Corporate Financial Accounting 17th edition Warren Test Bank

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Name:_____ Class:_____ Date:_____

Chapter 01: Introduction to Accounting and Business

True / False

1. The role of accounting is to provide many different users with financial information to assess the economic performance of a business.
   a. True
   b. False

ANSWER: True

2. Investing activities are those activities by which the company obtains funds to start and operate the business.
   a. True
   b. False

ANSWER: False

3. Managerial accounting information is used by external and internal users equally.
   a. True
   b. False

ANSWER: False

4. Senior executives cannot be criminally prosecuted for the wrong-doings they commit on behalf of the companies where they work.
   a. True
   b. False

ANSWER: False

5. Financial accounting provides information to all users, while the main focus for managerial accounting is to provide information to management.
   a. True
   b. False

ANSWER: True

6. Proper ethical conduct implies that you only consider what's in your best interest.
   a. True
   b. False

ANSWER: False

7. Some of the major fraudulent acts by senior executives started as what they considered to be small ethical lapses that grew out of control.
   a. True
   b. False

ANSWER: True

8. A business is an organization in which basic resources or inputs, like materials and labor, are assembled and processed to provide outputs in the form of goods or services to customers.
   a. True
   b. False

ANSWER: True

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Chapter 01: Introduction to Accounting and Business

9. Operating activities are those activities by which a company generates revenues from customers.
   a. True
   b. False

ANSWER: True

10. An example of a general-purpose financial statement would be a report about projected price increases related to transportation costs used only by internal managers of the organization and not by external users.
   a. True
   b. False

ANSWER: False

11. The Sarbanes-Oxley Act established standards for corporate responsibility and disclosure.
   a. True
   b. False

ANSWER: True

12. The main objective for all businesses is to maximize unrealized profits.
   a. True
   b. False

ANSWER: False

13. The primary role of accounting is to determine the amount of taxes a business will be required to pay to taxing entities.
   a. True
   b. False

ANSWER: False

14. The basic difference between manufacturing and retail companies is the completion level of the products they purchase for resale to customers.
   a. True
   b. False

ANSWER: True

15. An example of an external user of accounting information is the federal government.
   a. True
   b. False

ANSWER: True

16. A corporation is a business that is legally separate and distinct from its owners.
   a. True
   b. False

ANSWER: True

17. Proprietorships are owned by one owner and provide only services to their customers.

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a. True
b. False

ANSWER: False

18. About 90% of the businesses in the United States are organized as corporations.
a. True
b. False

ANSWER: False

19. The Financial Accounting Standards Board (FASB) is the authoritative body that has primary responsibility for developing accounting principles.
a. True
b. False

ANSWER: True

20. The cost principle is the basis for entering the purchase price into the accounting records.
a. True
b. False

ANSWER: True

21. The monetary unit assumption requires that economic data be recorded in dollars for companies in the United States.
a. True
b. False

ANSWER: True

22. If a building is appraised for $85,000, offered for sale at $90,000, and the buyer pays $80,000 cash for it, the buyer would record the building at $85,000.
a. True
b. False

ANSWER: False

23. The financial statements of a proprietorship should include the owner's personal assets and liabilities.
a. True
b. False

ANSWER: False

24. No differences exist between the accounting standards issued by the FASB (U.S. GAAP) and the IASB (IFRS).
a. True
b. False

ANSWER: False

25. Generally accepted accounting principles regulate how and what financial information is reported by businesses.
a. True
b. False

ANSWER: True

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26. Any 12-month accounting period adopted by a company is known as its fiscal year.
    a. True
    b. False
ANSWER: True

27. A fiscal year that ends when business activities have reached their lowest point is called the natural business year.
    a. True
    b. False
ANSWER: True

28. All companies must use a calendar year as their fiscal year.
    a. True
    b. False
ANSWER: False

29. The majority of businesses end their fiscal year on December 31.
    a. True
    b. False
ANSWER: True

30. The accounting equation can be expressed as Assets – Liabilities = Stockholders' Equity.
    a. True
    b. False
ANSWER: True

31. The rights or claims to the assets of a business may be subdivided into rights of creditors and rights of stockholders.
    a. True
    b. False
ANSWER: True

32. The stockholders' rights to the assets rank ahead of the creditors' rights to the assets.
    a. True
    b. False
ANSWER: False

33. If the liabilities owed by a business total $300,000 and stockholders' equity is equal to $300,000, then the assets also total $300,000.
    a. True
    b. False
ANSWER: False

34. If total assets decreased by $30,000 during a specific period and stockholders' equity decreased by $35,000 during the same period, the period's change in total liabilities was a $65,000 increase.
    a. True

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b. False

ANSWER: False

35. If total assets increased by $190,000 during a specific period and liabilities decreased by $10,000 during the same period, the period's change in total stockholders' equity was a $200,000 increase.

a. True

b. False

ANSWER: True

36. If net income for a company was $50,000, $20,000 in cash dividends were paid, and the shareholders invested $10,000 in cash, the stockholders' equity increased by $40,000.

a. True

b. False

ANSWER: True

37. An account receivable is typically classified as a revenue.

a. True

b. False

ANSWER: False

38. An account receivable is a claim against a customer resulting from a sale on account.

a. True

b. False

ANSWER: True

39. Paying an account payable increases liabilities and decreases assets.

a. True

b. False

ANSWER: False

40. Receiving payments on an account receivable increases both equity and assets.

a. True

b. False

ANSWER: False

41. Cash dividends paid to stockholders decrease assets and increase equity.

a. True

b. False

ANSWER: False

42. Purchasing supplies on account increases liabilities and decreases equity.

a. True

b. False

ANSWER: False

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43. Receiving a bill or otherwise being notified that an amount is owed is **not** recorded until the amount is paid.
    a. True
    b. False
ANSWER: False

