Financial Accounting 13th edition Thomas Test Bank

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Financial Accounting, 13e **(Thomas/Tietz)**
Chapter 1 The Financial Statements

Learning Objective 1-1

1) Accounting is an information system that measures business activities.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

2) Bookkeeping is a mechanical part of accounting.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

3) Accounting is often called the language of business.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

4) Accounting produces financial statements, which report information about a business.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

5) The accounting process begins and ends with people making decisions.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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6) Accounting information is used by investors and creditors, but not by regulatory bodies.
Answer: FALSE
Explanation: It is used by individuals, investors, creditors, nonprofits, and regulatory bodies.
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Industry Sector, Legal/Regulatory
AICPA Functional: Measurement, Reporting

7) Since Habitat for Humanity is not concerned about making a profit, the entity does not need to use accounting information.
Answer: FALSE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Industry Sector, Legal/Regulatory
AICPA Functional: Measurement, Reporting

8) The business records of a sole proprietorship should include the proprietor's personal finances.
Answer: FALSE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

9) A partnership is a taxpaying entity.
Answer: FALSE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

10) Stockholders have no personal obligation for the corporation's debts.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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11) Accounting:
A) measures business activities.
B) processes data into reports and communicates the data to decision makers.
C) is often called the language of business.
D) is all of the above.
Answer: D
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

12) A disadvantage of general partnerships is:
A) double taxation of distributed profits.
B) the partnership's assets are commingled with each partner's personal assets.
C) only individuals can be partners.
D) each partner may conduct business in the name of the entity and make agreements that legally bind all partners.
Answer: D
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

13) Which of the following statements is TRUE for a limited liability company?
A) Members have unlimited liability for the debts of the business.
B) Members have limited liability for debts only up to the extent of their investment in the LLC.
C) The owners have unlimited liability for the debts of the business.
D) Members are not taxed like members of a partnership.
Answer: B
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

14) Which of the following statements is TRUE for a limited liability partnership?
A) All partners have limited liability for the debts of the partnership.
B) All the partners are considered to be limited partners.
C) The general partner has unlimited liability for the debts of the partnership.
D) The limited partners have unlimited liability for the debts of the partnership.
Answer: C
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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15) Which of the following statements is TRUE for a proprietorship?
A) Legally, a proprietorship is separate from the proprietor.
B) For accounting purposes, a proprietorship is separate from the proprietor.
C) The business records include the proprietor's personal finances.
D) All statements are correct.
Answer: B
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

16) Federal income taxes are paid by the _____ in a limited liability company.
A) company
B) limited partners only
C) general partners only
D) members
Answer: D
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

17) Which of the following statements is TRUE for a limited liability partnership?
A) The partnership pays no federal income taxes.
B) Only the limited partners pay federal income taxes on their shares of the partnership's profits.
C) Only the general partner pays federal income taxes on his or her share of the partnership's profits.
D) Only the members pay federal income taxes on their shares of the partnership's profits.
Answer: A
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

18) Which statement is TRUE about partnerships?
A) A partnership is a taxpaying entity.
B) General partnerships have mutual agency and limited liability.
C) Individuals, corporations, partnerships, or other types of entities can be partners.
D) A written partnership contract must exist.
Answer: C
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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19) Which of the following have unlimited liability for a company's debts?
A) owners of a corporation
B) members of a limited liability company
C) limited partners in a limited liability partnership
D) general partner in a limited liability partnership
Answer: D
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

20) Which of the following entities pay federal income taxes?
A) limited liability partnership
B) general partnership
C) limited liability company
D) corporation
Answer: D
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

21) The two types of accounting are:
A) profit and nonprofit.
B) financial and managerial.
C) internal and external.
D) bookkeeping and decision-oriented.
Answer: B
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

22) Decision makers who use accounting information include:
A) creditors.
B) the Internal Revenue Service.
C) the Securities and Exchange Commission.
D) all of the above.
Answer: D
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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23) Which type of business organization is larger in terms of assets, income, and number of employees?
A) proprietorship
B) partnership
C) limited-liability company
D) corporation
Answer: D
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

24) The owner of a _____ is personally liable for all the business's debts.
A) proprietorship
B) corporation
C) limited-liability company
D) All of the above are correct.
Answer: A
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

25) Which of the following is a TRUE statement about the characteristics of partnerships?
A) In a limited liability partnership, all partners have limited liability for the partnership's debts.
B) General partners in a general partnership have mutual agency and limited liability for the partnership's debts.
C) Income and losses of the partnership "flow through" to the partners.
D) The partnership agreement must be in writing.
Answer: C
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

26) Owners of an LLC are called:
A) partners.
B) proprietors.
C) members.
D) stockholders.
Answer: C
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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27) Advantages of a corporation include:
A) difficulty in raising large sums of capital.
B) double taxation of distributed profits.
C) limited liability of the stockholders for the corporation's debts.
D) each stockholder can conduct business in the name of the corporation.
Answer: C
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

28) Shareholders of a corporation:
A) have limited liability for the corporation's debts.
B) can only be individuals.
C) have a personal obligation for the corporation's debts.
D) receive dividends from the corporation without having to pay tax on the distribution.
Answer: A
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

29) An important factor to consider when determining how to organize a business is that:
A) members of an LLC have unlimited liability and are taxed like members of a partnership.
B) for accounting purposes, a proprietorship is a distinct entity, separate from the proprietor.
C) partnerships are subject to double taxation.
D) a corporation is not legally distinct from its owners.
Answer: B
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

30) Accounting can be defined as:
Answer: Accounting is the information system that measures business activities, processes that information into reports and financial statements, and communicates the results to decision makers.
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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31) Five ways a business can be organized include:
Answer: Proprietorship, General Partnership, Limited-Liability Company, Limited-Liability Partnership, and Corporation
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

32) List and describe the decision makers who use accounting.
Answer:
i) Individuals. People like you manage their personal bank accounts, decide whether to rent an apartment or buy a house, and calculate the monthly income and expenditures of their businesses. Accounting provides the information people need to make these decisions.
ii) Investors and creditors. Investors and creditors provide the money to finance The Walt Disney Company. Investors want to know how much income they can expect to earn on an investment. Creditors want to know when and how the company is going to pay them back. These decisions also require accounting information.
iii) Regulatory bodies. All kinds of regulatory bodies use accounting information. For example, the Internal Revenue Service (IRS) and various state and local governments require businesses, individuals, and other types of organizations to pay income, property, excise, and other taxes. The Securities and Exchange Commission (SEC) requires companies with publicly traded stock to provide it with many kinds of periodic financial reports. All of these reports contain accounting information.
iv) Nonprofit organizations. Churches, hospitals, and charities such as Habitat for Humanity and the Red Cross base many of their operating decisions on accounting data. These nonprofit organizations also have to file periodic financial reports with the IRS and state governments, even though they will owe no income taxes.
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
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AICPA Functional: Measurement

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Learning Objective 1-2

1) Generally accepted accounting principles (GAAP) are the accounting guidelines formulated by the Securities and Exchange Commission.
Answer: FALSE
Explanation: The Financial Accounting Standards Board (FASB) formulates the standards for U.S. GAAP.
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

2) The SEC establishes International Financial Reporting Standards.
Answer: FALSE
Explanation: The International Accounting Standards Board (IASB) sets IFRS (International Financial Reporting Standards).
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: International/Global
AICPA Functional: Measurement, Reporting

3) The fundamental qualitative characteristics of accounting information are relevance and reliability.
Answer: FALSE
Explanation: Relevance and faithful representation.
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

4) Another name for the continuity assumption is the going-concern assumption.
Answer: TRUE
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

5) The historical cost principle is not used widely in the United States to value assets.
Answer: FALSE
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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6) Accounting is moving in the direction of reporting more and more assets and liabilities at their fair values.
Answer: TRUE
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

7) Relevance is one of the four enhancing qualitative characteristics.
Answer: FALSE
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

8) Which of the following characteristics does NOT apply to verifiability?
A) completeness
B) reliability
C) accuracy
D) faithful representation
Answer: D
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

