue	39,000
Gasoline Expense	8800
Salaries Payable	2,200

Calculate the net income.
A) $19,800
B) $12,600
C) $19,400
D) $56,700
Answer: C
Explanation:

Service Revenue	$39,000
Salaries Expense	(7500)
Repairs Expense	(1700)
Supplies Expense	(1600)
Gasoline Expense	(8800)
Net income	$19,400

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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18) Following is a list of account balances of Lincoln Lawn Services as of December 31, after the first year of operations.

Accounts Receivable	$5,000
Accounts Payable	6,000
Salaries Expense	6,000
Repairs Expense	900
Truck	10,000
Equipment	10,000
Notes Payable	23,700
Cash	21,000
Supplies Expense	400
Service Revenue	30,000
Gasoline Expense	7,500
Salaries Payable	1,100

Calculate the net income.
A) $15,200
B) $29,700
C) $16,300
D) $46,000
Answer: A
Explanation:

Service Revenue	$30,000
Salaries Expense	(6,000)
Repairs Expense	(900)
Supplies Expense	(400)
Gasoline Expense	(7,500)
Net income	$15,200

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Income Statement

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19) Michael Company has just completed operations for the year ended December 31, 2024. This is the second year of operations for the company. The following data have been assembled for the business:

Accounts Payable	$ 12,200	Office Expense	$ 6,500
Accounts Receivable	14,500	Rent Expense	9,600
Cash	8,200	Retained Earnings, Jan. 1, 2024	8,300
Common Stock	9,000	Salaries Expense	36,000
Dividends	13,500	Service Revenue	84,000
Equipment	15,000	Utilities Expense	6,200
Insurance Expense	4,000		

Prepare the income statement. Use a proper heading.

Answer:

Michael Company
Income Statement
Year Ended December 31, 2024

Revenues:		
Service Revenue		$84,000
Expenses:		
Salaries Expense	$36,000	
Rent Expense	9,600	
Office Expense	6,500	
Utilities Expense	6,200	
Insurance Expense	4,000	
Total Expenses		62,300
Net Income		$21,700

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

20) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings

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21) The net income (or net loss) must be calculated after the statement of retained earnings is prepared.
Answer: FALSE
Explanation: The net income (or net loss) must first be calculated on the income statement and then carried to the statement of retained earnings.
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings

22) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Statement of Retained Earnings

23) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings

24) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings

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25) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings

26) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Retained Earnings

27) If the beginning retained earnings balance is $3,500, net income is $5,500, and dividends paid is $2,400, what is the ending balance of Retained Earnings?
A) $3,100
B) $3,500
C) $6,600
D) $11,400
Answer: C
Explanation: $3,500 + $5,500 - $2,400 = $6,600
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Statement of Retained Earnings

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28) If the beginning retained earnings balance is $5,500, net income is $4,300, and ending retained earnings is $6,400, what is the amount of dividends paid?
A) $2,100
B) $3,400
C) $5,500
D) $16,200
Answer: B
Explanation: $5,500 + $4,300 - $6,400 = $3,400
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Statement of Retained Earnings

29) If the beginning retained earnings balance is $5,500, dividends paid is $1,300, and ending retained earnings is $8,600, what is the amount of net income?
A) $1,800
B) $4,400
C) $5,500
D) $15,400
Answer: B
Explanation: $8,600 + $1,300 - $5,500 = $4,400
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Statement of Retained Earnings

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30) Merian Company has just completed operations for the year ended December 31, 2024. This is the second year of operations for the company. The following data have been assembled for the business at December 31, 2024.

Accounts Payable	$ 12,200	Office Expense	$ 6,500
Accounts Receivable	14,500	Rent Expense	9,600
Cash	8,200	Retained Earnings, Jan. 1, 2024	8,300
Common Stock	9,000	Salaries Expense	36,000
Dividends	13,500	Service Revenue	84,000
Equipment	15,000	Utilities Expense	6,200
Insurance Expense	4,000		

Prepare the statement of retained earnings for the year. Use a proper heading.