44. Revenue is earned only when money is received.
    a. True
    b. False
ANSWER: False

45. Assets that are used up during the process of earning revenue are called expenses.
    a. True
    b. False
ANSWER: True

46. The excess of revenue over the expenses incurred in earning the revenue is called capital.
    a. True
    b. False
ANSWER: False

47. The primary financial statements of a corporation are the income statement, the statement of stockholders' equity, and the balance sheet.
    a. True
    b. False
ANSWER: False

48. An income statement is a summary of the revenues and expenses of a business as of a specific date.
    a. True
    b. False
ANSWER: False

49. A statement of stockholders' equity reports the changes in stockholders' equity for a period of time.
    a. True
    b. False
ANSWER: True

50. The statement of cash flows consists of three sections: cash flows from operating activities, cash flows from income activities, and cash flows from equity activities.
    a. True
    b. False
ANSWER: False

51. The balance sheet represents the accounting equation.
    a. True
    b. False

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ANSWER: True

52. Net income and net profit do **not** mean the same thing.
    a. True
    b. False

ANSWER: False

Multiple Choice

53. Profit can be described as the difference between
    a. assets and liabilities.
    b. the incoming cash and outgoing cash.
    c. the assets purchased with cash contributed by the owner and the cash spent to operate the business.
    d. the amounts a business receives from customers for goods sold or services provided and the amounts the business paid for the various inputs or expenses used to provide the goods or services.

ANSWER: d

54. Two common areas of accounting that provide information to internal users and to external users are (respectively)
    a. forensic accounting and financial accounting.
    b. managerial accounting and financial accounting.
    c. managerial accounting and environmental accounting.
    d. financial accounting and tax accounting systems.

ANSWER: b

55. Which of the following **best** describes accounting?
    a. Accounting is a system that records economic data but does not communicate the data to users according to any specific rules.
    b. Accounting is an information system that provides reports to users regarding economic activities and the condition of a business.
    c. Accounting is of no use to individuals outside of the business.
    d. Accounting is used only for filling out tax returns and for financial statements for governmental reporting requirements.

ANSWER: b

56. Which type of accountant typically practices as an individual or as a member of a public accounting firm?
    a. Certified Public Accountant
    b. Certified Payroll Professional
    c. Certified Internal Auditor
    d. Certified Management Accountant

ANSWER: a

57. Financial reports are used by
    a. management.
    b. creditors.
    c. investors.

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d. all of these choices.

ANSWER: d

58. Which of the following is a manufacturing business?
a. General Motors
b. Facebook
c. American Airlines
d. Target

ANSWER: a

59. Which of the following is a service business?
a. Microsoft
b. Dell Computers
c. Facebook
d. Walmart

ANSWER: c

60. Which of the following groups of companies includes examples of retail businesses?
a. Delta Air Lines, Marriott, Gap
b. Gap, Amazon.com, Delta Air Lines
c. GameStop, Sony, Dell
d. GameStop, Best Buy, Gap

ANSWER: d

61. Which of the following groups is made up of parties considered to be **internal users** of accounting information?
a. employees and customers
b. customers and vendors
c. employees and managers
d. government entities and banks

ANSWER: c

62. Each of the following is an example of external users of accounting information **except**
a. government entities
b. customers
c. creditors
d. managers

ANSWER: d

63. Which of the following is the **best** description of accounting's role in business?
a. Accounting provides stockholders with information regarding the market value of the company's stocks.
b. Accounting provides information to managers to operate the business and to other users to make decisions regarding the economic condition of the company.
c. Accounting helps in decreasing the credit risk of the company.
d. Accounting is not responsible for providing any form of information to users. That is the role of the

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Information Systems Department.

ANSWER: b

64. Managerial accountants would be responsible for providing information regarding
    a. tax reports to government agencies.
    b. profit reports to stockholders and management.
    c. expansion of a product line to management.
    d. consumer reports to customers.

ANSWER: c

65. Which of the following is **not** a role of accounting in business?
    a. to provide reports to users about the economic activities and conditions of a business
    b. to personally guarantee loans of the business
    c. to provide information to external users to determine the economic performance and condition of the business
    d. to assess the various informational needs of users and design its accounting system to meet those needs

ANSWER: b

66. Which of the following are guidelines for behaving ethically?
    I. Identify the consequences of a decision and its effect on others.
    II. Consider your obligations and responsibilities to those affected by your decision.
    III. Identify an ethical decision using ethical standards of honesty and fairness.
    a. I and II
    b. II and III
    c. I and III
    d. I, II, and III

ANSWER: d

67. Which of the following would **not** normally operate as a service business?
    a. pet groomer
    b. grocer
    c. lawn care company
    d. styling salon

ANSWER: b

68. Which of the following is **not** an example of a service business?
    a. tax preparation firm
    b. law firm
    c. health club and spa
    d. automobile dealer

ANSWER: d

69. Which of the following is an example of a retail business?
    a. book publisher
    b. hospital

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c. supermarket
d. modular homebuilder

ANSWER: c

70. Which of the following is **not** an example of a manufacturing business?
a. book printer
b. men's clothing store
c. dressmaking company
d. modular homebuilder

ANSWER: b

71. Obtaining funds by issuing stock to the public is
a. an operating activity.
b. an investing activity.
c. a financing activity.
d. both an investing and a financing activity.