9) Enhancing qualitative characteristics of accounting information do NOT include:
A) comparability.
B) verifiability.
C) timeliness.
D) materiality.
Answer: D
Explanation: The fourth one is understandability.
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

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10) The conceptual foundation of accounting does NOT include:
A) accounting objectives.
B) fundamental qualitative characteristics.
C) enhancing qualitative characteristics.
D) decision making.
Answer: D
Explanation: The fourth one is constraint.
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

11) Information must be sufficiently transparent so that it makes sense to reasonably informed users of the financial statements, such as creditors. This qualitative characteristic of information is called:
A) verifiability.
B) faithful representative.
C) relevant.
D) understandability.
Answer: D
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

12) The fair value of a plant asset is equal to:
A) the amount the business could sell the asset for.
B) the amount of cash paid plus the dollar value of noncash consideration given in exchange for the plant asset at acquisition.
C) the amount of cash paid plus the loan taken out to finance the purchase of the plant asset.
D) the amount a company can receive for the asset when sold in order to go out of business.
Answer: A
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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13) In 1990, Johnson Company purchased a building for $200,000. In 2022, a real estate professional says the building has a fair value of $1,900,000. In 2022, a similar building down the street recently sold for $900,000. What value, before consideration of accumulated depreciation, is reported for the building on the balance sheet at December 31, 2022?
A) $200,000
B) $1,050,000
C) $900,000
D) $1,900,000
Answer: A
Explanation: The building is reported at the actual cost on the date of purchase of $200,000.
Diff: 1
LO: 1-2
AACSB: Analytical Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

14) Which statement is FALSE?
A) International Financial Reporting Standards are used by most countries around the world.
B) U.S. Generally Accepted Accounting Principles are used by many countries around the world.
C) The most commonly used accounting practices are essentially the same under both U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards.
D) For many years, U.S. Generally Accepted Accounting Principles were considered to be the strongest single set of accounting standards in the world.
Answer: B
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: International/Global
AICPA Functional: Measurement, Reporting

15) In order to compare the financial statements of Toyota Corporation to the financial statements of General Motors, it would be preferable to use:
A) U.S. Generally Accepted Accounting Principles for General Motors and International Financial Reporting Standards for Toyota.
B) U.S. Generally Accepted Accounting Principles for both companies.
C) International Financial Reporting Standards for both companies.
D) U.S. Generally Accepted Accounting Principles for Toyota Corporation and International Financial Reporting Standards for General Motors.
Answer: C
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: International/Global
AICPA Functional: Measurement, Reporting

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16) The International Accounting Standards Board is responsible for establishing:
A) the code of professional conduct for accountants.
B) an international Securities and Exchange Commission.
C) U. S. Generally Accepted Accounting Principles.
D) International Financial Reporting Standards.
Answer: D
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: International/Global
AICPA Functional: Measurement, Reporting

17) Which of the following statements is FALSE?
A) The application of U.S. GAAP for public companies in the Unites States has been overseen by SEC.
B) The advantage of a uniform set of global accounting standards is that financial statements from a U.S. company will be comparable to those of a foreign company.
C) In the long run, a uniform set of global accounting standards should significantly reduce the costs of doing business globally.
D) IFRS has been adapted in the United States.
Answer: D
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: International/Global
AICPA Functional: Measurement, Reporting

18) To be useful, accounting information must have the fundamental qualitative characteristics of:
A) comparability and relevance.
B) relevance and faithful representation.
C) materiality and understandability.
D) faithful representation and timeliness.
Answer: B
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

19) All of the following are true statements about the entity assumption EXCEPT for:
A) a sharp boundary is drawn around each entity.
B) the transactions of the business cannot be combined with the transactions of the owner.
C) business operations cannot be divided into segments.
D) the entity is any organization that stands apart as a separate economic unit.
Answer: C
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

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20) Verifiability means that the accounting information:
A) is timely and understandable.
B) is understandable.
C) must be capable of being checked for accuracy, completeness and reliability.
D) is material and relevant.
Answer: C
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

21) The accounting assumption that states that the business, rather than its owners, is the reporting unit is the:
A) entity assumption.
B) going concern assumption.
C) stable-monetary-unit assumption.
D) historical cost assumption.
Answer: A
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

22) The stable-monetary-unit assumption:
A) ensures that accounting records and statements are based on the most reliable data available.
B) requires all countries to record transactions in U.S. dollars.
C) maintains that each organization or section of an organization stands apart from other organizations and individuals.
D) enables accountants to ignore the effect of inflation on the accounting records.
Answer: D
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

23) Historical cost:
A) is used in the U.S. to value all business assets.
B) is equal to the amount of cash paid minus the dollar value of all noncash considerations also given in the exchange.
C) is a verifiable measure that is relatively free from bias.
D) is the amount that the business could sell an asset for.
Answer: C
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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24) The principle stating that assets acquired by the business should be recorded at their actual cost on the date of purchase is:
A) historical cost.
B) objectivity.
C) reliability.
D) stable-monetary-unit.
Answer: A
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

25) The relevant measure of the value of the assets of a company that is going out of business is the:
A) liquidating value.
B) inflation-adjusted book value.
C) historical cost.
D) carrying value.
Answer: A
Diff: 1
LO: 1-2
AACSB: Analytical Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

26) The CEO of Clarkson Company owns a vacation home in Hawaii. Clarkson Company owns a factory in Detroit where it is headquartered. Which of these properties is considered to be asset(s) of the business?
A) only the vacation home in Hawaii
B) only the factory in Detroit
C) both the vacation home in Hawaii and the factory in Detroit
D) neither the vacation home in Hawaii nor the factory in Detroit
Answer: B
Diff: 2
LO: 1-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking, Legal/Regulatory
AICPA Functional: Measurement, Reporting

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27) A construction company paid $81,000 cash for land used in the business. At the time of purchase, the land had a list price of $88,000. When the balance sheet was prepared, the fair value of the land was $84,000. At what amount should the land be reported on the balance sheet of the company?
A) $81,000
B) $84,000
C) $84,500
D) $88,000
Answer: A
Explanation: Based on the historical cost principle, the land should be reported at its cost of $81,000.
Diff: 2
LO: 1-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

28) If a company prepares its financial statements three years after the end of its accounting period, it has violated the qualitative characteristic of:
A) understandability.
B) timeliness.
C) verifiability.
D) materiality.
Answer: B
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

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29) Below is a list of qualitative characteristics of accounting. Following the list is a series of descriptive phrases. Required: Match each characteristic with the appropriate phrase.

A) faithful representation
B) timeliness
C) relevance
D) comparability
E) verifiability
F) understandability

_____ 1. Information must be sufficiently transparent, so it makes sense to reasonably informed users.
_____ 2. Accounting information must be complete, neutral, and accurate.
_____ 3. The information must be capable of being checked for accuracy, reliability and completeness.
_____ 4. Information must be made available early enough to users to help them make decisions.
_____ 5. Accounting information must be prepared in such a way that it can be compared with information from other companies in the same period.
_____ 6. Information must be capable of making a difference in a decision.
Answer: 1. F, 2. A, 3. E, 4. B, 5. D, 6. C
Diff: 3
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

30) Provide an explanation of each of the following:
Entity Assumption
Historical Cost Principle
Continuity Assumption
Stable-Monetary-Unit Assumption
Answer: Entity Assumption — The entity is any organization or person that stands apart as a separate economic unit. Sharp boundaries are drawn around each entity so as not to confuse its affairs with those of others.
Historical Cost Principle — For accounting purposes, assets are recorded at their actual cost. This amount is relevant and faithfully represents a reliable figure for the price the company paid. Continuity Assumption — For accounting purposes, accountants assume that the entity will continue to operate long enough to sell its inventories, convert any receivables to cash, use other existing assets for their intended purposes, and settle its obligations in the normal course of business.
Stable-Monetary-Unit Assumption — Accountants assume that the dollar's purchasing power is stable over time.
Diff: 3
LO: 1-2
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