Answer: Merian Company
Statement of Retained Earnings
Year Ended December 31, 2024

Retained Earnings, January 1, 2024	$ 8,300
Net Income for the year	21,700
	30,000
Dividends	(13,500)
Retained Earnings, December 31, 2024	$ 16,500

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

31) The balance sheet of a business summarizes an entity's revenues and expenses.
Answer: FALSE
Explanation: The balance sheet reports on the assets, liabilities, and stockholders' equity of the business as of a specific date.
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

32) The balance sheet reports on the assets, liabilities, and stockholders' equity of the business as of a specific date.
Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

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33) The heading of a balance sheet will show the date as of a specific date, not a period of time.
Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

34) The heading of a balance sheet will show the same information for the date line as the heading for a statement of retained earnings.
Answer: FALSE
Explanation: The heading of a balance sheet will show the date as of a specific date, not a period of time. The heading of a statement of retained earnings will show a period of time.
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

35) The balance sheet is prepared after the statement of retained earnings.
Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

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

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37) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

38) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

39) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

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40) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Balance Sheet

41) Following is an extract of account balances of Aztec Moving Services as of December 31, after the first year of operation.

Accounts Receivable	$7,000
Accounts Payable	7,000
Salaries Expense	5,000
Repairs Expense	1,000
Truck	12,000
Equipment	9,000
Notes Payable	8,600
Cash	7,000
Supplies Expense	1,000
Service Revenue	32,000
Gasoline Expense	3,700
Salaries Payable	500

What is the amount of total assets at the end of the year?
A) $19,000
B) $35,000
C) $21,000
D) $28,000
Answer: B
Explanation:

Accounts Receivable	$7,000
Truck	12,000
Equipment	9,000
Cash	7,000
Total assets	$35,000

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

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42) The total assets and the total liabilities of Atlas Financial Services are shown below. The company issued no common stock and paid no dividends during the year.

	Total Assets	Total Liabilities
Beginning of year	$415,000	$280,000
End of year	450,000	305,000

What was the amount of net income for the year?
A) $35,000
B) $25,000
C) $10,000
D) $60,000
Answer: C
Explanation:
Calculations:

	Assets	Liabilities
End of year total	$450,000	$305,000
Less: beginning of year total	(415,000)	(280,000)
Increase or (decrease)	$35,000	$25,000

Net increase or (decrease) = $35,000 - $25,000= $10,000
Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

43) The balance of stockholders' equity at the beginning of the year and the end of the year was $65,000 and $60,000, respectively. The company issued no common stock during the year. Dividends were $25,000. What was the net income or loss for the year?
A) Net income of $85,000
B) Net loss of $85,000
C) Net loss of $20,000
D) Net income of $20,000
Answer: D
Explanation:

Stockholders' equity at the end of the year	$60,000
Add: Dividends	25,000
	$85,000
Less: Stockholders' equity at the beginning of the year	(65,000)
Net income	$20,000

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

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44) The net income of Thomas Corporation was $74,000 for this year. The beginning balance of stockholders' equity was $28,000 and the ending balance was $71,000. The company issued no common stock during the year. What was the amount of dividends distributed during the year?
A) $71,000
B) $31,000
C) $145,000
D) $28,000
Answer: B
Explanation:

Stockholders' equity, beginning balance	$28,000
Add:	
Stock issued during the year	0
Net income	74,000
Less: Stockholders' equity, ending balance	(71,000)
Dividends	$31,000

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

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45) Following is a list of account balances of Nabers Delivery Services as of December 31, after the first year of operations.

Accounts Receivable	$5,000
Accounts Payable	7,000
Salaries Expense	6,000
Repairs Expense	600
Truck	10,000
Equipment	9,000
Notes Payable	8,300
Cash	9,300
Supplies Expense	1,400
Service Revenue	29,000
Gasoline Expense	3,500
Salaries Payable	500

What is the amount of total liabilities at the end of the year?
A) $15,800
B) $27,300
C) $23,800
D) $15,300
Answer: A
Explanation:

Accounts Payable	$7,000
Notes Payable	8,300
Salaries Payable	500
Total liabilities	$15,800

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

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46) Identify the following accounts as an asset, liability, or equity account.

