Financial Accounting 14th edition Tietz Test Bank

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Financial Accounting, 14e **(Thomas)**
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 Tech Comp: Measurement and Reporting

2) Bookkeeping is a mechanical part of accounting.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

3) Accounting is often called the language of business.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

4) Accounting produces financial statements, which report information about a business.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

5) The accounting process begins and ends with people making decisions.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

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
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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 Tech Comp: Measurement and 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 Tech Comp: Measurement and Reporting

9) A partnership is a taxpaying entity.
Answer: FALSE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

10) Stockholders have no personal obligation for the corporation's debts.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

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
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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 Tech Comp: Measurement and Reporting

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 Tech Comp: Measurement and Reporting

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 Tech Comp: Measurement and Reporting

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
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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 Tech Comp: Measurement and 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 Tech Comp: Measurement and 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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
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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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and 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 Tech Comp: Measurement and Reporting

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
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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 Tech Comp: Measurement and Reporting

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 Tech Comp: Measurement and Reporting

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 Tech Comp: Measurement and Reporting

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
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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 Tech Comp: Measurement and Reporting

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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
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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
AICPA Tech Comp: Measurement and Reporting

33) Your friend has started his own business printing custom t-shirts. He has really great ideas for designs, and would like to grow his business, but needs a loan to do so. So far, he hasn't really worried about accounting in his business and doesn't understand why he needs to start now. Help him understand why it's important to maintain good accounting records.
Answer: Accounting is the language of business and all organizations need good accounting to make good decisions. Any creditor considering providing your friend a loan (e.g. a bank) will want to know if your friend can repay them. Accounting can help them understand this.
Diff: 1
LO: 1-1
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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 Tech Comp: Measurement and 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 Tech Comp: Measurement and 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 Tech Comp: Measurement and Reporting

4) Another name for the continuity assumption is the going-concern assumption.
Answer: TRUE
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

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 Tech Comp: Measurement and Reporting

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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 Tech Comp: Measurement and Reporting

7) Relevance is one of the four enhancing qualitative characteristics.
Answer: FALSE
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

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 Tech Comp: Measurement and 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
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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 conceptual framework describes characteristics of decision-useful information, but does not include decision making itself. The constraint of cost is listed as the fourth level in the exhibit.
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and 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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
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13) In 1990, Johnson Company purchased a building for $190,000. In 2022, a real estate professional says the building has a fair value of $1,600,000. 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) $190,000
B) $895,000
C) $900,000
D) $1,600,000
Answer: A
Explanation: The building is reported at the actual cost on the date of purchase of $190,000.
Diff: 1
LO: 1-2
AACSB: Analytical Thinking
AICPA Tech Comp: Measurement and 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 Securities and Exchange Commission (SEC) oversees use of accounting principles within the United States.
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 Tech Comp: Measurement and 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) A mix of U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards 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
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AICPA Lead Comp: Critical Thinking

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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 Tech Comp: Measurement and 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 adopted in the United States.
Answer: D
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and 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 Tech Comp: Measurement and 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
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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 Tech Comp: Measurement and 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 Tech Comp: Measurement and 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 Tech Comp: Measurement and Reporting

23) Historical cost:
A) is used in the United States 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
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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 Tech Comp: Measurement and Reporting

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 Tech Comp: Measurement and Reporting

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
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27) A construction company paid $80,000 cash for land used in the business. At the time of purchase, the land had a list price of $90,000. When the balance sheet was prepared, the fair value of the land was $86,000. At what amount should the land be reported on the balance sheet of the company?
A) $80,000
B) $86,000
C) $85,000
D) $90,000
Answer: A
Explanation: Based on the historical cost principle, the land should be reported at its cost of $80,000.
Diff: 2
LO: 1-2
AACSB: Analytical Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

29) Your friend would like to start investing in companies, and has reviewed Target's most recent report, but says he can't understand anything in the financial statements. He has never taken an accounting class. What's the problem in this situation?
A) Something must be wrong with the statements. Companies are required to make them understandable.
B) Financial statements must only be understandable to users who are reasonably informed.
C) He's looking in the wrong place. Financial statements aren't helpful to potential investors.
D) Financial statements only need to be relevant, not understandable.
Answer: B
Explanation: The conceptual framework lists understandability as an enhancing quality of useful financial information, but requires that users be reasonably informed.
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
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30) You are an investor in a business that was organized as a partnership. Business has been slow for the last few years and you and the other partners have made the decision to close the business and liquidate all assets. You are studying the most recent financial statements and see that the business has land reported at $400,000. You recall that was the purchase price of the land when the business was first formed. However, a real estate professional recently evaluated the land and believes it is worth $600,000. When attempting to determine the amount of cash that will be available when the business liquidates, which value for the land is most relevant?
A) $400,000 because it is the historical cost.
B) $400,000 because the land hasn't sold yet.
C) $600,000 because the business is not a going concern.
D) $600,000 because it's the higher of the two values.
Answer: C
Explanation: Because the business is no longer a going concern, the liquidation value should be used.
Diff: 3
LO: 1-2
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

31) Information that is not material:
A) must be completely omitted from the financial statements.
B) must be disclosed or listed separately in the financial statements.
C) may be combined with other information and not separately disclosed.
D) may be combined with other information but it may not be separately disclosed.
Answer: C
Explanation: Only material information must be disclosed or listed separately in the financial statements.
Diff: 2
LO: 1-2
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