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31) In 1994, Baker Company purchased a building for $180,000. In 2020, a real estate professional says the building has a fair value of $1,100,000. In 2020, a similar building down the street recently sold for $930,000. What value, before consideration of accumulated depreciation, is reported for the building on the balance sheet at December 31, 2020?
Answer: The building is reported at the actual cost on the date of purchase of $180,000.
Diff: 1
LO: 1-2
AACSB: Analytical Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

32) A construction company paid $84,000 cash for land used in the business. At the time of purchase, the land had a list price of $92,000. When the balance sheet was prepared, the fair value of the land was $87,000. At what amount should the land be reported on the balance sheet of the company?
Answer: Based on the historical cost principle, the land should be reported at its cost of $84,000.
Diff: 2
LO: 1-2
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

Learning Objective 1-3

1) The word "payable" always signifies a liability.
Answer: TRUE
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

2) The accounting equation must always be in balance.
Answer: TRUE
Diff: 1
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

3) Owners' equity is called stockholders' equity for a corporation.
Answer: TRUE
Diff: 1
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

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4) Stockholders' equity is the stockholders' interest in the assets of the corporation.
Answer: TRUE
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

5) The accounting equation shows the relationship among assets, liabilities and net income.
Answer: FALSE
Explanation: It is the relationship among assets, liabilities, and stockholders'(owners') equity.
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

6) Revenues are cash distributions to the stockholders.
Answer: FALSE
Explanation: Revenues are inflows of resources that increase retained earnings as a result of a company delivering goods or services to a customer.
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

7) Expenses are decreases in retained earnings that result from operations.
Answer: TRUE
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

8) The basic component of paid-in capital is common stock.
Answer: TRUE
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

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9) The calculation of ending retained earnings considers the beginning retained earnings, current period net income or net loss, and stockholders' equity.
Answer: FALSE
Explanation: The calculation of ending retained earnings considers the beginning retained earnings, current period net income or net loss, and subtracts dividends declared.
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

10) The two main components of stockholders' equity are paid-in capital and dividends.
Answer: FALSE
Explanation: The two main components of stockholders' equity are paid-in capital and retained earnings.
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

11) Long-term debt is a liability that is payable beyond one year from the date of the balance sheet.
Answer: TRUE
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

12) David Company has total assets of $500,000 and total liabilities of $180,000. David Company's stockholders' equity must therefore be $680,000.
Answer: FALSE
Explanation: Stockholders' equity = $500,000 - $180,000 = $320,000
Diff: 2
LO: 1-3
AACSB: Analytical Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

13) The Clarke Company had beginning retained earnings of $20,000 and net income of $5,000. Clarke declared and paid dividends of $1,000. Therefore, the ending retained earnings is $25,000.
Answer: FALSE
Explanation: Beginning Retained Earnings $20,000 + Net Income $5,000 -Dividends Declared $1,000 = Ending Retained Earnings $24,000
Diff: 2
LO: 1-3
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AICPA Functional: Measurement

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14) All of the following are expenses EXCEPT for:
A) Cost of products and services.
B) Depreciation Expense.
C) Salary Expense.
D) Dividends.
Answer: D
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

15) Which of the following statements is TRUE?
A) Dividends are expenses of a business.
B) Dividends reduce retained earnings.
C) Dividends increase retained earnings.
D) Dividends reduce net income.
Answer: B
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

16) The accounting equation can be stated as:
A) Assets + Stockholders' Equity = Liabilities.
B) Assets -Liabilities = Stockholders' Equity.
C) Assets = Liabilities - Stockholders' Equity.
D) Assets - Stockholders' Equity + Liabilities = Zero.
Answer: B
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

17) The accounting equation can be stated as:
A) Assets = Liabilities + Paid-in Capital - Common Stock.
B) Assets + Liabilities = Stockholders' Equity.
C) Assets = Liabilities + Paid-in Capital + Retained Earnings.
D) Assets = Liabilities - Paid-in Capital - Dividends.
Answer: C
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
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AICPA Functional: Measurement, Reporting

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18) Liabilities are:
A) a form of paid-in capital.
B) future economic benefits to which a company is entitled.
C) debts payable to outsiders called creditors.
D) the outflow of resources that decrease common stock.
Answer: C
Diff: 1
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

19) Examples of liabilities include:
A) accounts payable and dividends.
B) accounts payable and common stock.
C) investments and note payable.
D) accounts payable and long-term debt.
Answer: D
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

20) What is an account payable?
A) It is a liability for goods or services purchased on credit and supported by a written agreement.
B) It is a liability for goods or services purchased on credit and supported by the credit standing of the purchaser.
C) It is an amount of money to be received from a supplier.
D) It is an asset arising from the sale of goods or services on credit.
Answer: B
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

21) The assets of a company:
A) must equal the liabilities of the company.
B) include property, plant, and equipment and accounts payable.
C) represent economic resources that are expected to produce a future benefit.
D) include short-term investments and notes payable.
Answer: C
Diff: 1
LO: 1-3
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22) The owners' equity of a business is equal to:
A) revenues minus expenses.
B) assets minus liabilities.
C) assets plus liabilities.
D) paid-in capital plus assets.
Answer: B
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

23) The major types of transactions that affect retained earnings are:
A) paid-in capital and common stock.
B) assets and liabilities.
C) revenues, expenses, and dividends.
D) revenues and liabilities.
Answer: C
Diff: 2
LO: 1-3
AACSB: Analytical Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

24) Which of the following increases retained earnings?
A) net loss
B) net income
C) expenses
D) dividends
Answer: B
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

25) Receivables are classified as:
A) increases in earnings.
B) decreases in earnings.
C) liabilities.
D) assets.
Answer: D
Diff: 2
LO: 1-3
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26) Net income:
A) is calculated by subtracting total expenses and total dividends from total revenues.
B) occurs when total revenues are less than total expenses.
C) is often referred to as the "bottom line" on an income statement.
D) decreases total stockholders' equity.
Answer: C
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

27) Revenues are:
A) decreases in assets resulting from delivering goods or services to customers.
B) increases in liabilities resulting from delivering goods or services to customers.
C) increases in retained earnings resulting from delivering goods or services to customers.
D) decreases in retained earnings resulting from delivering goods or services to customers.
Answer: C
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

28) Expenses of a business include:
A) sales and cash equivalents.
B) common stock and rent expense.
C) cost of products and services sold and salaries expense.
D) retained earnings and utilities expense.
Answer: C
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement

29) Net income is computed as:
A) revenues - expenses - dividends.
B) revenues + expenses.
C) revenues - expenses.
D) revenues - expenses + dividends.
Answer: C
Diff: 2
LO: 1-3
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30) When total expenses exceed total revenues, the result is:
A) a net profit.
B) a net loss.
C) a dividend.
D) an increase to retained earnings.
Answer: B
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

31) Owners' equity consists of two accounts, Amy Jones, Capital, and Mindy Lenz, Capital. This indicates the entity is a:
A) proprietorship.
B) corporation.
C) not-for-profit.
D) partnership.
Answer: D
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

32) Which of the following must be added to beginning Retained Earnings to compute ending Retained Earnings?
A) net income
B) expenses
C) dividends
D) all of the above
Answer: A
Diff: 2
LO: 1-3
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33) At the end of the current accounting period, account balances were as follows: Cash, $28,000; Accounts Receivable, $40,000; Common Stock, $19,000; Retained Earnings, $12,000. Liabilities at the end of the period were:
A) $68,000.
B) $49,000.
C) $56,000.
D) $37,000.
Answer: D
Explanation: Cash $28,000 + Accounts Receivable $40,000 - Common Stock $19,000 - Retained Earnings $12,000 = $37,000
Diff: 2
LO: 1-3
AACSB: Analytical Thinking
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AICPA Functional: Measurement, Reporting

34) On January 1, 2021, total assets for Wininger Technologies were $135,000; on December 31, 2021, total assets were $157,000. On January 1, 2021, total liabilities were $112,000; on December 31, 2021, total liabilities were $119,000. What is the amount of the change and the direction of the change in Wininger Technologies' stockholders' equity for 2021?
A) decrease of $15,000
B) increase of $15,000
C) increase of $29,000
D) decrease of $29,000
Answer: B
Explanation: Assets - liabilities = stockholders' equity
Beginning of year: $135,000 - $112,000 = $23,000
End of year: $157,000 - $119,000 = $38,000
Increase of $15,000, which equals $38,000 - $23,000
Diff: 3
LO: 1-3
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

35) Revenues were $144,000, expenses were $140,000, and cash dividends declared and paid were $2,000. What were the net income and the change in retained earnings for the period?
A) Net income was $4,000; the change in retained earnings was $4,000.
B) Net income was $144,000; the change in retained earnings was $6,000.
C) Net income was $4,000; the change in retained earnings was $2,000.
D) Net income was $144,000; the change in retained earnings was $142,000.
Answer: C
Explanation: Net income = $144,000 - $140,000 = $4,000
Retained earnings increased by $4,000 for net income, and decreased by $2,000 for dividends declared for a net change of $2,000.
Diff: 2
LO: 1-3
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36) Golden Company had the following accounts and balances at the end of the first year of operations. What are total assets at the end of the year?