ANSWER: c

72. Purchasing equipment for use in business operations is
a. an operating activity.
b. an investing activity.
c. a financing activity.
d. both an investing and an operating activity.

ANSWER: b

73. Most businesses in the United States are
a. proprietorships.
b. partnerships.
c. corporations.
d. cooperatives.

ANSWER: a

74. Which of the following is **not** a business entity?
a. entrepreneurship
b. proprietorship
c. partnership
d. corporation

ANSWER: a

75. An entity that is organized according to state or federal statutes and in which ownership is divided into shares of stock is a
a. proprietorship.
b. corporation.
c. partnership.

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d. governmental unit.

ANSWER: b

76. Which of the following is **true** regarding a limited liability company?
a. makes up 10% of business organizations in the United States
b. combines the attributes of a partnership and a corporation
c. provides tax and liability advantages to the owners
d. all of these choices

ANSWER: d

77. On May 20, White Repair Service extended an offer of $108,000 for land that had been priced for sale at $140,000. On May 30, White Repair Service accepted the seller's counteroffer of $115,000. On June 20, the land was assessed at a value of $95,000 for property tax purposes. On July 4, White Repair Service was offered $150,000 for the land by a national retail chain. At what value should the land be recorded in White Repair Service's records?
a. $108,000
b. $95,000
c. $140,000
d. $115,000

ANSWER: d

78. Which type of business is most likely to obtain large amounts of resources by issuing stock?
a. partnership
b. corporation
c. proprietorship
d. government entity

ANSWER: b

79. Which of the following is **not** a characteristic of a corporation?
a. Corporations are organized as a separate legal taxable entity.
b. Ownership is divided into shares of stock.
c. Corporations experience an ease in obtaining large amounts of resources by issuing stock.
d. A corporation's resources are limited to its individual owners' resources.

ANSWER: d

80. Within the United States, the dominant body in the primary development of accounting principles is the
a. American Institute of Certified Public Accountants (AICPA).
b. American Accounting Association (AAA).
c. Financial Accounting Standards Board (FASB).
d. Institute of Management Accountants (IMA).

ANSWER: c

81. The business entity assumption means that
a. the owner is part of the business entity.
b. an entity is organized according to state or federal statutes.

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c. an entity is organized according to the rules set by the FASB.
d. the entity is an individual economic unit for which data are recorded, analyzed, and reported.

ANSWER: d

82. For accounting purposes, the business entity should be considered separate from its owners if the entity is
a. a corporation.
b. a proprietorship.
c. a partnership.
d. all of these choices.

ANSWER: d

83. The measurement principle requires that
a. business transactions be consistent with the objectives of the entity.
b. the Financial Accounting Standards Board be fair and unbiased in its deliberations over new accounting standards.
c. accounting principles meet the objectives of the Securities and Exchange Commission.
d. amounts recorded in the financial statements be based on independently verifiable evidence.

ANSWER: d

84. Karen Meyer owns and operates Crystal Cleaning Company. Recently, Meyer withdrew $10,000 from Crystal Cleaning, and she contributed $6,000, in her name, to the American Red Cross. The contribution of $6,000 should be recorded on the accounting records of which of the following entities?
a. Crystal Cleaning and the American Red Cross
b. Karen Meyer's personal records and the American Red Cross
c. Karen Meyer's personal records and Crystal Cleaning
d. Karen Meyer's personal records, Crystal Cleaning, and the American Red Cross

ANSWER: b

85. Which of the following is an authoritative body in the United States that has the primary responsibility for developing accounting principles?
a. FASB
b. IRS
c. SEC
d. AICPA

ANSWER: a

86. Which of the following items relates to separating the reporting of business and personal economic transactions?
a. cost principle
b. monetary unit assumption
c. business entity assumption
d. measurement principle

ANSWER: c

87. Donner Company is selling a piece of land adjacent to its business premises. An appraisal reported the market value of the land to be $220,000. Focus Company initially offered to buy the land for $177,000. The companies settled on a

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purchase price of $212,000. On the same day, another piece of land on the same block sold for $232,000. Under the cost principle, at what amount should the land be recorded in the accounting records of Focus Company?

a. $177,000
b. $212,000
c. $220,000
d. $232,000

ANSWER: b

88. Many countries outside the United States use financial accounting standards issued by

a. AICPA.
b. the SEC.
c. the IASB.
d. the FASB.

ANSWER: c

89. The monetary unit assumption

a. is only used in the financial statements of manufacturing companies.
b. is not important when applying the cost principle.
c. requires that different units be used for assets and liabilities.
d. requires that economic data be reported in yen in Japan or dollars in the United States.

ANSWER: d

90. Which of the following is **not** true of accounting principles?

a. Financial accountants follow generally accepted accounting principles (GAAP).
b. Following GAAP allows accounting information users to compare one company to another.
c. Stockholders must approve the adoption of a new accounting principle.
d. The Financial Accounting Standards Board (FASB) has primary responsibility for developing accounting principles.

ANSWER: c

91. The initials GAAP stand for

a. general accounting procedures.
b. generally accepted plans.
c. generally accepted accounting principles.
d. generally accepted accounting practices.