32) Which of the following is TRUE?
A) The cost of producing accounting information will never exceed its benefits to users.
B) The cost of producing accounting information will always exceed its benefits to users.
C) The cost of producing accounting information should never exceed its benefits to users.
D) The cost of producing accounting information is never material.
Answer: C
Explanation: This relates to the Cost (cost-benefit) constraint.
Diff: 2
LO: 1-2
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33) Accounting information should be useful to:
A) potential investors and creditors.
B) existing investors and creditors.
C) potential and existing investors.
D) all of the above.
Answer: D
Explanation: Financial information is targeted at all of the above.
Diff: 1
LO: 1-2
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

34) 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
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35) 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 Tech Comp: Measurement and Reporting

36) 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 Tech Comp: Measurement and Reporting

37) 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
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AICPA Lead Comp: Critical Thinking

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38) Cost is a constraint on useful financial information. Considering the objective of accounting, why is this the case?
Answer: The purpose (objective) of accounting is to produce useful financial information about the reporting entity that existing and potential investors, lenders, and other creditors can use to make decisions. Many of these users are interested in generating profit. If the information accounting produced cost more than it provided, it would defeat the purpose of generating accounting information.
Diff: 3
LO: 1-2
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

Learning Objective 1-3

1) The word "payable" always signifies a liability.
Answer: TRUE
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

2) The accounting equation must always be in balance.
Answer: TRUE
Diff: 1
LO: 1-3
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

3) Owners' equity is called stockholders' equity for a corporation.
Answer: TRUE
Diff: 1
LO: 1-3
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

4) Stockholders' equity is the stockholders' interest in the assets of the corporation.
Answer: TRUE
Diff: 2
LO: 1-3
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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 Tech Comp: Measurement and 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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

7) Expenses are decreases in retained earnings that result from operations.
Answer: TRUE
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

8) The basic component of paid-in capital is common stock.
Answer: TRUE
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

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
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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 Tech Comp: Measurement and Reporting

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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and Reporting

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
AACSB: Analytical Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
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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 Tech Comp: Measurement and Reporting

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 Tech Comp: Measurement and Reporting

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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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
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19) Examples of liabilities include:
A) accounts payable and dividends declared.
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
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20) What is an account payable?
A) It is a liability for goods or services and payable after one year.
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
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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
AACSB: Reflective Thinking
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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
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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 Tech Comp: Measurement and Reporting

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
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AICPA Lead Comp: Critical Thinking

25) Receivables are classified as:
A) increases in earnings.
B) decreases in earnings.
C) liabilities.
D) assets.
Answer: D
Diff: 2
LO: 1-3
AACSB: Reflective Thinking
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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
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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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and Reporting

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
AACSB: Reflective Thinking
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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
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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
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AICPA Lead Comp: Critical Thinking

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
AACSB: Reflective Thinking
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33) At the end of the current accounting period, account balances were as follows: Cash, $28,000; Accounts Receivable, $43,000; Common Stock, $21,000; Retained Earnings, $14,000. Liabilities at the end of the period were:
A) $71,000.
B) $50,000.
C) $57,000.
D) $36,000.
Answer: D
Explanation: Cash $28,000 + Accounts Receivable $43,000 - Common Stock $21,000 - Retained Earnings $14,000 = $36,000
Diff: 2
LO: 1-3
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34) On January 1, 2025, total assets for Wininger Technologies were $139,000; on December 31, 2025, total assets were $156,000. On January 1, 2025, total liabilities were $110,000; on December 31, 2025, total liabilities were $115,000. What is the amount of the change and the direction of the change in Wininger Technologies' stockholders' equity for 2025?
A) decrease of $12,000
B) increase of $12,000
C) increase of $22,000
D) decrease of $22,000
Answer: B
Explanation: Assets - liabilities = stockholders' equity
Beginning of year: $139,000 - $110,000 = $29,000
End of year: $156,000 - $115,000 = $41,000
Increase of $12,000, which equals $41,000 - $29,000
Diff: 3
LO: 1-3
AACSB: Analytical Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

35) Revenues were $148,000, expenses were $143,000, and cash dividends declared and paid were $2000. What were the net income and the change in retained earnings for the period?
A) Net income was $5000; the change in retained earnings was $5000.
B) Net income was $148,000; the change in retained earnings was $7000.
C) Net income was $5000; the change in retained earnings was $3000.
D) Net income was $148,000; the change in retained earnings was $146,000.
Answer: C
Explanation: Net income = $148,000 - $143,000 = $5000
Retained earnings increased by $5000 for net income, and decreased by $2000 for dividends declared for a net change of $3000.
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	$77,000
Accounts Payable	$13,000
Common Stock	$21,000
Dividends	$12,000
Operating Expenses	$25,000
Accounts Receivable	$55,000
Inventory	$45,000
Long-term Notes Payable	$33,000
Revenues	$119,000
Salaries Payable	$28,000

A) $77,000
B) $122,000
C) $132,000
D) $177,000
Answer: D
Explanation: Cash $77,000 + Accounts Receivable $55,000 + Inventory $45,000 = $177,000
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	$75,000
Accounts Payable	$15,000
Common Stock	$21,000
Dividends	$12,000
Operating Expenses	$21,000
Accounts Receivable	$59,000
Inventory	$46,000
Long-term Notes Payable	$36,000
Revenues	$114,000
Salaries Payable	$27,000