Accounts Payable		Office Expense	
Accounts Receivable		Rent Expense	
Cash		Retained Earnings, Jan. 1, 2024	
Common Stock		Salaries Expense	
Dividends		Service Revenue	
Equipment		Utilities Expense	
Insurance Expense		Office Supplies	

Answer:

Accounts Payable	Liability	Office Expense	Equity
Accounts Receivable	Asset	Rent Expense	Equity
Cash	Asset	Retained Earnings, Jan. 1, 2024	Equity
Common Stock	Equity	Salaries Expense	Equity
Dividends	Equity	Service Revenue	Equity
Equipment	Asset	Utilities Expense	Equity
Insurance Expense	Equity	Office Supplies	Asset

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Balance Sheet

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47) Wylie Company has just completed operations for the year ended December 31, 2024. This is the second year of operations for the company. The following data have been assembled for the business.

Accounts Payable	$ 12,200	Office Expense	$ 6,500
Accounts Receivable	14,500	Rent Expense	9,600
Cash	8,200	Retained Earnings, Jan. 1, 2024	8,300
Common Stock	9,000	Salaries Expense	36,000
Dividends	13,500	Service Revenue	84,000
Equipment	15,000	Utilities Expense	6,200
Insurance Expense	4,000		

Prepare the balance sheet at December 31, 2024. Use a proper heading.

Answer:

Wylie Company
Balance Sheet
December 31, 2024

Assets		**Liabilities**	
Cash	$8,200	Accounts Payable	$12,200
Accounts Receivable	14,500	Total Liabilities	12,200
Equipment	15,000		
		Stockholders' Equity	
		Common Stock	9,000
		Retained Earnings	16,500
		Total Stockholders' Equity	25,500
Total Assets	$37,700	Total Liabilities and Stockholders' Equity	$37,700

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

48) If a transaction does not involve cash, such as the purchase of supplies on account, it will not be reported on the statement of cash flows.

Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

49) A statement of cash flows always represents a period of time.

Answer: TRUE
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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50) On the statement of cash flows, investing activities include cash contributions by stockholders.
Answer: FALSE
Explanation: On the statement of cash flows, financing activities include cash contributions by stockholders.
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

51) On the statement of cash flows, investing activities include purchases of land and equipment with the issuance of a note payable.
Answer: FALSE
Explanation: The statement of cash flows only reports transactions that involve cash.
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

52) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

53) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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

55) 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 to employees
D) Cash received from issuance of shares of common stock
Answer: C
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

56) 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 rent
D) Cash received from issuance of shares of common stock
Answer: D
Diff: 1
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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57) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

58) 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: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

59) If the cash collected from customers is $18,000, cash payments to suppliers is $2,900, and cash payments to employees is $4,000, what is the amount of net cash flow provided by operating activities?
A) $11,100
B) $14,000
C) $15,100
D) $24,900
Answer: A
Explanation: $18,000 - $2,900 - $4,000 = $11,100
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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60) If cash paid for land was $17,000, cash received from the issuance of additional common stock was $8,400, and cash paid for dividends was $1,600, what is the amount of net cash flow provided or used by investing activities?
A) $27,000
B) $(27,000)
C) $17,000
D) $(17,000)
Answer: D
Explanation: Only the land purchase for cash of $17,000 affects the investing activities.
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

61) If cash paid for land was $18,000, cash received from the issuance of additional common stock was $8,000, and cash paid for dividends was $1,500, what is the amount of net cash flow provided or used by financing activities?
A) $6,500
B) $(6,500)
C) $27,500
D) $(27,500)
Answer: A
Explanation: Issuance of Common Stock + 8,000 – Dividend paid of $1,500 = $6,500.
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

62) If net cash flows provided from operating activities is $3,600, net cash flows used by investing activities is $(25,000), and net cash flows provided by financing activities is $27,000, what is the increase in cash?
A) $55,600
B) $3,600
C) $2,000
D) $5,600
Answer: D
Explanation: $3,600 - $25,000 + $27,000 = $5,600
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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63) If net cash flows provided from operating activities is $17,000, net cash flows used by investing activities is $(47,000), and net cash flows used by financing activities is $(21,000), what is the increase or decrease in cash?
A) $51,000
B) $68,000
C) $(51,000)
D) $(68,000)
Answer: C
Explanation: $17,000 - $47,000 - $21,000 = $(51,000)
Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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64) Given the following information, prepare the statement of cash flows.