ANSWER: c

92. Which of the following comprises 70% of business entities in the United States?

a. proprietorship
b. partnership
c. corporation
d. limited liability company (LLC)

ANSWER: a

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93. Which of the following generates 90% of business revenues in the United States?
a. proprietorship
b. partnership
c. corporation
d. limited liability company (LLC)

ANSWER: c

94. Which of the following is **true** of the partnership form of business?
a. owned by two or more individuals
b. organized as a separate legal taxable entity
c. easy and cheap to organize
d. used by large businesses

ANSWER: a

95. Which of the following is **not** true of a limited liability company (LLC)?
a. often used as an alternative to a partnership
b. constitutes 20% of business organizations in the United States
c. offers tax and legal liability advantages for owners
d. combines the attributes of a partnership and a corporation

ANSWER: b

96. Financial reports that allow users to identify the similarities and differences among reported items are said to demonstrate
a. timeliness
b. understandability
c. comparability
d. verifiability

ANSWER: c

97. Relevant and faithful representation of accounting data is enhanced when financial reports are clear and concise. Such reports demonstrate
a. timeliness.
b. understandability.
c. comparability.
d. verifiability.

ANSWER: b

98. Financial reports are said to be verifiable when
a. they are available in time to influence users' decisions.
b. they are formatted clearly and concisely.
c. they demonstrate the similarities and differences among reported items.
d. users can agree on the meaning of reported items.

ANSWER: d

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99. A fiscal year for a business
    a. ordinarily begins on the first day of a month and ends on the last day of the following twelfth month.
    b. is determined by the federal government.
    c. always begins on January 1 and ends on December 31 of the same year.
    d. should end at the height of the business's annual operating cycle.

ANSWER: a

100. The natural business year is a
    a. fiscal year that ends when business activities are at their lowest point.
    b. calendar year that ends when business activities are at their lowest point.
    c. fiscal year that ends when business activities are at their highest point.
    d. calendar year that ends when business activities are at their highest point.

ANSWER: a

101. Assets are
    a. always lower than liabilities.
    b. equal to liabilities less stockholders' equity.
    c. the same as expenses because they are acquired with cash.
    d. financed by the stockholders and/or creditors.

ANSWER: d

102. Debts owed by a business are referred to as
    a. accounts receivable.
    b. expenses.
    c. stockholders' equity.
    d. liabilities.

ANSWER: d

103. The accounting equation may be expressed as
    a. Assets = Expenses − Liabilities.
    b. Assets + Liabilities = Stockholders' Equity.
    c. Assets = Revenues − Liabilities.
    d. Assets − Liabilities = Stockholders' Equity.

ANSWER: d

104. The assets and liabilities of a company are $128,000 and $84,000, respectively. Stockholders' equity should equal
    a. $212,000.
    b. $44,000.
    c. $128,000.
    d. $84,000.

ANSWER: b

105. If total liabilities decreased by $46,000 during a period of time and stockholders' equity increased by $60,000 during the same period, the amount and direction (increase or decrease) of the period's change in total assets is a

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a. $106,000 increase.
b. $14,000 increase.
c. $14,000 decrease.
d. $106,000 decrease.

ANSWER: b

106. Resources owned by a business are known as
a. debts.
b. liabilities.
c. assets.
d. equity.

ANSWER: c

107. The rights of owners in a corporation are referred to as
a. proprietor's equity.
b. stockholders' equity.
c. dividends.
d. equity in assets.

ANSWER: b

108. The assets and stockholders' equity of a company are $159,000 and $95,000, respectively. Liabilities should equal
a. $64,000.
b. $46,000.
c. $254,000.
d. $95,000.

ANSWER: a

109. The liabilities and stockholders' equity of a company are $132,000 and $244,000, respectively. Assets should equal
a. $188,000.
b. $132,000.
c. $376,000.
d. $112,000.

ANSWER: c

110. Which of the following is **not** a business transaction to be recorded in the accounting records?
a. make a sales offer
b. sell goods for cash
c. receive cash for services to be rendered later
d. pay for supplies

ANSWER: a

111. A business paid $7,000 to a creditor for an amount owed. The effect of the transaction on the accounting equation was to
a. increase an asset; decrease another asset.

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b. decrease an asset; decrease a liability.
c. increase an asset; increase a liability.
d. increase an asset; increase stockholders' equity.

ANSWER: b

112. Earning revenue
a. increases assets; increases stockholders' equity.
b. increases assets; decreases stockholders' equity.
c. increases one asset; decreases another asset.
d. decreases assets; increases liabilities.

ANSWER: a

113. The monetary value earned for selling goods or services to customers is called
a. an asset.
b. net income.
c. capital.
d. revenue.

ANSWER: d

114. Goods purchased on account for future use in the business, such as supplies, are called
a. prepaid liabilities.
b. revenues.
c. prepaid expenses.
d. liabilities.

ANSWER: c

115. The asset created by a business when it makes a sale on account is termed
a. accounts payable.
b. prepaid expense.
c. interest revenue.
d. accounts receivable.

ANSWER: d

116. The debt created by a business when it makes a purchase on account is called an
a. account payable.
b. account receivable.
c. asset.
d. expense payable.

ANSWER: a

117. If total assets decreased by $88,000 during a period of time and stockholders' equity increased by $71,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total liabilities is a(n)
a. $17,000 increase.
b. $88,000 decrease.

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c. $159,000 increase.
d. $159,000 decrease.