Cash	$78,000
Accounts Payable	$20,000
Common Stock	$21,000
Dividends	$12,000
Operating Expenses	$25,000
Accounts Receivable	$51,000
Inventory	$45,000
Long-term Notes Payable	$33,000
Revenues	$111,000
Salaries Payable	$26,000

A) $78,000
B) $123,000
C) $129,000
D) $174,000
Answer: D
Explanation: Cash $78,000 + Accounts Receivable $51,000 + Inventory $45,000 = $174,000
Diff: 2
LO: 1-3
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37) Census Company had the following accounts and balances at the end of the first year of operations. What are total liabilities at the end of the year?

Cash	$72,000
Accounts Payable	$14,000
Common Stock	$21,000
Dividends	$12,000
Operating Expenses	$21,000
Accounts Receivable	$58,000
Inventory	$46,000
Long-term Notes Payable	$38,000
Revenues	$110,000
Salaries Payable	$26,000

A) $14,000
B) $52,000
C) $40,000
D) $78,000
Answer: D
Explanation: Accounts Payable $14,000 + Long-term Notes Payable $38,000 + Salaries Payable $26,000 = $78,000
Diff: 3
LO: 1-3
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38) Beck Company had the following accounts and balances at the end of the first year of operations. What is net income or net loss for the year?

Cash	$77,000
Accounts Payable	$12,000
Common Stock	$21,000
Dividends	$12,000
Operating Expenses	$13,000
Accounts Receivable	$51,000
Inventory	$44,000
Long-term Notes Payable	$33,000
Revenues	$104,000
Salaries Payable	$27,000

A) net income of $104,000
B) net income of $91,000
C) net loss of $5,000
D) net income of $18,000
Answer: B
Explanation: Revenues $104,000 - Operating Expenses $13,000 = Net Income $91,000
Diff: 2
LO: 1-3
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39) Seidner Company had the following account balances at the end of the first year of operations:

Revenues	$104,000
Salaries Expense	$13,000
Dividends	$14,000
Utilities Expense	$11,000
Advertising Expense	$8,000
Short-term Investments	$20,000
Cash	$38,000
Land	$50,000
Common Stock	$50,000

What is the amount of net income or net loss for the year?
A) $27,000
B) $35,000
C) $72,000
D) $80,000
Answer: C
Explanation: Revenues $104,000 - Salaries Expense $13,000 - Utilities Expense $11,000 - Advertising Expense $8,000 = Net Income $72,000
Diff: 2
LO: 1-3
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40) Lorna Company is a new company with a beginning retained earnings balance of zero. It has the following account balances at the end of the first year of operations:

Accounts Payable	$37,000
Revenues	$106,000
Salaries Expense	$16,000
Dividends	$10,000
Utilities Expense	$15,000
Advertising Expense	$10,000
Short-term Investments	$20,000
Cash	$76,000
Land	$50,000
Common Stock	$54,000

What is the ending balance in Retained Earnings?
A) $55,000
B) $21,000
C) $65,000
D) $75,000
Answer: A
Explanation: Beginning Retained Earnings $0 + Net Income $65,000 - Dividends $10,000 = $55,000
To calculate net income for above: Revenues $106,000 - Salaries Expense $16,000 - Utilities Expense $15,000 - Advertising Expense $10,000 = $65,000 Net Income
Diff: 2
LO: 1-3
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41) Gerald Company has the following account balances at the end of the first year of operations:

Revenues	$106,000
Salaries Expense	$36,000
Dividends	$12,000
Utilities Expense	$11,000
Advertising Expense	$7,000
Cash	$38,000
Land	$56,000
Common Stock	$54,000

What are total assets at the end of the first year?
A) $38,000
B) $94,000
C) $119,000
D) $225,000
Answer: B
Explanation: Cash $38,000 + Land $56,000 = $94,000
Diff: 2
LO: 1-3
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

42) Michael Company reports Total Assets of $231,000, Common Stock of $36,000, and Retained Earnings of $102,000. What are total liabilities at the end of the first year?
A) $93,000
B) $165,000
C) $129,000
D) $195,000
Answer: A
Explanation: Total Assets $231,000 — (Common Stock $36,000 + Retained Earnings $102,000) = $93,000
Diff: 2
LO: 1-3
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43) At the end of the current fiscal year, ABC Corporation had the following balances:

Assets	$50,000
Common Stock	$30,000
Dividends	$ 5,000
Expenses	$75,000
Liabilities	$20,000
Revenues	$90,000

What is the increase (or decrease) to Retained Earnings? Support your answer with well labeled computations.
Answer: The following accounts affect Retained Earnings:

Revenues	$90,000
Expenses	(75,000)
Dividends	(5,000)
Increase in Retained Earnings	$10,000

Diff: 2
LO: 1-3
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44) At the end of the current fiscal year , Smith Corporation had the following balances:

Assets	$ 100,000
Common Stock	$ 25,000
Dividends	$ 10,000
Expenses	$ 80,000
Liabilities	$ 30,000
Revenues	$120,000

The beginning balance of Retained Earnings was $15,000.

a. What is the ending balance of Retained Earnings? Support your answer with well labeled computations.
b. Prepare an accounting equation that shows assets, liabilities, and components of stockholders' equity.
Answer:
a. Computation of the ending balance of Retained Earnings

Beginning Retained Earnings Balance:			$15,000
Revenues	$120,000		
Expenses	(80,000)		
Add: Net Income		40,000	
Less: Dividends		(10,000)	
Ending Retained Earnings Balance			$45,000

b. Accounting Equation:
Assets = Liabilities + Stockholders' Equity
Assets = Liabilities + (Common Stock + Retained Earnings)
$100,000 = $30,000 + ($25,000 + $45,000) = $100,000
Diff: 3
LO: 1-3
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45) On January 1, 2021, total assets for West Technologies were $140,000; on December 31, 2021, total assets were $160,000. On January 1, 2021, total liabilities were $110,000; on December 31, 2021, total liabilities were $120,000. What is the amount of the change and the direction of the change in West Technologies' stockholders' equity for 2021?
Answer: Increase of $10,000 in stockholders' equity.
Assets - liabilities = stockholders' equity
Beginning of year: $140,000 - $110,000 = $30,000
End of year: $160,000 - $120,000 = $40,000
$40,000 end of year - $30,000 beginning of year = $10,000 increase
Diff: 3
LO: 1-3
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

46) Revenues were $160,000, expenses were $140,000, and cash dividends declared and paid were $5,000. What were the net income and the change in retained earnings for the period?
Answer: Net income was $20,000; the change in retained earnings was an increase of $15,000.
Net income = $160,000 - $140,000 = $20,000
Retained earnings increased by $20,000 for net income, and decreased by $5,000 for dividends declared for a net change of $15,000.
Diff: 2
LO: 1-3
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

47) Gasper Company had the following accounts and balances at the end of the first year of operations. What are total assets at the end of the year?

Cash	$80,000
Accounts Payable	$22,000
Common Stock	$21,000
Dividends	$12,000
Operating Expenses	$34,000
Accounts Receivable	$55,000
Inventory	$45,000
Long-term Notes Payable	$33,000
Revenues	$115,000
Salaries Payable	$35,000

Answer: Cash $80,000 + Accounts Receivable $55,000 + Inventory $45,000 = $180,000
Diff: 2
LO: 1-3
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48) Gummy Company had the following accounts and balances at the end of the first year of operations. What are total liabilities at the end of the year?