Collection of cash from customers	$15,000	Payment to suppliers	$4,000
Payment to employees	$1,000	Acquisition of land for cash	$9,000
Issued Common Stock for cash	$20,000	Payment of cash dividends	$3,000
Beginning Cash balance	$6,000		

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Answer:

Cash flows from operating activities:		
Receipts:		
Collections from customers		$15,000
Payments:		
To suppliers	($4,000)	
To employees	($1,000)	($5,000)
Net cash flows provided by operating activities		$10,000
Cash flows from investing activities:		
Acquisition of land	($9,000)	
Net cash used by investing activities		($9,000)
Cash flows from financing activities:		
Issued common stock	$20,000	
Payment of cash dividends	($3,000)	
Net cash provided by financing activities		$17,000
Increase in cash		$18,000
Cash balance, beginning		6,000
Cash balance, ending		$24,000

Diff: 3
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

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65) List the three sections of the statement of cash flows and state what is included in each section.

Statement of cash flows sections	What is included in each section
1.	
2.	
3.	

Answer:

Statement of cash flows sections	What is included in each section
1. Cash flows from operating activities	Cash receipts for services and cash payments for expenses
2. Cash flows from investing activities	Purchase and sale of land and equipment for cash
3. Cash flows from financing activities	Cash contributions by stockholders and cash dividends paid to the stockholders

Diff: 2
LO: F:1-5
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Statement of Cash Flows

Learning Objective F:1-6

1) The income statement shows whether or not a business can generate enough cash to pay its liabilities.
Answer: FALSE
Explanation: The income statement provides information about profitability for a particular period for the company.
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

2) The income statement provides information about profitability for a particular period for the company.
Answer: TRUE
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

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3) The balance sheet shows whether or not a business is profitable.
Answer: FALSE
Explanation: The balance sheet provides information about assets, liabilities,and stockholders' equity.
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

4) The balance sheet allows decision makers to determine their opinion about the financial position of the company.
Answer: TRUE
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

5) 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: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

6) Economic resources and debts of the company are shown on the balance sheet.
Answer: TRUE
Diff: 2
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

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

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8) 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: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

9) The balance sheet helps analyze the business performance in terms of profitability.
Answer: FALSE
Explanation: The balance sheet allows decision makers to determine their opinion about the financial position of the company.
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

10) Which of the following financial statements is used to report 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: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

11) Which of the following financial statements is used to report cash receipts for services provided?
A) income statement
B) balance sheet
C) statement of retained earnings
D) statement of cash flows
Answer: D
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: How Do You Use Financial Statements to Evaluate Business Performance? (H1)

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12) 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: F: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)

13) 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: F: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)

14) The return on assets is calculated by dividing net income by average total assets.
Answer: TRUE
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)

15) The return on assets measures how profitably the company uses its equity.
Answer: FALSE
Explanation: The return on assets is calculated by dividing net income by average total assets.
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)

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16) Average total assets is calculated by taking the ending asset balance and dividing it by two.
Answer: FALSE
Explanation: Average total assets is calculated by adding the beginning and ending asset balances and dividing by two.
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)

17) To determine if an investment is good or bad, compare the return on assets percentage to competing companies in the same industry.
Answer: TRUE
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)

18) 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: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)

19) Which of the following formulas 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: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Concept
H2: Return on Assets (ROA)

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20) Assume Metro Corporation had a net income of $2,200 for the year ending December 31. Its beginning and ending total assets were $35,500 and $19,000, respectively. Calculate Metro's return on assets (ROA). (Round your percentage answer to two decimal places.)
A) 6.20%
B) 11.58%
C) 8.07%
D) 4.04%
Answer: C
Explanation: Return on assets (ROA) = $2,200 / [($35,500 + $19,000) / 2] = 8.07%
Diff: 2
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Return on Assets (ROA)