A) $15,000
B) $51,000
C) $42,000
D) $78,000
Answer: D
Explanation: Accounts Payable $15,000 + Long-term Notes Payable $36,000 + Salaries Payable $27,000 = $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	$69,000
Accounts Payable	$12,000
Common Stock	$21,000
Dividends	$12,000
Operating Expenses	$16,000
Accounts Receivable	$54,000
Inventory	$47,000
Long-term Notes Payable	$33,000
Revenues	$99,000
Salaries Payable	$33,000

A) net income of $99,000
B) net income of $83,000
C) net loss of $6000
D) net income of $10,000
Answer: B
Explanation: Revenues $99,000 - Operating Expenses $16,000 = Net Income $83,000
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	$106,000
Salaries Expense	$17,000
Dividends	$13,000
Utilities Expense	$15,000
Advertising Expense	$6000
Short-term Investments	$20,000
Cash	$35,000
Land	$50,000
Common Stock	$50,000

What is the amount of net income or net loss for the year?
A) $28,000
B) $34,000
C) $68,000
D) $74,000
Answer: C
Explanation: Revenues $106,000 - Salaries Expense $17,000 - Utilities Expense $15,000 - Advertising Expense $6000 = Net Income $68,000
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	$100,000
Salaries Expense	$18,000
Dividends	$12,000
Utilities Expense	$12,000
Advertising Expense	$10,000
Short-term Investments	$20,000
Cash	$72,000
Land	$50,000
Common Stock	$57,000

What is the ending balance in Retained Earnings?
A) $48,000
B) $15,000
C) $60,000
D) $72,000
Answer: A
Explanation: Beginning Retained Earnings $0 + Net Income $60,000 - Dividends $12,000 = $48,000
To calculate net income for above: Revenues $100,000 - Salaries Expense $18,000 - Utilities Expense $12,000 - Advertising Expense $10,000 = $60,000 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	$95,000
Salaries Expense	$36,000
Dividends	$9000
Utilities Expense	$11,000
Advertising Expense	$8000
Cash	$33,000
Land	$52,000
Common Stock	$54,000

What are total assets at the end of the first year?
A) $33,000
B) $85,000
C) $110,000
D) $205,000
Answer: B
Explanation: Cash $33,000 + Land $52,000 = $85,000
Diff: 2
LO: 1-3
AACSB: Analytical Thinking
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42) Michael Company reports Total Assets of $208,000, Common Stock of $52,000, and Retained Earnings of $98,000. What are total liabilities at the end of the first year?
A) $58,000
B) $162,000
C) $110,000
D) $156,000
Answer: A
Explanation: Total Assets $208,000 - (Common Stock $52,000 + Retained Earnings $98,000) = $58,000
Diff: 2
LO: 1-3
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43) Burger Barn, Inc. began operations two years ago. Results from its first two years of operations are provided below.

Account	Balance at end of Year 1	Balance at end of Year 2
Accounts Payable	$23,000	$17,000
Building	$17,000	$50,000
Cash	$150,000	$150,000
Common Stock	$80,000	$80,000
Dividends	$0	$20,000
Inventory	$12,000	$9,000
Land	$60,000	$60,000
Long-term Notes Payable	$106,000	$106,000
Operating Expense	206,000	$227,000
Revenues	$233,000	$282,000
Salaries Payable	$3,000	$4,000

What was Burger Barn, Inc.'s Retained Earnings balance at the beginning of Year 1, when the business was first formed?
A) $0
B) $27,000
C) $107,000
D) Not enough information is provided.
Answer: A
Explanation: Companies begin with $0 in Retained Earnings as they have not yet earned any income.
Diff: 2
LO: 1-3
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44) Burger Barn, Inc. began operations two years ago. Results from its first two years of operations are provided below.

Account	Balance at end of Year 1	Balance at end of Year 2
Accounts Payable	$23,000	$17,000
Building	$22,000	$42,000
Cash	$150,000	$150,000
Common Stock	$80,000	$80,000
Dividends	$0	$20,000
Inventory	$12,000	$9,000
Land	$60,000	$60,000
Long-term Notes Payable	$121,000	$109,000
Operating Expense	220,000	$225,000
Revenues	$237,000	$279,000
Salaries Payable	$3,000	$4,000

What was Burger Barn's Net Income in Year 1?
A) $244,000
B) $237,000
C) $97,000
D) $17,000
Answer: D
Explanation: $237,000 (Revenues) - $220,000 (Operating Expense) = $17,000
Diff: 2
LO: 1-3
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45) Burger Barn, Inc. began operations two years ago. Results from its first two years of operations are provided below.

Account	Balance at end of Year 1	Balance at end of Year 2
Accounts Payable	$23,000	$17,000
Building	$24,000	$42,000
Cash	$150,000	$150,000
Common Stock	$80,000	$80,000
Dividends	$0	$20,000
Inventory	$12,000	$9,000
Land	$60,000	$60,000
Long-term Notes Payable	$108,000	$101,000
Operating Expense	208,000	$238,000
Revenues	$240,000	$285,000
Salaries Payable	$3,000	$4,000

What is the balance of Retained Earnings at the end of Year 1?
A) $112,000
B) $80,000
C) $32,000
D) $0
Answer: C
Explanation: $0 (beginning balance) + $32,000 (net income) - $0 (Dividends) = $32,000
Diff: 2
LO: 1-3
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46) Burger Barn, Inc. began operations two years ago. Results from its first two years of operations are provided below.