ANSWER: d

118. Cash dividends
a. increase expenses.
b. decrease expenses.
c. increase cash.
d. decrease stockholders' equity.

ANSWER: d

119. How does paying a liability in cash affect the accounting equation?
a. assets increase; liabilities decrease
b. assets increase; liabilities increase
c. assets decrease; liabilities decrease
d. liabilities decrease; stockholders' equity increases

ANSWER: c

120. How does receiving a bill to be paid next month for services received affect the accounting equation?
a. assets decrease; stockholders' equity decreases
b. assets increase; liabilities increase
c. liabilities increase; stockholders' equity increases
d. liabilities increase; stockholders' equity decreases

ANSWER: d

121. How does the payment in cash of rent for equipment affect the accounting equation?
a. assets increase; assets decrease
b. assets decrease; stockholders' equity decreases
c. assets decrease; liabilities increase
d. assets increase; stockholders' equity increases

ANSWER: b

122. Land, originally purchased for $30,000, is sold for $62,000 in cash. What is the effect of the sale on the accounting equation?
a. assets increase by $62,000; stockholders' equity increases by $62,000
b. assets increase by $32,000; stockholders' equity increases by $32,000
c. assets increase by $62,000; liabilities decrease by $30,000; stockholders' equity increases by $32,000
d. assets increase by $30,000; no change in liabilities; stockholders' equity increases by $62,000

ANSWER: b

123. Which of the following accounts is a liability?
a. Accounts Payable
b. Accounts Receivable
c. Wages Expense

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d. Service Revenue

ANSWER: a

124. As of the end of its accounting period, December 31, Year 1, Great Plains Company has assets of $940,000 and liabilities of $300,000. During Year 2, stockholders invested an additional $73,000 and received $33,000 cash dividends from the business. What is the amount of net income during Year 2, assuming that as of December 31, Year 2, assets were $995,000 and liabilities were $270,000?

a. $45,000
b. $50,000
c. $106,000
d. $370,000

ANSWER: a

125. Which of the following asset accounts is increased when a receivable is collected?

a. Accounts Receivable
b. Supplies
c. Accounts Payable
d. Cash

ANSWER: d

126. Transactions affecting stockholders' equity include

a. stockholder investments and payment of liabilities
b. stockholder investments, dividends, earning of revenues, and incurrence of expenses
c. stockholder investments, earning of revenues, incurrence of expenses, and collection of accounts receivable
d. stockholder dividends, earning of revenues, incurrence of expenses, and purchase of supplies on account

ANSWER: b

127. Computer Corporation is starting its computer programming business and has sold stock for $15,000 cash. Identify how the accounting equation will be affected.

a. increase in assets (Cash) and increase in liabilities (Accounts Payable)
b. increase in assets (Cash) and increase in stockholders' equity (Common Stock)
c. increase in assets (Accounts Receivable) and decrease in liabilities (Accounts Payable)
d. increase in assets (Cash) and increase in assets (Accounts Receivable)

ANSWER: b

128. Ramos Repair Company is paying a cash dividend. How does this transaction affect Ramos Repair Company's accounting equation?

a. increase in assets (Accounts Receivable) and decrease in assets (Cash)
b. decrease in assets (Cash) and decrease in stockholders' equity (Dividends)
c. decrease in assets (Cash) and decrease in liabilities (Accounts Payable)
d. increase in assets (Cash) and decrease in stockholders' equity (Dividends)

ANSWER: b

129. Which of the following is **not** a business transaction for Erin, the CEO of Bob's Lawn Service?

a. Erin buys $15,000 in stock, placing the money in a bank account in the name of Bob's Lawn Service.

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b. Erin provided services to customers of Bob's Lawn Service, earning fees of $600.
c. Erin purchased hedge trimmers for Bob's Lawn Service, agreeing to pay the supplier next month.
d. Erin pays her monthly personal credit card bill.

ANSWER: d

130. Which of the following is a business transaction that is recordable in the accounting records?
a. purchase supplies on account
b. plan advertising for upcoming sale
c. give employees a raise beginning next month
d. submit estimate for construction project

ANSWER: a

131. The receipt of cash for services provided has what effect on the accounting equation?
a. increases assets; increases liabilities
b. increases liabilities; decreases stockholders' equity
c. increases assets; increases stockholders' equity
d. decreases assets; decreases liabilities

ANSWER: c

132. The payment of cash to a creditor on account has what effect on the accounting equation?
a. increases assets; increases liabilities
b. increases liabilities; decreases stockholders' equity
c. increases assets; decreases assets
d. decreases assets; decreases liabilities

ANSWER: d

133. The receipt of cash from a credit customer on account has what effect on the accounting equation?
a. increases assets; increases liabilities
b. increases liabilities; decreases stockholders' equity
c. increases assets; decreases assets
d. decreases assets; decreases liabilities

ANSWER: c

134. The payment of dividends has what effect on the accounting equation?
a. increases assets; increases liabilities
b. increases liabilities; decreases stockholders' equity
c. increases stockholders' equity; decreases stockholders' equity
d. decreases assets; decreases stockholders' equity

ANSWER: d

135. A purchase of supplies on credit has what effect on the accounting equation?
a. increases assets; increases liabilities
b. increases liabilities; decreases stockholders' equity
c. increases assets; increases stockholders' equity

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d. decreases assets; decreases liabilities

ANSWER: a

136. Borrowing money from the bank has what effect on the accounting equation?
a. increases assets; decreases assets
b. increases liabilities; decreases stockholders' equity
c. decreases assets; decreases stockholders' equity
d. increases assets; increases liabilities

ANSWER: d

137. The purchase of equipment for cash has what effect on the accounting equation?
a. increases assets; decreases assets
b. increases liabilities; decreases stockholders' equity
c. decreases assets; decreases stockholders' equity
d. decreases assets; decreases liabilities