Cash	$80,000
Accounts Payable	$22,000
Common Stock	$21,000
Dividends	$12,000
Operating Expenses	$34,000
Accounts Receivable	$55,000
Inventory	$45,000
Long-term Notes Payable	$33,000
Revenues	$115,000
Salaries Payable	$35,000

Answer: Accounts Payable $22,000 + Long-term Notes Payable $33,000 + Salaries Payable $35,000 = $90,000
Diff: 3
LO: 1-3
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

49) Godwin Company had the following accounts and balances at the end of the first year of operations. What is net income or net loss for the year?

Cash	$80,000
Accounts Payable	$22,000
Common Stock	$21,000
Dividends	$12,000
Operating Expenses	$34,000
Accounts Receivable	$55,000
Inventory	$45,000
Long-term Notes Payable	$33,000
Revenues	$115,000
Salaries Payable	$35,000

Answer: Revenues $115,000 - Operating Expenses $34,000 = Net Income $81,000
Diff: 2
LO: 1-3
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Learning Objective 1-4

1) Net income is the profit left over after subtracting expenses and dividends from revenues and gains.
Answer: FALSE
Explanation: Net income is the profit left over after subtracting expenses and losses from revenues and gains.
Diff: 1
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

2) The balance sheet is also called the statement of financial position.
Answer: TRUE
Diff: 1
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

3) Every corporation must pay dividends every year.
Answer: FALSE
Diff: 1
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

4) The balance sheet is organized in terms of the organization's operating, investing, and financing activities.
Answer: FALSE
Explanation: A statement of cash flows has operating, investing, and financing activities.
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

5) The amount of cash received on the sale of the company's stock in excess of par value is called retained earnings.
Answer: FALSE
Explanation: It is called additional paid-in capital, or paid-in capital in excess of par.
Diff: 2
LO: 1-4
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6) The statement of cash flows measures operating performance.
Answer: FALSE
Diff: 1
LO: 1-4
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AICPA Functional: Measurement, Reporting

7) A balance sheet reports the company's financial position over a period of time.
Answer: FALSE
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

8) Revenues and expenses are reported on both the income statement and the statement of retained earnings.
Answer: FALSE
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Reporting

9) The statement of retained earnings shows both the beginning and ending balances of retained earnings.
Answer: TRUE
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
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AICPA Functional: Measurement, Reporting

10) Each category of activities on the statement of cash flows results in net cash provided or net cash used.
Answer: TRUE
Diff: 2
LO: 1-4
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11) Which financial statement answers the following question: What is the company's financial position at fiscal year end?
A) statement of cash flows
B) income statement
C) statement of retained earnings
D) balance sheet
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Reporting

12) Which financial statement answers the following question: How well did the company perform during the year?
A) statement of cash flows
B) income statement
C) statement of retained earnings
D) balance sheet
Answer: B
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Reporting

13) Which financial statement reports cash payments and cash receipts over a period of time?
A) statement of retained earnings
B) income statement
C) balance sheet
D) statement of cash flows
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Reporting

14) A company reports the purchase of equipment for $1,000,000 in cash. On a statement of cash flows, this is a(n) example of:
A) cash outflow from financing activity.
B) cash outflow from operating activity.
C) cash outflow from investing activity.
D) noncash activity.
Answer: C
Diff: 2
LO: 1-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

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15) All of the following will appear on the income statement EXCEPT for:
A) assets.
B) expenses.
C) gains.
D) revenues.
Answer: A
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

16) The cost of products sold:
A) is considered a selling expense.
B) is the direct cost of the products sold.
C) is classified as revenue on the income statement.
D) is the same as total revenues.
Answer: B
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement

17) A company issues common stock for $100,000. On a statement of cash flows, this will be reported as a(n):
A) financing cash flow.
B) investing cash flow.
C) operating cash flow.
D) noncash activity.
Answer: A
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

18) A company's interest expense for the period is reported on the:
A) balance sheet.
B) income statement.
C) statement of cash flows.
D) statement of retained earnings.
Answer: B
Diff: 2
LO: 1-4
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AICPA Functional: Measurement, Reporting

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19) The CORRECT data flow from one financial statement to the next is:
A) statement of retained earnings, income statement, balance sheet, statement of cash flows.
B) balance sheet, statement of retained earnings, income statement, statement of cash flows.
C) statement of retained earnings, income statement, statement of cash flows, balance sheet.
D) income statement, statement of retained earnings, balance sheet, statement of cash flows.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

20) If an investor wants to know a company's cash balance at the end of the year, this balance is reported on the:
A) balance sheet.
B) statement of cash flows.
C) income statement.
D) A and B.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

21) Cash dividends declared:
A) decrease revenue on the income statement.
B) decrease retained earnings on the statement of retained earnings.
C) increase expenses on the income statement.
D) decrease operating activities on the statement of cash flows.
Answer: B
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

22) When analyzing a company's income statement, a fact to remember is that:
A) the cost of products sold is another term for gross profit.
B) operating expenses are the costs of everyday operations such as selling expenses.
C) companies are not allowed to offset items such as interest income and interest expense against each other.
D) all expenses will have the word expense at the end of their titles.
Answer: B
Diff: 2
LO: 1-4
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23) An investor, wishing to assess the reasons for a change in retained earnings over a period of a year, would probably examine the:
A) statement of cash flows and the income statement.
B) income statement only.
C) balance sheet.
D) statement of retained earnings.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

24) A potential investor, interested in predicting the earnings of a company in the future, should examine the:
A) Balance Sheet only.
B) Income Statement only.
C) Statement of Retained Earnings.
D) Statement of Retained Earnings and Balance Sheet.
Answer: B
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

25) Which statement(s) reports the revenues, gains, expenses, and losses of an entity?
A) Balance sheet
B) Statement of cash flows and income statement
C) Statement of retained earnings and statement of operations
D) Income statement
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

26) Which financial statement is dated at the moment in time when the accounting period ends?
A) Balance sheet
B) Income statement
C) Statement of retained earnings and income statement
D) Statement of cash flows
Answer: A
Diff: 2
LO: 1-4
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27) The income statement:
A) is not dated.
B) must cover only a month in time.
C) covers a defined period of time.
D) reports the results of operations since the inception of the business.
Answer: C
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

28) An example of an operating expense is:
A) cost of products sold.
B) sales returns.
C) sales commissions paid to employees.
D) interest expense.
Answer: C
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

29) Which is the CORRECT order for items to appear on the income statement?
A) revenues, operating expenses, net income
B) cost of goods sold, revenues, net income
C) revenues, net income, operating expenses
D) interest expense, revenues, income from operations
Answer: A
Diff: 3
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

30) The portion of net income that the company has kept over a period of years and not used for dividends is called:
A) common stock.
B) retained earnings.
C) revenue.
D) gross profit.
Answer: B
Diff: 2
LO: 1-4
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31) A company sells travel mugs online for $10. They purchase the mugs for $4 and charge the customers $1 for shipping and handling. The cost of product sold per mug is:
A) $6.
B) $1.
C) $4.
D) $5.
Answer: C
Diff: 2
LO: 1-4
AACSB: Analytical Thinking
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AICPA Functional: Measurement

32) A net loss occurs when:
A) not enough cash exists.
B) total revenues exceed total expenses.
C) total expenses and losses exceed total revenues and gains.
D) total revenues and dividends exceed total expenses and losses.
Answer: C
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
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AICPA Functional: Measurement, Reporting

33) The balance sheet is also known as the:
A) statement of profit and loss.
B) operating statement.
C) assets statement.
D) statement of financial position.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