Account	Balance at end of Year 1	Balance at end of Year 2
Accounts Payable	$23,000	$17,000
Building	$23,000	$49,000
Cash	$150,000	$150,000
Common Stock	$80,000	$80,000
Dividends	$0	$20,000
Inventory	$12,000	$9,000
Land	$60,000	$60,000
Long-term Notes Payable	$109,000	$100,000
Operating Expense	201,000	$225,000
Revenues	$231,000	$282,000
Salaries Payable	$3,000	$4,000

What was Burger Barn's Net Income in Year 2?
A) $(1,000)
B) $37,000
C) $26,000
D) $57,000
Answer: D
Explanation: $282,000 (Revenues) - $225,000 (Operating Expense) = $57,000
Diff: 2
LO: 1-3
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47) Burger Barn, Inc. began operations two years ago. Results from its first two years of operations are provided below.

Account	Balance at end of Year 1	Balance at end of Year 2
Accounts Payable	$23,000	$17,000
Building	$18,000	$41,000
Cash	$150,000	$150,000
Common Stock	$80,000	$80,000
Dividends	$0	$20,000
Inventory	$12,000	$9,000
Land	$60,000	$60,000
Long-term Notes Payable	$100,000	$108,000
Operating Expense	203,000	$229,000
Revenues	$237,000	$266,000
Salaries Payable	$3,000	$4,000

What is the balance of Retained Earnings at the end of Year 2?
A) $17,000
B) $51,000
C) $37,000
D) $71,000
Answer: B
Explanation: $34,000 (beginning balance) + $37,000 (net income) - $20,000 (Dividends) = $51,000
Diff: 2
LO: 1-3
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48) Burger Barn, Inc. began operations two years ago. Results from its first two years of operations are provided below.

Account	Balance at end of Year 1	Balance at end of Year 2
Accounts Payable	$23,000	$17,000
Building	$22,000	$48,000
Cash	$150,000	$150,000
Common Stock	$80,000	$80,000
Dividends	$0	$20,000
Inventory	$12,000	$9,000
Land	$60,000	$60,000
Long-term Notes Payable	$113,000	$111,000
Operating Expense	211,000	$233,000
Revenues	$236,000	$283,000
Salaries Payable	$3,000	$4,000

At the end of Year 2, Burger Barn, Inc. had a real estate professional complete an appraisal of their land. The appraisal indicated that the land was now worth $100,000. Based on this information, how much should Burger Barn, Inc. report as total assets at the end of Year 2?
A) $60,000
B) $267,000
C) $100,000
D) $307,000
Answer: B
Explanation: The land should still be reported at historical cost ($60,000). Total assets = $48,000 (Building) + $150,000 (Cash) + $9,000 (Inventory) + $60,000 (Land) = $267,000
Diff: 2
LO: 1-3
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49) Burger Barn, Inc. began operations two years ago. Results from its first two years of operations are provided below.

Account	Balance at end of Year 1	Balance at end of Year 2
Accounts Payable	$23,000	$17,000
Building	$16,000	$47,000
Cash	$150,000	$150,000
Common Stock	$80,000	$80,000
Dividends	$0	$20,000
Inventory	$12,000	$9,000
Land	$60,000	$60,000
Long-term Notes Payable	$105,000	$107,000
Operating Expense	200,000	$226,000
Revenues	$227,000	$277,000
Salaries Payable	$3,000	$4,000

What amount of total liabilities should Burger Barn report at the end of Year 1?
A) $105,000
B) $131,000
C) $107,000
D) $238,000
Answer: B
Explanation: $23,000 (Accounts Payable) + $105,000 (Long-Term Notes Payable) + $3,000 (Salaries Payable) = $131,000
Diff: 2
LO: 1-3
AACSB: Analytical Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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50) Burger Barn, Inc. began operations two years ago. Results from its first two years of operations are provided below.

Account	Balance at end of Year 1	Balance at end of Year 2
Accounts Payable	$23,000	$17,000
Building	$27,000	$42,000
Cash	$150,000	$150,000
Common Stock	$80,000	$80,000
Dividends	$0	$20,000
Inventory	$12,000	$9,000
Land	$60,000	$60,000
Long-term Notes Payable	$123,000	$105,000
Operating Expense	205,000	$229,000
Revenues	$225,000	$284,000
Salaries Payable	$3,000	$4,000

What amount of total liabilities should Burger Barn report at the end of Year 2?
A) $17,000
B) $126,000
C) $135,000
D) $261,000
Answer: B
Explanation: $17,000 (Accounts Payable) + $105,000 (Long-term Notes Payable) + $4,000 (Salaries Payable) = $126,000
Diff: 2
LO: 1-3
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Financial Accounting 14th edition Tietz Test Bank

51) Burger Barn, Inc. began operations two years ago. Results from its first two years of operations are provided below.

Account	Balance at end of Year 1	Balance at end of Year 2
Accounts Payable	$23,000	$17,000
Building	$22,000	$42,000
Cash	$150,000	$150,000
Common Stock	$80,000	$80,000
Dividends	$0	$20,000
Inventory	$12,000	$9,000
Land	$60,000	$60,000
Long-term Notes Payable	$99,000	$95,000
Operating Expense	200,000	$228,000
Revenues	$239,000	$274,000
Salaries Payable	$3,000	$4,000

What amount of total equity should Burger Barn report at the end of Year 1?
A) $39,000
B) $80,000
C) $119,000
D) $244,000
Answer: C
Explanation: $80,000 (Common Stock) + $39,000 (Retained Earnings) = $119,000
Diff: 3
LO: 1-3
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AICPA Lead Comp: Critical Thinking

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52) Burger Barn, Inc. began operations two years ago. Results from its first two years of operations are provided below.