ANSWER: a

138. The using up of supplies on hand has what effect on the accounting equation?
a. increases assets; increases liabilities
b. increases liabilities; decreases stockholders' equity
c. decreases assets; decreases stockholders' equity
d. decreases assets; decreases liabilities

ANSWER: c

139. Which of the following statements should be prepared first?
a. income statement
b. balance sheet
c. statement of stockholders' equity
d. statement of cash flows

ANSWER: a

140. Which of the following statements should be prepared second?
a. income statement
b. balance sheet
c. statement of stockholders' equity
d. statement of cash flows

ANSWER: c

141. Which of the following statements is a formal presentation of the accounting equation?
a. income statement
b. balance sheet
c. statement of stockholders' equity
d. statement of cash flows

ANSWER: b

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142. Stockholders' equity at the beginning of the year for ATLAS Inc. was $390,000, while its liabilities totaled $230,000. During the year, its assets increased by $75,000; its liabilities decreased by $50,000. What is the amount of stockholders' equity at the end of the year for ATLAS Inc.?

a. $107,000
b. $98,000
c. $415,000
d. $515,000

ANSWER: d

143. At the beginning of the year, Winton Company's assets were $180,000, and its stockholders' equity was $82,000. During the year, assets increased by $25,000, and liabilities increased by $9,000. What is the amount of stockholders' equity at the end of the year?

a. $107,000
b. $98,000
c. $114,000
d. $116,000

ANSWER: b

144. The financial statement that presents a summary of the revenues and expenses of a business for a specific period of time, such as a month or year, is called a(n)

a. prior period statement.
b. statement of stockholders' equity.
c. income statement.
d. balance sheet.

ANSWER: c

145. Which of the following financial statements reports information as of a specific date rather than for a period of time?

a. income statement
b. statement of stockholders' equity
c. statement of cash flows
d. balance sheet

ANSWER: d

146. Four financial statements are usually prepared for a business. The statement of cash flows is usually prepared last. The statement of stockholders' equity (SSE), the balance sheet (B), and the income statement (I) are prepared in a certain order to obtain information needed for the next statement. In what order are these three statements prepared?

a. I, SSE, B
b. B, I, SSE
c. SSE, I, B
d. B, SSE, I

ANSWER: a

147. Liabilities are reported on the

a. income statement.

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b. statement of stockholders' equity.
c. statement of cash flows.
d. balance sheet.

ANSWER: d

148. Cash investments made by the owner in the business are reported on the statement of cash flows in the
a. financing activities section.
b. investing activities section.
c. operating activities section.
d. supplemental statement.

ANSWER: a

149. The ending balance of the retained earnings account appears on
a. both the statement of stockholders' equity and the income statement.
b. only the statement of stockholders' equity.
c. both the statement of stockholders' equity and the balance sheet.
d. both the statement of stockholders' equity and the statement of cash flows.

ANSWER: c

150. A financial statement user would determine if a company was profitable or not during a specific period of time by reviewing the
a. income statement.
b. balance sheet.
c. statement of cash flows.
d. statement of stockholders' equity.

ANSWER: a

151. If a shareholder wanted to know how money flowed into and out of the company, which financial statement would the shareholder use?
a. income statement
b. statement of cash flows
c. balance sheet
d. statement of stockholders' equity

ANSWER: b

152. The Assets section of the balance sheet normally presents assets in
a. alphabetical order.
b. the order of largest to smallest dollar amounts.
c. the order in which they will be converted into cash or used in operations.
d. the order of smallest to largest dollar amounts.

ANSWER: c

153. The assets and liabilities of Bennett Designs at December 31, the end of the current year, and its revenue and expenses for the year are as follows:

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Accounts payable	$ 42,000	Miscellaneous expense	$ 1,030
Accounts receivable	10,340	Office expense	1,240
Cash	21,420	Supplies	1,670
Fees earned	73,450	Wages expense	23,550
Land	47,000	Dividends	16,570
Building	157,630		

What were the total assets on December 31?

a. $238,060

b. $236,390

c. $309,840

d. $33,430

ANSWER: a

154. Redfox Pest Control Service had revenues of $425,000 and expenses of $338,000 for the current year ended June 30. At the beginning of the year, common stock was $110,000 and retained earnings was $70,000. During the year, Redfox issued an additional $25,000 in stock and paid dividends of $16,750. What is the amount of total stockholders' equity at the end of the year?

a. $292,000

b. $267,250

c. $205,250

d. $275,250

ANSWER: d

155. Revenues for the year totaled $162,000 and expenses totaled $174,000. The company issued $15,000 of common stock and paid $6,000 in dividends during the year. What was the net income or net loss for the year?

a. $12,000 net income

b. $(12,000) net loss

c. $(18,000) net loss

d. $(6,000) net loss

ANSWER: b

156. Which of the following statements regarding the ratio of liabilities to stockholders' equity is **not** true?

a. A ratio of 1 indicates that liabilities equal stockholders' equity.

b. Sole proprietorships can use this ratio but substitute total owner's equity for total stockholders' equity.

c. The higher this ratio, the better able a business is to withstand poor business conditions and pay creditors.

d. The lower this ratio, the better able a business is to withstand poor business conditions and pay creditors.

ANSWER: c

157. A company had the following data for two recent years:

	Dec. 31, Year 2	Dec. 31, Year 1
Total liabilities	$128,250	$120,000
Total stockholders' equity	95,000	80,000

Compute the ratio of liabilities to stockholders' equity for each year. **Round to two decimal places.**

a. 1.50 and 1.07, respectively b. 1.35 and 1.50, respectively

c. 1.07 and 1.19, respectively d. 1.19 and 1.35, respectively

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ANSWER: b

Subjective Short Answer

158. Discuss internal and external users of accounting information. What areas of accounting provide them with information? Give an example of the type of report each type of user might use.