34) The balance sheet reports information about:
A) revenues, expenses, and equity.
B) liabilities, equity, and expenses.
C) assets, revenues, and liabilities.
D) assets, liabilities, and equity.
Answer: D
Diff: 1
LO: 1-4
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35) On the statement of retained earnings:
A) a net loss decreases retained earnings.
B) net income decreases retained earnings.
C) dividends declared increase retained earnings.
D) a deficit ending balance in retained earnings is not allowed.
Answer: A
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
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36) The net income shown on the income statement also appears on the:
A) balance sheet and statement of operations.
B) statement of retained earnings.
C) statement of cash flows, if the indirect method is used.
D) B and C.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
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37) The balance sheet includes the:
A) amount of net income or net loss.
B) beginning balance in retained earnings.
C) ending balance in retained earnings.
D) amount of cash dividends paid to stockholders.
Answer: C
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
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38) With regard to cash dividends:
A) they must be paid on a yearly basis.
B) the Board of Directors of the corporation determines if a dividend will be paid.
C) developmental-stage companies will pay large dividends to their shareholders.
D) a corporation must have enough additional paid-in capital and cash to pay dividends.
Answer: B
Diff: 3
LO: 1-4
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39) Which financial statement must be prepared before the others?
A) statement of cash flows
B) income statement
C) balance sheet
D) statement of retained earnings
Answer: B
Diff: 2
LO: 1-4
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40) A company's balance sheet:
A) is dated for a period of time.
B) has three main categories of assets.
C) has two main categories of liabilities.
D) lists liabilities before assets.
Answer: C
Explanation: Liabilities have two categories of current and long-term liabilities.
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
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AICPA Functional: Measurement, Reporting

41) Current assets are assets expected to be converted to cash, sold, or consumed during the next:
A) 12 months or within the business's operating cycle if longer than a year.
B) 12 months or within the business's operating cycle if less than a year.
C) 6 months.
D) 24 months.
Answer: A
Diff: 2
LO: 1-4
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42) Equipment would appear on the:
A) balance sheet with long-term assets.
B) income statement with revenues.
C) income statement with operating expenses.
D) balance sheet with current assets.
Answer: A
Diff: 1
LO: 1-4
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43) Accumulated depreciation is normally associated with which asset on the Balance Sheet?
A) inventory
B) accounts receivable
C) intangible assets
D) fixed assets
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

44) The order in which current assets are typically listed is:
A) accounts receivable, inventory, cash and cash equivalents, prepaid expenses.
B) cash and cash equivalents, accounts receivable, prepaid expenses, inventory.
C) cash and cash equivalents, accounts receivable, inventory, prepaid expenses.
D) prepaid expenses, cash and cash equivalents, accounts receivable, inventory.
Answer: C
Diff: 2
LO: 1-4
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45) Notes payable (due in 60 days) would appear on the balance sheet as a:
A) current liability.
B) current asset.
C) long-term asset.
D) long-term liability.
Answer: A
Diff: 1
LO: 1-4
AACSB: Reflective Thinking
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46) Which statement below is FALSE?
A) Income taxes payable is an accrued liability.
B) Accrued liabilities can include liabilities for salaries.
C) Assets are divided into current and long-term categories.
D) Prepaid expenses include accrued interest payable.
Answer: D
Diff: 2
LO: 1-4
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47) The current portion of a long-term note payable is classified on the balance sheet as a:
A) current asset.
B) current liability.
C) long-term asset.
D) long-term liability.
Answer: B
Diff: 1
LO: 1-4
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48) Which of the following is a CORRECT statement about long-term assets?
A) Accumulated depreciation increases the cost of fixed assets on the balance sheet.
B) Intangible assets are long-term assets with no physical substance.
C) Long-term investments can never be sold by the company.
D) Other long-term assets include supplies.
Answer: B
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
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49) Which statement about the statement of cash flows is FALSE?
A) Operating activities should be the company's main source of cash.
B) Purchases and sales of long-term assets are financing cash flows.
C) The payment of a dividend is a financing cash flow.
D) The payment of a long-term note payable is a financing activity.
Answer: B
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
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50) What is the proper order for the different categories of cash flows reported on the statement of cash flows?
A) financing activities, investing activities, and operating activities
B) operating activities, investing activities, and financing activities
C) operating activities, financing activities, and investing activities
D) investing activities, financing activities, and operating activities
Answer: B
Diff: 2
LO: 1-4
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51) All of the following would be considered investing activities on the statement of cash flows EXCEPT for:
A) purchase of land for cash.
B) the sale of equipment for cash.
C) the payment of cash dividends.
D) the purchase of equipment for cash.
Answer: C
Diff: 3
LO: 1-4
AACSB: Reflective Thinking
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52) Examples of financing activities on the statement of cash flows do NOT include:
A) payment of long-term note payable.
B) payment of dividends.
C) repurchase of company's own stock.
D) sale of a piece of equipment for cash.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
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53) Which of the following would be considered a financing activity that decreases cash on the statement of cash flows?
A) The company pays a long-term loan.
B) The company sells common stock.
C) The company purchases a building.
D) The company pays its monthly utility bill.
Answer: A
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
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54) A company's main source of cash should be:
A) operating activities.
B) financing activities.
C) investing activities.
D) all of the above.
Answer: A
Diff: 2
LO: 1-4
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55) On a statement of cash flows, cash receipts are reported as:
A) positive amounts.
B) negative amounts.
C) in parentheses.
D) operating activities only.
Answer: A
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

56) All of the following line items are found on the income statement EXCEPT for:
A) cost of product sold.
B) interest expense.
C) operating expense.
D) dividends declared.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

57) All of the following line items are found on the balance sheet EXCEPT for:
A) current portion of long-term borrowings.
B) accounts payable.
C) treasury stock.
D) dividends declared.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

58) All of the following line items are found on the statement of cash flows EXCEPT for:
A) net cash used in investing activities.
B) net cash provided by operating activities.
C) net cash used in financing activities.
D) total stockholders' equity.
Answer: D
Diff: 2
LO: 1-4
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59) Current assets as reported on the balance sheet do NOT include:
A) cash equivalents.
B) inventory.
C) prepaid insurance.
D) long-term investments.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
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60) Current liabilities as reported on the balance sheet do NOT include:
A) current maturities of long-term debt.
B) income taxes payable.
C) salaries payable.
D) treasury stock.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

61) Stockholders' equity as reported on the balance sheet does NOT include:
A) short-term investments.
B) common stock.
C) retained earnings.
D) additional paid-in capital.
Answer: A
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

62) The ending balance of Retained Earnings is reported on the:
A) Balance Sheet.
B) Statement of Retained Earnings.
C) Income Statement.
D) A and B.
Answer: D
Diff: 2
LO: 1-4
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63) The ending balance of Cash and Cash Equivalents is reported on the:
A) Balance Sheet.
B) Statement of Retained Earnings.
C) Statement of Cash Flows.
D) A and C.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

64) The Income Statement is used to prepare the:
A) Statement of Retained Earnings only.
B) Statement of Cash Flows only.
C) Balance Sheet only.
D) Statement of Retained Earnings and Statement of Cash Flows, Indirect Method.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Legal/Regulatory
AICPA Functional: Measurement, Reporting

65) The Statement of Retained Earnings is used to prepare the:
A) Income Statement.
B) Statement of Assets.
C) Statement of Cash Flows.
D) Balance Sheet.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

66) The ending balance of cash and cash equivalents is found on the Statement of Cash Flows and the:
A) Statement of Retained Earnings.
B) Balance Sheet.
C) Income Statement.
D) Statement of Stockholders' Equity.
Answer: B
Diff: 2
LO: 1-4
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67) The Statement of Retained Earnings is used to prepare the:
A) Income Statement.
B) Statement of Earnings and Distributions.
C) Statement of Cash Flows.
D) Balance Sheet.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
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68) The Balance Sheet is used to prepare the:
A) Income Statement.
B) Statement of Retained Earnings.
C) Statement of Cash Flows.
D) Statement of Stockholders' Equity.
Answer: C
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

69) Dividends declared are reported on the:
A) Income Statement.
B) Statement of Retained Earnings.
C) Balance Sheet.
D) Statement of Assets.
Answer: B
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

70) The net loss for a company is reported on the:
A) Statement of Cash Flows, Indirect Method.
B) Statement of Retained Earnings.
C) Income Statement.
D) all of the above.
Answer: D
Diff: 2
LO: 1-4
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71) Potter Company reports the following line items at the end of the first year of operations:

Long-Term Notes Payable	$50,000
Accounts Receivable	$28,000
Accounts Payable	$37,000
Building	$55,000
Cash and Cash Equivalents	$80,000
Salaries Expense	$20,500
Common Stock	$134,000
Interest Payable	$1,500
Land	$40,000
Short-term Investments	$5,000
Income Taxes Payable	$10,000
Equipment	$59,500
Supplies	$5,000
Service Revenue	$105,000
Supplies Expense	$20,000
Utilities Expense	$13,500
Income Tax Expense	$11,000

What is net income?
A) $134,000
B) $40,000
C) $60,500
D) $105,000
Answer: B
Explanation: Service Revenue $105,000 - Supplies Expense $20,000 - Utilities Expense $13,500 - Income Tax Expense $11,000 - Salaries Expense $20,500 = $40,000
Diff: 2
LO: 1-4
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72) Connar Company reports the following accounts and balances at the end of the first year of operations:

Long-Term Notes Payable	$150,000
Accounts Receivable	$28,000
Accounts Payable	$37,000
Building	$55,000
Cash and Cash Equivalents	$81,000
Salaries Expense	$20,500
Common Stock	$41,000
Interest Payable	$1,500
Land	$40,000
Short-term Investments	$5,000
Income Taxes Payable	$6,000
Equipment	$59,500
Supplies	$9,000
Service Revenue	$99,000
Supplies Expense	$18,000
Utilities Expense	$8,500
Income Tax Expense	$10,000

What is the total amount of current assets at the end of the year?
A) $81,000
B) $109,000
C) $123,000
D) $129,000
Answer: C
Explanation: Cash and Cash Equivalents $81,000 + Short-term Investments $5,000 + Accounts Receivable $28,000 + Supplies $9,000 = $123,000
Diff: 2
LO: 1-4
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73) Wetzel Company has the following accounts and balances at the end of the first year of operations:

Long-Term Notes Payable	$150,000
Accounts Receivable	$31,000
Accounts Payable	$38,000
Building	$55,000
Cash and Cash Equivalents	$60,000
Salaries Expense	$20,500
Common Stock	$108,000
Interest Payable	$6,500
Land	$43,000
Short-term Investments	$27,000
Income Taxes Payable	$14,000
Equipment	$59,500
Supplies	$30,000
Service Revenue	$99,000
Supplies Expense	$38,000
Utilities Expense	$28,500
Income Tax Expense	$23,000

What is the total amount of liabilities at the end of the year?
A) $58,500
B) $112,500
C) $208,500
D) $205,000
Answer: C
Explanation: Accounts Payable $38,000 + Interest Payable $6,500 + Income Taxes Payable $14,000 + Long-term Note Payable $150,000 = $208,500
Diff: 2
LO: 1-4
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74) Kolander Company has the following accounts and balances at the end of the first year of operations:

Long-Term Notes Payable	$58,000
Accounts Receivable	$30,000
Accounts Payable	$37,000
Building	$59,000
Cash and Cash Equivalents	$81,000
Common Stock	$125,000
Interest Payable	$3,500
Land	$44,000
Short-term Investments	$6,000
Income Taxes Payable	$14,000
Equipment	$60,500
Supplies	$6,000

What is the amount of Retained Earnings at the end of the year?
A) $49,000
B) $112,500
C) $161,500
D) $174,000
Answer: A
Explanation: Total Assets = $286,500
Total Assets = Accounts Receivable $30,000 + Building $59,000 + Cash and Cash Equivalents $81,000 + Land $44,000 + Short-Term Investments $6,000 + Equipment $60,500 + Supplies $6,000 = $286,500
Total Liabilities = Note Payable $58,000 + Accounts Payable $37,000 + Interest Payable $3,500 + Income Taxes Payable $14,000 = $112,500
Retained Earnings =Total Assets $286,500 - Total Liabilities $112,500 - Common Stock $125,000 = $49,000
Diff: 2
LO: 1-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

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75) Parker Company reports the following line items at the end of the first year of operations:

Long-Term Notes Payable	$60,000
Accounts Receivable	$30,000
Accounts Payable	$37,000
Building	$55,000
Cash and Cash Equivalents	$80,000
Salaries Expense	$22,000
Common Stock	$117,000
Interest Payable	$1,500
Land	$40,000
Short-term Investments	$5,000
Income Taxes Payable	$10,000
Equipment	$59,500
Supplies	$5,000
Service Revenue	$110,000
Supplies Expense	$18,000
Utilities Expense	$9,000
Income Tax Expense	$12,000

What is net income?
Answer: Service Revenue $110,000 - Supplies Expense $18,000 - Utilities Expense $9,000 - Income Tax Expense $12,000 - Salaries Expense $22,000 = $49,000
Diff: 2
LO: 1-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

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76) Conner Company reports the following accounts and balances at the end of the first year of operations:

Long-Term Notes Payable	$189,000
Accounts Receivable	$48,000
Accounts Payable	$57,000
Building	$55,000
Cash and Cash Equivalents	$103,000
Salaries Expense	$20,500
Common Stock	$22,000
Interest Payable	$1,500
Land	$40,000
Short-term Investments	$9,000
Income Taxes Payable	$12,500
Equipment	$60,000
Supplies	$9,000
Service Revenue	$99,000
Supplies Expense	$18,000
Utilities Expense	$8,500
Income Tax Expense	$10,000

A) What is the total amount of current assets at the end of the year?
B) What are the total assets at the end of the year?
C) What is the total amount of liabilities at the end of the year?
D) What is the amount of total stockholders' equity at the end of the year (assume no beginning retained earnings)?
Answer: A) Cash and Cash Equivalents $103,000 + Short-term Investments $9,000 + Accounts Receivable $48,000 + Supplies $9,000 = $169,000 total current assets
B) $169,000 total current assets + Building $55,000 + Land $40,000 + Equipment $60,000 = $324,000
C) Accounts Payable $57,000 + Interest Payable $1,500 + Income Taxes Payable $12,500 + Long-term Note Payable $189,000 = $260,000 total liabilities
D) Common Stock $22,000 + Service Revenue $99,000 – Salaries Expense $20,500 – Supplies Expense $18,000 – Utilities Expense $8,500 – Income Tax Expense $10,000 = $64,000 or
$324,000 total assets - $260,000 total liabilities = $64,000 for total stockholders'equity
Diff: 2
LO: 1-4
AACSB: Analytical Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

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77) Baker Corporation operates retail stores and has decided to expand its operations. The company must decide where to locate and how to finance the expansion. Identify the financial statement where the decision makers can find the following information about Baker.

Information requested	**Financial statement**
Current liabilities	
Repayments of borrowed funds	
Receivables	
Cost of goods sold	
Prepaid expenses	
Net increase (decrease) in cash	

Answer:

Information requested	**Financial statement**
Current liabilities	Balance sheet
Repayments of borrowed funds	Statement of cash flows
Receivables	Balance sheet
Cost of goods sold	Income statement
Prepaid expenses	Balance sheet
Net increase (decrease) in cash	Statement of cash flows

Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Reporting

78) List the required financial statements and state what each reports.
Answer: Income Statement reports operating performance.
Statement of Retained Earnings reports what was done with net income.
Balance Sheet reports financial position.
Statement of Cash Flows reports cash receipts and cash payments.
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

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79) Wetzel Company has the following accounts and balances at the end of the fiscal year:

Retained Earnings (Beginning Balance)	$54,000
Cash	$10,000
Receivables	$12,000
Dividends Declared	$10,000
Accounts Payable	$15,000
Common Stock	$60,000
Long-term Investments	$108,500
Service Revenue	$99,000
Supplies Expense	$38,000
Utilities Expense	$28,500
Income Tax Expense	$21,000

Prepare the Income Statement, Statement of Retained Earnings, and Balance Sheet for the fiscal year ended December 31, 2022. Headings are not required.