Account	Balance at end of Year 1	Balance at end of Year 2
Accounts Payable	$23,000	$17,000
Building	$20,000	$40,000
Cash	$150,000	$150,000
Common Stock	$80,000	$80,000
Dividends	$0	$20,000
Inventory	$12,000	$9,000
Land	$60,000	$60,000
Long-term Notes Payable	$106,000	$94,000
Operating Expense	208,000	$228,000
Revenues	$238,000	$282,000
Salaries Payable	$3,000	$4,000

What amount of total equity should Burger Barn report at the end of Year 2?
A) $64,000
B) $54,000
C) $144,000
D) $164,000
Answer: C
Explanation: $80,000 (Common Stock) + $64,000 (Retained Earnings) = $144,000
Diff: 3
LO: 1-3
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53) 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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54) 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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55) 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
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AICPA Lead Comp: Critical Thinking

56) 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
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AICPA Lead Comp: Critical Thinking

57) 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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58) 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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

59) 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
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AICPA Lead Comp: Critical Thinking

2) The balance sheet is also called the statement of financial position.
Answer: TRUE
Diff: 1
LO: 1-4
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

3) Every corporation must pay dividends every year.
Answer: FALSE
Diff: 1
LO: 1-4
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and 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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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 Tech Comp: Measurement and 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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and 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 Tech Comp: Measurement and 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 Tech Comp: Measurement and Reporting

14) A company reports the purchase of equipment for $1,000,000 in cash. On a statement of cash flows, this is an 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
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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
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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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
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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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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
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AICPA Lead Comp: Critical Thinking

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
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AICPA Lead Comp: Critical Thinking

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
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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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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.
C) Statement of Retained Earnings.
D) Statement of Retained Earnings and Balance Sheet.
Answer: B
Diff: 2
LO: 1-4
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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 Tech Comp: Measurement and 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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

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 Tech Comp: Measurement and 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
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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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

31) A company sells travel mugs online for $11. They purchase the mugs for $4 and charge the customers $1 for shipping and handling. The cost of product sold per mug is:
A) $7.
B) $1.
C) $4.
D) $5.
Answer: C
Diff: 2
LO: 1-4
AACSB: Analytical Thinking
AICPA Tech Comp: Measurement and Reporting
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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
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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 Tech Comp: Measurement and 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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

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
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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.
D) B and C.
Answer: D
Diff: 2
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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
AICPA Tech Comp: Measurement and Reporting

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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

40) A company's balance sheet:
A) is dated for a period of time.
B) has two main categories of assets.
C) has three main categories of liabilities.
D) lists liabilities before assets.
Answer: B
Diff: 2
LO: 1-4
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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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and 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, equipment, 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
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
AACSB: Reflective Thinking
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AICPA Lead Comp: Critical Thinking

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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
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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
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

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
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical 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
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
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AICPA Lead Comp: Critical Thinking

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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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
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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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and 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.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

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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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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
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AICPA Lead Comp: Critical Thinking

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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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

70) The net loss for a company is reported on the:
A) Statement of Cash Flows.
B) Statement of Retained Earnings.
C) Income Statement.
D) all of the above.
Answer: D
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
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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	$24,500
Common Stock	$141,000
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	$101,000
Supplies Expense	$20,000
Utilities Expense	$8500
Income Tax Expense	$15,000

What is net income?
A) $141,000
B) $33,000
C) $57,500
D) $101,000
Answer: B
Explanation: Service Revenue $101,000 - Supplies Expense $20,000 - Utilities Expense $8500 - Income Tax Expense $15,000 - Salaries Expense $24,500 = $33,000
Diff: 2
LO: 1-4
AACSB: Analytical Thinking
AICPA Tech Comp: Measurement and Reporting
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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	$31,000
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	$5000
Income Taxes Payable	$7000
Equipment	$59,500
Supplies	$7000
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) $112,000
C) $124,000
D) $131,000
Answer: C
Explanation: Cash and Cash Equivalents $81,000 + Short-term Investments $5000 + Accounts Receivable $31,000 + Supplies $7000 = $124,000
Diff: 2
LO: 1-4
AACSB: Analytical Thinking
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AICPA Lead Comp: Critical Thinking

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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	$151,000
Accounts Receivable	$31,000
Accounts Payable	$38,000
Building	$55,000
Cash and Cash Equivalents	$82,000
Salaries Expense	$20,500
Common Stock	$132,000
Interest Payable	$1500
Land	$40,000
Short-term Investments	$27,000
Income Taxes Payable	$11,000
Equipment	$59,500
Supplies	$30,000
Service Revenue	$99,000
Supplies Expense	$38,000
Utilities Expense	$28,500
Income Tax Expense	$21,000

What is the total amount of liabilities at the end of the year?
A) $50,500
B) $102,500
C) $201,500
D) $221,000
Answer: C
Explanation: Accounts Payable $38,000 + Interest Payable $1500 + Income Taxes Payable $11,000 + Long-term Note Payable $151,000 = $201,500
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	$52,000
Accounts Receivable	$29,000
Accounts Payable	$37,000
Building	$58,000
Cash and Cash Equivalents	$84,000
Common Stock	$122,000
Interest Payable	$6500
Land	$42,000
Short-term Investments	$8000
Income Taxes Payable	$12,000
Equipment	$60,500
Supplies	$5000