ANSWER: Internal users of accounting information include managers and employees. The area of accounting that provides internal users with information is called managerial accounting or management accounting. Managerial accounting reports often include sensitive information, for example about customers, prices, or plans to expand the business.

External users of accounting information include customers, creditors, banks, and government entities. These users are not directly involved in managing or operating the business. The area of accounting that provides external users with information is called financial accounting. General-purpose financial statements are one type of financial accounting report that is distributed to external users.

159. Companies like Enron, HealthSouth, and Xerox Corporation have been caught in the midst of ethical lapses that led to fines, firings, and criminal and/or civil prosecution. List and briefly describe two factors that are responsible for what went wrong in these companies.

ANSWER: The two factors are: (1) failure in individual character and (2) company culture of greed and ethical indifference. Honesty, integrity, and fairness in the face of pressure to hide the truth are important characteristics of an ethical businessperson. The behavior and attitude of senior management set a firm's culture. That culture in turn flows down to lower-level managers.

160. List the four steps in the process by which accounting provides information to users.

ANSWER: 1. Identify the needs of information users.
2. Measure and record economic events.
3. Report financial information.
4. Assist and support decision making

161. Identify each of the following as either internal or external users of accounting information.

A.	Payroll Manager
B.	Bank
C.	President's Secretary
D.	Internal Revenue Service
E.	Raw Material Vendors
F.	Social Security Administration
G.	Health Insurance Provider
H.	Managerial Accountant

ANSWER:

A.	Internal
B.	External
C.	Internal
D.	External
E.	External
F.	External
G.	External
H.	Internal

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162. For each of the following companies, identify whether they are a service, retail, or manufacturing business.

A.	Kohl's
B.	Time Warner Cable
C.	General Motors
D.	Regal Cinemas
E.	Applebee's
F.	Sony
G.	Best Buy
H.	Banana Republic
I.	H&R Block

ANSWER:

A.	Retail
B.	Service
C.	Manufacturing
D.	Service
E.	Service
F.	Service/Manufacturing
G.	Retail
H.	Retail
I.	Service

163. What is the major difference between the objective of financial accounting and the objective of managerial accounting?

ANSWER: The objective of financial accounting is to provide information for the decision-making needs of external users. The objective of managerial accounting is to provide information for internal users.

164. On May 7, Carpet Barn Company offered to pay $83,000 for land that had a selling price of $105,000. On May 15, Carpet Barn accepted a counteroffer of $95,000. On June 5, the land was assessed at a value of $115,000 for property tax purposes. On December 10, Carpet Barn Company was offered $135,000 for the land by another company. At what value should the land be recorded in Carpet Barn Company's records?

ANSWER: $95,000

165. Donner Company is selling a piece of land adjacent to its business. An appraisal reported the market value of the land to be $120,000. Focus Company initially offered to buy the land for $107,000. The companies settled on a purchase price of $115,000. On the same day, another piece of land on the same block sold for $122,000. Under the cost principle, what amount will be used to record this transaction in the accounting records?

ANSWER: $115,000

166. Explain the meaning of the business entity assumption.

ANSWER: The business entity assumption limits the economic data in an accounting system to data related directly to the activities of the business. In other words, the business is viewed as an entity separate from its owners, creditors, or other businesses.

167. Darnell Company purchased $88,000 of computer equipment from Joseph Company. Darnell Company paid for the equipment using cash that had been obtained from the initial investment by Donnie Darnell.

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Which entity or entities (Darnell Company, Joseph Company, and Donnie Darnell) should record the transaction involving the computer equipment on their accounting records?

ANSWER: Darnell Company and Joseph Company

168. Discuss the characteristics of a limited liability company (LLC).

ANSWER: A limited liability company (LLC) combines the attributes of a partnership and a corporation. It is often used as an alternative to a partnership because it has tax and legal liability advantages for owners.

169. Explain the meaning of:
(a) the measurement principle
(b) the monetary unit assumption

ANSWER: (a) The measurement principle requires that the amounts recorded in the accounting records be based on objective evidence. In exchanges between a buyer and a seller, both try to get the best price. Only the final agreed-upon amount is objective enough to be recorded in the accounting records.

(b) The monetary unit assumption requires that financial reports be expressed in a single monetary unit, or currency. For example, economic data in the United States must be recorded in U.S. dollars. This provides a common measurement of the effects of economic events and transactions on an entity.

170. Bob Johnson is the sole owner of Johnson's Carpet Cleaning Service. Bob purchased a personal automobile for $10,000 cash plus he took out a loan for $20,000 in his name. Describe how this transaction is related to the business entity assumption.

ANSWER: Under the business entity assumption, economic data are limited to the direct activities of the business. The business is viewed as separate from its owner. Therefore, when Bob buys a personal automobile, it is not listed on the books of Johnson's Carpet Cleaning, unless Bob invests it in the business. In this case, the loan is a personal debt and not a liability of the company, and the cash is from Bob's personal account and not the company's account.