Income Statement

Statement of Retained Earnings

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Balance Sheet

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Answer:
Income Statement

Service Revenue	$99,000
Expenses:	
Supplies Expense	38,000
Utilities Expense	28,500
Total Expenses	66,500
Income Before Taxes	32,500
Income Tax Expense	21,000
Net Income	$11,500

Statement of Retained Earnings

Retained Earnings (Beginning)	$54,000
Add: Net Income	11,500
Subtotal	$65,500
Less: Dividends declared	(10,000)
Retained Earnings (Ending)	$55,500

Balance Sheet

ASSETS	
Current Assets	
Cash	$10,000
Receivables	12,000
Total Current Assets	$22,000
Long-term Investments	108,500
Total Assets	$130,500
LIABILITIES	
Current Liabilities	
Accounts Payable	$15,000
STOCKHOLDERS' EQUITY	
Common Stock	$60,000
Retained Earnings	55,500
Total Stockholders' Equity	$115,500
Total Liabilities and Stockholders' Equity	$130,500

Diff: 3
LO: 1-4
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Measurement, Reporting

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Learning Objective 1-5

1) The three factors that influence business and accounting decisions are economic, legal, and financial.
Answer: FALSE
Explanation: The three factors are economic, legal, and ethical.
Diff: 1
LO: 1-5
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

2) The decision framework for making ethical judgments provides general guidance for everyone, regardless of profession or industry.
Answer: TRUE
Diff: 1
LO: 1-5
AACSB: Ethical Understanding and Reasoning
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

3) The American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct contains basic principles that can only be applied to CPAs.
Answer: FALSE
Diff: 1
LO: 1-5
AACSB: Ethical Understanding and Reasoning
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

4) The American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct contains basic principles that provide guidance to all of its members in the performance of their professional duties.
Answer: TRUE
Diff: 1
LO: 1-5
AACSB: Ethical Understanding and Reasoning
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

5) The three factors that influence business and accounting decisions are:
A) judgment, cost/benefit analysis, and cultural backgrounds.
B) minimizing costs, maximizing profits and cost/benefit tradeoff.
C) economic, legal, and ethical.
D) legal implications, socioeconomic backgrounds, profit maximization.
Answer: C
Diff: 2
LO: 1-5
AACSB: Ethical Understanding and Reasoning
AICPA Bus Persp: Strategic/Critical Thinking, Legal/Regulatory
AICPA Functional: Decision Modeling

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6) The _____ factor recognizes that while certain actions might be both economically profitable and legal, they still may not be right.
A) economic
B) legal
C) profitability
D) ethical
Answer: D
Diff: 2
LO: 1-5
AACSB: Ethical Understanding and Reasoning
AICPA Bus Persp: Strategic/Critical Thinking, Legal/Regulatory
AICPA Functional: Decision Modeling

7) Complicating factors for a global business include:
A) what is legal in one country may not be legal in another country.
B) what is ethical in one country may not be ethical in another country.
C) a foreign government threatening to take over the company's plant.
D) all of the above.
Answer: D
Diff: 2
LO: 1-5
AACSB: Ethical Understanding and Reasoning
AICPA Bus Persp: International/Global
AICPA Functional: Decision Modeling

8) The economic factor in decision making requires the decision maker to:
A) maximize the economic benefit to the decision maker.
B) maximize the economic benefit to the corporation or nonprofit entity.
C) maximize the corporation's profits.
D) minimize the corporation's costs.
Answer: A
Diff: 2
LO: 1-5
AACSB: Ethical Understanding and Reasoning
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

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9) Regarding the decision framework for making ethical accounting judgments, state the guidelines for each of the following decisions.

1. What is the issue?
2. Who are the stakeholders, and what are the consequences of the decision to each?
Answer:
1. What is the issue?
The issue will usually deal with making a judgment about an accounting measurement or disclosure that results in economic consequences, often to numerous parties.
2. Who are the stakeholders, and what are the consequences of the decision to each?
Stakeholders are anyone who might be impacted by the decision — you, your company, and potential users of the information (investors, creditors, and regulatory agencies). Consequences can be economic, legal, or ethical in nature.
Diff: 3
LO: 1-5
AACSB: Ethical Understanding and Reasoning
AICPA Bus Persp: Strategic/Critical Thinking, Legal/Regulatory
AICPA Functional: Measurement, Reporting

10) The American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct contains basic principles that provide guidance to all members in the performance of their professional duties. List three of these principles. Briefly discuss how each of these three principles affects AICPA members.
Answer: Responsibilities principle — In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.
Public interest principle — Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism.
Integrity principle — To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.
Objectivity and independence principle — A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities.
Due care principle — A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.
Diff: 3
LO: 1-5
AACSB: Ethical Understanding and Reasoning
AICPA Bus Persp: Strategic/Critical Thinking, Legal/Regulatory
AICPA Functional: Measurement, Reporting

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Learning Objective 1-6

1) The main tools of accountants for many decades were calculators and columnar paper. Computers and spreadsheets were added in the 1980s and 1990s.
Answer: TRUE
Diff: 1
LO: 1-6
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

2) A spreadsheet is generated by a software program that allows data to be organized in rows and columns.
Answer: TRUE
Diff: 1
LO: 1-6
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

3) Data analytics cannot be used for complex taxation questions.
Answer: FALSE
Diff: 1
LO: 1-6
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

4) Artificial intelligence (AI) and machine learning are technologies that are significantly impacting accounting.
Answer: TRUE
Diff: 1
LO: 1-6
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

5) Robotic process automation (RPA) is having very little impact on the accounting profession.
Answer: FALSE
Diff: 1
LO: 1-6
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

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6) Excel is a spreadsheet program that allows the numbers to be added, subtracted and more.
Answer: TRUE
Diff: 1
LO: 1-6
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

7) The process of taking raw data and putting it together to produce useful insights is referred to as:
A) Artificial Intelligence.
B) Machine Learning.
C) Robotic Process Automation.
D) Data Analytics.
Answer: D
Diff: 1
LO: 1-6
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

8) _____ is the science that studies ways to build programs and machines that can creatively solve problems in a human-like manner.
A) Artificial Intelligence
B) Spreadsheets
C) Econometric models of probability
D) Data Analytics
Answer: A
Diff: 1
LO: 1-6
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

9) _____ is a subset of artificial intelligence.
A) Spreadsheets
B) Machine Learning
C) Robotic Process Automation
D) Data Analytics
Answer: B
Diff: 1
LO: 1-6
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

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10) An example of _____ is software bots that are being developed to do the rote, routine work that bookkeeping clerks have done for years.
A) Artificial Intelligence
B) Machine Learning
C) Robotic Process Automation
D) Data Analytics
Answer: C
Diff: 1
LO: 1-6
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

11) List and identify five major items you will see when you open an Excel worksheet.
Answer: Student answers can include:
■ Quick Access tool bar: Commonly used Excel commands.
■ File name: Name of the file currently displayed.
■ Ribbon: Display at the top of the Excel window that is the primary interface for Excel.
■ Ribbon tabs: Main tabs on the ribbon are File, Home, Insert, Page layout, Formulas, Data, Review, View, and Help.
■ Insert Function dialog box: Feature to find and select the function that you want to use and guidance for the various options or arguments for that selected function.
■ Formula bar: Special toolbar used to enter a new formula or copy an existing one. Also where the contents for the active cell appear.
■ Row header numbers: Gray-colored column located on the left side of the worksheet that contains the numbers (1, 2, 3, etc.) used to identify each row in the worksheet.
■ Column header letters: Gray-colored row located at the top of the worksheet that contains the letters (A, B, C, etc.) used to identify each column in the worksheet.
■ Active cell: Thick border gridlines around the cell indicate that this is the active cell inside the worksheet where data will be entered when a key is typed on the keyboard.
■ Worksheet tabs: Tabs used to navigate among worksheets. Every workbook contains at least one worksheet.
■ Insert Sheet icon: Button to add a new worksheet to the current workbook.
■ Zoom slider: Sliding bar that allows the user to zoom in and zoom out of a document. Also known as Zoom bar.
Diff: 2
LO: 1-6
AACSB: Reflective Thinking
AICPA Bus Persp: Strategic/Critical Thinking
AICPA Functional: Decision Modeling

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