21) Selected information for Advanced Spa Services and Dalton Spa Services follows:

Advanced Spa Services		**Dalton Spa Services**	
Total Assets	$110,000	Total Assets	$160,000
Total Stockholders' Equity	$73,000	Total Stockholders' Equity	$113,000
Total Revenues	$84,000	Total Revenues	$74,000
Net Income	$16,000	Net Income	$26,000

The total assets and total stockholders' equity balances are as of December 31, 2024. Total revenues and net income are for the year ended December 31, 2024. No dividends were paid. Average net assets are $130,000 for Advanced and $180,000 for Dalton. Which business owes more to creditors and how much does that business owe?
A) Advanced owes more, Liabilities are $47,000
B) Advanced owes more, Liabilities are $37,000
C) Dalton owes more, Liabilities are $47,000
D) Dalton owes more, Liabilities are $37,000
Answer: C
Explanation: Dalton Liabilities are $47,000 ($160,000 assets - $113,000 equity) which is more than Advanced liabilities of $37,000 ($110,000 assets – $73,000 equity).
Diff: 3
LO: F:1-6
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Return on Assets (ROA)

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22) Selected information for Advanced Spa Services and Dalton Spa Services follows:

Advanced Spa Services		**Dalton Spa Services**	
Total Assets	$140,000	Total Assets	$158,000
Total Stockholders' Equity	$77,000	Total Stockholders' Equity	$119,000
Total Revenues	$89,000	Total Revenues	$79,000
Net Income	$10,000	Net Income	$23,000

The total assets and total stockholders' equity balances are at December 31, 2024. Total revenues and net income are for the year ended December 31, 2024. No dividends were paid. Average net assets are $160,000 for Advanced and $178,000 for Dalton. Which business had more stockholder's equity at the end of the year and by how much?
A) Advanced by $42,000
B) Dalton by $42,000
C) Advanced by $18,000
D) Dalton by $18,000
Answer: B
Explanation: $119,000 - $77,000 = $42,000 more equity for Dalton.
Diff: 3
LO: F:1-6
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Return on Assets (ROA)

23) Selected information for Advanced Spa Services and Dalton Spa Services follows:

Advanced Spa Services		**Dalton Spa Services**	
Total Assets	$170,000	Total Assets	$155,000
Total Stockholders' Equity	$73,000	Total Stockholders' Equity	$119,000
Total Revenues	$89,000	Total Revenues	$80,000
Net Income	$13,000	Net Income	$25,000

The total assets and total stockholders' equity balances are at December 31, 2024. Total revenues and net income are for the year ended December 31, 2024. No dividends were paid. Average net assets are $190,000 for Advanced and $175,000 for Dalton. Which business had more expenses and what was that business's total expenses?
A) Advanced with $76,000 in total expenses
B) Dalton with $76,000 in total expenses
C) Advanced with $55,000 in total expenses
D) Dalton with $55,000 in total expenses
Answer: A
Explanation: Total Revenue – Net Income = Total expenses. $89,000 - $13,000 = $76,000 for Advanced. $80,000 - $25,000 = $55,000 for Dalton.
Diff: 3
LO: F:1-6
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Return on Assets (ROA)

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24) Selected information for Advanced Spa Services and Dalton Spa Services follows:

Advanced Spa Services		**Dalton Spa Services**	
Total Assets	$170,000	Total Assets	$155,000
Total Stockholders' Equity	$71,000	Total Stockholders' Equity	$113,000
Total Revenues	$87,000	Total Revenues	$76,000
Net Income	$12,000	Net Income	$23,000

The total assets and total stockholders' equity balances are at December 31, 2024. Total revenues and net income are for the year ended December 31, 2024. No dividends were paid. Average net assets are $190,000 for Advanced and $175,000 for Dalton. What is the ROA for each business?