What is the amount of Retained Earnings at the end of the year?
A) $57,000
B) $107,500
C) $164,500
D) $179,000
Answer: A
Explanation: Total Assets = $286,500
Total Assets = Accounts Receivable $29,000 + Building $58,000 + Cash and Cash Equivalents $84,000 + Land $42,000 + Short-term Investments $8000 + Equipment $60,500 + Supplies $5000 = $286,500
Total Liabilities = Note Payable $52,000 + Accounts Payable $37,000 + Interest Payable $6500 + Income Taxes Payable $12,000 = $107,500
Retained Earnings = Total Assets $286,500 - Total Liabilities $107,500 - Common Stock $122,000 = $57,000
Diff: 2
LO: 1-4
AACSB: Analytical Thinking
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75) Contessa Corp. collected the following information related to company activities in 2025:

Purchase of land for cash	$57,000
Net income	96,000
Adjustments to reconcile net income to cash provided by operating activities	7000
Revenues	241,000
Cash, beginning of year	91,000
Cash, end of year	105,000
Cost of goods sold	141,000
Payment of dividends	11,000
Payment on long-term note payable	35,000
Common stock balance at end of year	113,000
Issuance of common stock for cash	23,000

On its 2025 statement of cash flows, what amount should Contessa report as net cash provided by operating activities?
A) $7000
B) $96,000
C) $103,000
D) $114,000
Answer: C
Diff: 2
LO: 1-4
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76) Contessa Corp. collected the following information related to company activities in 2025:

Purchase of land for cash	$53,000
Net income	87,000
Adjustments to reconcile net income to cash provided by operating activities	4500
Revenues	241,000
Cash, beginning of year	91,000
Cash, end of year	105,000
Cost of goods sold	141,000
Payment of dividends	14,000
Payment on long-term note payable	35,000
Common stock balance at end of year	113,000
Issuance of common stock for cash	23,000

On its 2025 statement of cash flows, what amount should Contessa report as its net cash used by investing activities?
A) $(53,000)
B) $(48,500)
C) $(25,500)
D) $(14,000)
Answer: A
Explanation: Only the purchase of land ($53,000) relates to investing activities.
Diff: 2
LO: 1-4
AACSB: Analytical Thinking
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AICPA Lead Comp: Critical Thinking

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77) Contessa Corp. collected the following information related to company activities in 2025:

Purchase of land for cash	$53,000
Net income	93,000
Adjustments to reconcile net income to cash provided by operating activities	3500
Revenues	241,000
Cash, beginning of year	91,000
Cash, end of year	105,000
Cost of goods sold	141,000
Payment of dividends	12,000
Payment on long-term note payable	35,000
Common stock balance at end of year	113,000
Issuance of common stock for cash	23,000

On its 2025 statement of cash flows, what amount should Contessa Corp. report as its net cash used in financing activities?
A) $(53,000)
B) $(49,500)
C) $(24,000)
D) $(12,000)
Answer: C
Explanation: Payment of dividends ($12,000) + Payment on long-term note payable ($35,000) + Issuance of common stock for cash ($23,000) = ($24,000)
Diff: 2
LO: 1-4
AACSB: Analytical Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

78) During the current year, Gracey Manor Bake Shop reported an increase in assets of $31,000, an increase in liabilities of $28,000, net income of $12,000, and no change in common stock. What must have been the amount of dividends declared and paid during the year?
A) $3000
B) $12,000
C) $9000
D) $0
Answer: C
Explanation: Increase in assets $31,000 – increase in liabilities $28,000 = $3000, which must be the increase in equity. Since net income is $12,000, dividends must be $9000 ($12,000 – dividends = $3000).
Diff: 3
LO: 1-4
AACSB: Analytical Thinking
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AICPA Lead Comp: Critical Thinking

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79) During the current year Big Thunder Mining Company earned revenue of $70,000 and collected $20,000 of the revenue earned in cash. The company also recorded $60,000 in expenses and paid $55,000 of those in cash. What should Big Thunder report has its cash flow from operating activities on the statement of cash flows?
A) $(35,000)
B) $10,000
C) $45,000
D) $50,000
Answer: A
Explanation: Cash collected ($20,000) – Cash paid ($55,000) = $(35,000)
Diff: 3
LO: 1-4
AACSB: Analytical Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

80) You are evaluating two investment opportunities: Aurora Co. and Belle Co. You have evaluated the financial statements for both companies. You note that while both companies have increasing sales and reported income, Aurora Co. has accounts receivable that are increasing much more quickly than reported sales. Belle Co. also has increasing accounts receivable, but they are increasing at about the same rate as sales. Based on this information, which company appears to be the most attractive investment alternative?
A) Aurora Co. because receivables are an asset.
B) Belle Co. since we should expect receivables to increase at the same rate as sales.
C) Neither company. Increasing accounts receivable is always a bad sign.
D) Either company. The only thing we should worry about is net income.
Answer: B
Diff: 2
LO: 1-4
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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81) 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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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82) 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 Notes 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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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83) 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 Tech Comp: Measurement and Reporting

84) 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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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85) 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

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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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86) You are considering investing in Blue Sky App Corp. You met the founder of Blue Sky at a professional networking event at your university. The founder is a graduate of your university and founded Blue Sky to invest in working ideas for apps designed for smartphones. Blue Sky purchases the ideas from the creator and then the Blue Sky team prepares the app for market. Blue Sky just completed its first year of operations, with revenues from app sales consistently increasing over the course of the year. Additionally, you note the following summary information (all amounts are in millions):

Assets	Year 1
Total Assets	$6.2
Total Liabilities	1.3
Total Equity	4.9
Net Income	3.3
Cash flow provided by operating activities	(1.1)
Cash flow used by investing activities	(4.5)
Cash flow used by financing activities	(.7)

Your grandmother recently gave you a gift of $500 and you have the opportunity to invest it in Blue Sky. Based on the financial information provided, do you believe Blue Sky is a good investment? Be sure to discuss both the strengths and weaknesses of the company's results and financial standing.
Answer: It depends (invest or not invest can be justified based on the information provided)
Strengths: Relatively low debt, positive net income, increasing sales, appears to be innovative and market-leading, is making substantial investments (is expanding).
Weaknesses: Negative cash flow, especially negative cash flow from operations, new company (limited track record)
Diff: 3
LO: 1-4
AACSB: Analytical Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and Reporting

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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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3) The Association of International Certified Professional 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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

4) The Association of International Certified Professional 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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Ethical Behavior

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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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Ethical Behavior

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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

9) The Ethisphere Institute Business Ethics Leadership Alliance (BELA) members agree to uphold all of the following core values EXCEPT:
A) Legal compliance, to ensure laws are followed.
B) Opacity, to ensure employees aren't embarrassed if they behave unethically.
C) Conflict identification, to ensure known conflicts are considered from a practical perspective.
D) Accountability, to ensure all members act as the profess to.
Answer: B
Explanation: Members agree to a core value of transparency.
Diff: 2
LO: 1-5
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Ethical Behavior

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10) In making an ethical analysis, you should consider all of the following questions EXCEPT:
A) What options are most honest, open, and truthful?
B) Which options create the greatest good for the greatest number of stakeholders?
C) Which options result in treating others as I would want to be treated?
D) Which laws can I feasibly break without detection?
Answer: D
Explanation: Legality is the first filter that should be applied in an ethical analysis.
Diff: 1
LO: 1-5
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Ethical Behavior

11) In making an ethical analysis, your own feelings should be considered:
A) never; emotions are irrelevant.
B) always; it's helpful to consider how you would feel if your family reads about your decision in the newspaper.
C) only if the proposed action is illegal.
D) only if the proposed action will significantly harm others.
Answer: B
Diff: 2
LO: 1-5
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Ethical Behavior

12) 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 Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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Learning Objective 1-6

1) ESG standards for:
A) environment, sustainability, and governance.
B) environment, social, and governance.
C) energy, social, and greenhouse gas.
D) energy, sustainability, and governance.
Answer: B
Diff: 1
LO: 1-6
AICPA Org Comp: Environmental, Social and Governance Management
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

2) Focusing on ESG can help companies:
A) identify opportunities.
B) identify risks.
C) build stakeholder support.
D) all of the above.
Answer: D
Diff: 2
LO: 1-6
AICPA Org Comp: Environmental, Social and Governance Management
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

3) An ESG strategy:
A) always leads to lower profit.
B) can occur with an increase in profit.
C) is required by the federal government.
D) is nice to have, but no companies prioritize this.
Answer: B
Diff: 2
LO: 1-6
AICPA Org Comp: Environmental, Social and Governance Management
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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4) Corporate social responsibility (CSR):
A) suggests that each company's greatest responsibility is to maximize profit.
B) suggests that companies should consider how their actions impact society and the environment.
C) is not compatible with ESG reporting.
D) is the same as ESG reporting.
Answer: B
Diff: 1
LO: 1-6
AICPA Org Comp: Environmental, Social and Governance Management
AACSB: Reflective Thinking
AICPA Lead Comp: Critical Thinking

5) What are the three P's in the triple bottom line?
A) profit, people, and the environment
B) profit, people, and energy
C) personnel, perspective, and the environment
D) revenue, expenses, and gains
Answer: A
Diff: 1
LO: 1-6
AICPA Org Comp: Environmental, Social and Governance Management
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

6) Currently, the problem with ESG reporting is that:
A) no companies include this information in their annual report.
B) no companies follow standards in reporting this information.
C) there are numerous ESG reporting standards.
D) only one set of ESG reporting standards are allowed.
Answer: C
Diff: 2
LO: 1-6
AICPA Org Comp: Environmental, Social and Governance Management
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

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7) Which is the following is NOT true?
A) The Global Reporting Initiative (GRI) is currently the most widely used reporting framework.
B) The International Sustainability Standards Board (ISSB) currently only focuses on U.S. reporting interests.
C) The United Nationals Global Compact (UNGC) focuses on advancing the UN's Sustainable Development Goals.
D) The Task Force on Climate-related Financial Disclosures (TCFD) focuses on climate-related disclosures.
Answer: B
Explanation: The ISSB is an international organization.
Diff: 1
LO: 1-6
AICPA Org Comp: Environmental, Social and Governance Management
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

8) ESG reports:
A) must have third-party assurance before they can be shared with the general public.
B) must be based on only one set of standards.
C) can receive third-party assurance to increase the reliability of the information.
D) can undergo the same assurance process as the financial statements.
Answer: C
Diff: 2
LO: 1-6
AICPA Org Comp: Environmental, Social and Governance Management
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

9) Examples of environmental measures could include all of the following EXCEPT:
A) total energy consumed.
B) gross global Scope 1 emissions.
C) food waste generated.
D) number of work-related injuries.
Answer: D
Explanation: Work-related injuries is an example of a social measure.
Diff: 1
LO: 1-6
AICPA Org Comp: Environmental, Social and Governance Management
AACSB: Reflective Thinking
AICPA Lead Comp: Critical Thinking