A) 7.1% and 14.8%

B) 7.1% and 13.1%

C) 6.3% and 14.8%

D) 6.3% and 13.1%

Answer: D

Explanation: Advanced: $12,000 / $190,000 = 6.3%. Dalton: $23,000 / $175,000 = 13.1%

Diff: 2

LO: F:1-6

AACSB: Analytical thinking

AICPA Functional: Measurement

PE Question Type: Critical thinking

H2: Return on Assets (ROA)

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25) McAlister Repair Service had net income for the year of $125,000. In addition, the balance sheet reports the following balances:

	Jan. 1, 2024	Dec. 31, 2024
Accounts Receivable	$ 5,600	$ 14,200
Accounts Payable	12,000	9,500
Building	125,000	125,000
Cash	37,500	35,000
Office Furniture	25,000	50,000
Office Supplies	3,200	1,500
Notes Payable	60,000	75,000
Total Stockholders' Equity	124,300	141,200

Calculate the return on assets (ROA) for McAlister Repair Service for the year ending December 31, 2024.
Answer:

Total Assets	**1/1/2024**	**12/31/2024**
Accounts Receivable	$ 5,600	$ 14,200
Building	125,000	125,000
Cash	37,500	35,000
Office Furniture	25,000	50,000
Office Supplies	3,200	1,500
Total Assets	$ 196,300	$ 225,700

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
= 59.24%

Diff: 3
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Return on Assets (ROA)

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26) Adams Service Company had a net income of $14,500 for the year ending December 31, 2024. The total assets on January 1, 2024 were $28,000. The total assets on December 31, 2024 were $16,000. Calculate Adam's return on assets (ROA). Show your computations and label your work. Round your answer to two decimal places.
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 / $22,000
= 65.91%
Diff: 2
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Return on Assets (ROA)

27) What is the calculation for return on assets (ROA)? What does ROA measure?
Answer: Return on Assets = Net income / Average total assets. Average total assets equal beginning total assets plus ending total assets divided by two.
ROA measures how profitably a company uses its assets.
Diff: 1
LO: F:1-6
AACSB: Application of knowledge
AICPA Functional: Measurement
PE Question Type: Application
H2: Return on Assets (ROA)

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28) Selected information for Uptown Spa Services and Downtown Spa Services follows:

Uptown Spa Services		**Downtown Spa Services**	
Total Assets	$125,000	Total Assets	$162,000
Total Stockholders' Equity	$90,000	Total Stockholders' Equity	$137,000
Total Revenues	$82,000	Total Revenues	$70,000
Net Income	$12,000	Net Income	$18,000

The total assets and total stockholders' equity balances are at December 31, 2024. Total revenues and net income are for the year ended December 31, 2024. No dividends were paid. Average net assets are $128,000 for Uptown and $178,000 for Downtown.

Provide answers for the following questions. Show your work and explain your answer.

1. Which business owes more to creditors?
2. Which business has more stockholders' equity at the end of the year?
3. Which business had more expenses?
4. What is the ROA for each business? (Show this as a percentage and round to one decimal place).
5. Based on ROA, which company is more profitable?

Answer:

1. Uptown has liabilities of $35,000 (Assets $125,000 - Total Stockholders' Equity $90,000 = Liabilities $35,000)

   Downtown has liabilities of $25,000 (Assets $162,000 -Total Stockholders' Equity $137,000 = Liabilities $25,000)

   Uptown owes more to creditors.

2. The end of year stockholders' equity for Uptown is $90,000 and for Downtown is $137,000, thus Downtown has more stockholders' equity at the end of the year.

3. The expenses for Uptown are $70,000 (Total Revenues $82,000 -Net Income $12,000 = Total Expenses $70,000).

   The expenses for Downtown are $52,000 (Total Revenues $70,000 - Net Income $18,000 = Total Expenses $52,000).

   Uptown has more expenses.

4. ROA: Uptown (Net Income $12,000/Average Total Assets $128,000 = ROA 9.4%)
   Downtown (Net Income $18,000/Average Total Assets $178,000 = ROA 10.1%)
5. Based on ROA, Downtown is more profitable because its ROA is higher.

Diff: 3
LO: F:1-3, F:1-6
AACSB: Analytical thinking
AICPA Functional: Measurement
PE Question Type: Critical thinking
H2: Return on Assets (ROA)

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