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10) Percentage of renewable energy used is an example of:
A) an environmental measure.
B) a social measure.
C) a governance measure.
D) none of the above.
Answer: A
Diff: 1
LO: 1-6
AICPA Org Comp: Environmental, Social and Governance Management
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

11) Examples of governance measures include all of the following EXCEPT:
A) composition of board of directors.
B) percentage of board members completing anti-corruption training.
C) ratio of salary between women and men.
D) percentage of employees completing customer privacy training.
Answer: C
Explanation: Ratio of salary between women and men is a social measure.
Diff: 1
LO: 1-6
AICPA Org Comp: Environmental, Social and Governance Management
AACSB: Reflective Thinking
AICPA Lead Comp: Critical Thinking

12) ESG measures for companies of different size:
A) can't be compared.
B) can be compared on a one-to-one basis.
C) can be compared by utilizing ratio analysis.
D) should always be compared on the basis of total assets.
Answer: C
Diff: 2
LO: 1-6
AICPA Org Comp: Environmental, Social and Governance Management
AACSB: Reflective Thinking
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AICPA Lead Comp: Critical Thinking

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Learning Objective 1-7

1) If you want to be an accountant, you must become a certified public accountant (CPA).
Answer: FALSE
Explanation: The accounting profession offers many paths to success; the CPA is just one of many.
Diff: 2
LO: 1-7
AACSB: Reflective Thinking
AICPA Lead Comp: Critical Thinking

2) The accounting profession is one of the few professions that reflects the ethnic and racial makeup of the United States.
Answer: FALSE
Explanation: While the accounting profession is taking steps to correct this disparity, currently accounting is a predominantly white profession.
Diff: 2
LO: 1-7
AACSB: Reflective Thinking
AICPA Lead Comp: Critical Thinking

3) An external auditor:
A) is employed by the firm they audit.
B) reviews a company's financial records, but not their internal controls.
C) is not required to review whether a company is compliant with laws.
D) is responsible for ensuring that a company's financial records are accurate.
Answer: D
Diff: 2
LO: 1-7
AACSB: Reflective Thinking
AICPA Lead Comp: Critical Thinking

4) All of the following are considered management accountants EXCEPT:
A) a cost accountant.
B) a controller.
C) an external auditor.
D) the professional who creates the company's budgets.
Answer: C
Diff: 1
LO: 1-7
AACSB: Reflective Thinking

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5) Accountants may work in:
A) corporations.
B) governments.
C) the FBI.
D) all of the above.
Answer: D
Diff: 1
LO: 1-7
AACSB: Reflective Thinking

6) You've decided to major in accounting, but a friend is concerned because she believes accountants just perform the same mechanical process over and over, tasks which can easily be replaced by robotic process automation. Additionally, she says, "But you're such a people person! Accountants just sit at their desk all day crunching numbers." How might you respond to your friend to help them understand why accounting is a good career choice?
Answer: While accounting contains a mechanical process (bookkeeping), that's just one of many parts of the dynamic field of accounting. Accountants must be effective communicators who are capable of keeping up with a constantly evolving profession.
Diff: 3
LO: 1-7
AACSB: Reflective Thinking
AICPA Lead Comp: Critical Thinking

Learning Objective 1-8

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: 1-8
AACSB: Reflective Thinking
AICPA Tech Comp: Technology, Systems and Process Management
AICPA Lead Comp: Critical Thinking

2) A spreadsheet is generated by a software program that allows data to be organized in rows and columns.
Answer: TRUE
Diff: 1
LO: 1-8
AACSB: Reflective Thinking
AICPA Tech Comp: Technology, Systems and Process Management
AICPA Lead Comp: Critical Thinking

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3) Data analytics cannot be used for complex taxation questions.
Answer: FALSE
Diff: 1
LO: 1-8
AACSB: Reflective Thinking
AICPA Tech Comp: Technology, Systems and Process Management
AICPA Lead Comp: Critical Thinking

4) Artificial intelligence (AI) and machine learning are technologies that are significantly impacting accounting.
Answer: TRUE
Diff: 1
LO: 1-8
AACSB: Reflective Thinking
AICPA Tech Comp: Technology, Systems and Process Management
AICPA Lead Comp: Critical Thinking

5) Robotic process automation (RPA) is having very little impact on the accounting profession.
Answer: FALSE
Diff: 1
LO: 1-8
AACSB: Reflective Thinking
AICPA Tech Comp: Technology, Systems and Process Management
AICPA Lead Comp: Critical Thinking

6) Excel is a spreadsheet program that allows the numbers to be added, subtracted and more.
Answer: TRUE
Diff: 1
LO: 1-8
AACSB: Reflective Thinking
AICPA Lead Comp: Critical Thinking

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: 1-8
AACSB: Reflective Thinking
AICPA Lead Comp: Critical Thinking

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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: 1-8
AACSB: Reflective Thinking
AICPA Lead Comp: Critical Thinking

9) _____ is a subset of artificial intelligence.
A) Spreadsheets
B) Machine Learning
C) Robotic Process Automation
D) Data Analytics
Answer: B
Diff: 1
LO: 1-8
AACSB: Reflective Thinking
AICPA Lead Comp: Critical Thinking

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: 1-8
AACSB: Reflective Thinking
AICPA Lead Comp: Critical Thinking

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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: 1-8
AACSB: Reflective Thinking
AICPA Lead Comp: Critical Thinking

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