171. Dave Ryan is the CEO of Ryan's Arcade. At the end of its accounting period, December 31, Ryan's Arcade has assets of $450,000 and liabilities of $125,000. Using the accounting equation, determine the following amounts:
(a) Stockholders' equity as of December 31 of the current year
(b) Stockholders' equity as of December 31 at the end of the next year, assuming that assets increased by $65,000 and liabilities increased by $35,000 during the year

ANSWER: (a) $325,000 ($450,000 − $125,000)
(b) $355,000 [($450,000 + $65,000) − ($125,000 + $35,000)]

172. Krammer Company has liabilities equal to one-fourth of the total assets. Krammer's stockholders' equity is $45,000. Using the accounting equation, what is the amount of liabilities for Krammer?

ANSWER: Assets = Liabilities + Stockholders' Equity
4x = x + $45,000
3x = $45,000
x = $15,000 in liabilities

173. Determine the missing amount for each of the following:

Assets	Liabilities	Stockholders' Equity
(a)	$38,000	$45,000
$30,000	(b)	$22,000
$53,000	$32,000	(c)

ANSWER: (a) $83,000 ($38,000 + $45,000)

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(b) $8,000 ($30,000 – $22,000)
(c) $21,000 ($53,000 – $32,000)

174. Determine the missing amount "X" for each of the following:

	Assets	Liabilities	Stockholders' Equity
(a)	$78,500	$37,600	X
(b)	X	$53,280	$145,000
(c)	$49,500	X	$34,000

ANSWER: (a) $40,900 ($78,500 − $37,600)

(b) $198,280 ($53,280 + $145,000)

(c) $15,500 ($49,500 − $34,000)

175. Use the accounting equation to answer each of the following independent questions:

(a) At the beginning of the year, Norton Company's assets were $75,000, and its stockholders' equity was $38,000. During the year, assets increased by $18,000, and liabilities increased by $4,000. What was the stockholders' equity at the end of the year?

(b) At the beginning of the year, Turpin Industries had liabilities of $44,000 and stockholders' equity of $66,000. If assets increased by $10,000 and liabilities decreased by $5,000, what was the stockholders' equity at the end of the year?

ANSWER: (a) $75,000 − $38,000 = $37,000 beginning-of-year liabilities
($75,000 + $18,000) − ($37,000 + $4,000) = $52,000 end-of-year stockholders' equity
(b) $44,000 + $66,000 = $110,000 beginning-of-year assets
($110,000 + $10,000) − ($44,000 − $5,000) = $81,000 end-of-year stockholders' equity

176. On July 1 of the current year, the assets and liabilities of the veterinary office business of John Wong, DVM, are as follows: Cash, $27,000; Accounts Receivable, $12,300; Supplies, $3,100; Land, $35,000; Accounts Payable, $13,900. What is the amount of stockholders' equity as of July 1 of the current year?

ANSWER: $63,500
$27,000 Cash + $12,300 Accounts Receivable + $3,100 Supplies + $35,000 Land − $13,900 Accounts Payable = $63,500

177. At the end of its accounting period, December 31, of Year 1, Hsu's Financial Services has assets of $575,000 and stockholders' equity of $335,000. Using the accounting equation and considering each case independently, determine the following amounts.

(a) Hsu's liabilities as of December 31, of Year 1.
(b) Hsu's liabilities as of December 31, of Year 2 assuming that assets increased by $56,000 and shareholders' equity decreased by $32,000.
(c) Net income or net loss during Year 2 assuming that as of December 31, Year 2, assets were $592,000, liabilities were $450,000, and there were no additional investments or dividends.

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ANSWER: (a) $575,000 − $335,000 = $240,000
(b) ($575,000 + $56,000) − ($335,000 − $32,000) = $328,000
(c) $592,000 − $450,000 = $142,000 shareholders' equity Year 2
$335,000 − $142,000 = $193,000 net loss

178. Indicate whether each of the following accounts represents an asset, a liability, or stockholders' equity:

(a) Accounts Payable
(b) Wages Expense
(c) Common Stock
(d) Accounts Receivable
(e) Dividends
(f) Land

ANSWER: (a) liability
(b) stockholders' equity
(c) stockholders' equity
(d) asset
(e) stockholders' equity
(f) asset

179. At December 31 of the current year, Martin Consultants has assets of $430,000 and liabilities of $205,000. Using the accounting equation and considering each case independently, determine the following:

(a) Stockholders' equity as of December 31.
(b) Stockholders' equity as of December 31 of the next year, assuming that assets increased by $12,000 and liabilities increased by $15,000.
(c) Stockholders' equity as of December 31 of the next year, assuming that assets decreased by $8,000 and liabilities increased by $14,000.

ANSWER: (a) $430,000 − $205,000 = $225,000
(b) ($430,000 + $12,000) − ($205,000 + $15,000) = $222,000
(c) ($430,000 − $8,000) − ($205,000 + $14,000) = $203,000

Scott Industries

The accountant for Scott Industries prepared the following list of account balances from the company's records for the year ended December 31. Use this information to answer the questions that follow.

Fees Earned	$165,000	Cash	$30,000
Accounts Receivable	16,000	Selling Expenses	44,000
Equipment	64,000	Common Stock	47,000
Accounts Payable	12,000	Interest Revenue	3,000
Salaries & Wages Expense	40,000	Income Taxes Expense	18,000
Income Taxes Payable	5,000	Rent Expense	20,000

180. Using the provided information, determine the total assets at the end of the current year for Scott Industries.

ANSWER: $110,000
$30,000 Cash + $16,000 Accounts Receivable + $64,000 Equipment = $110,000

181. Using the provided information, determine the total liabilities at the end of the current year for Scott Industries.

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ANSWER: $17,000
$12,000 Accounts Payable + $5,000 Income Taxes Payable = $17,000

182. Using the provided information, is Scott Industries profitable? Explain your answer.

ANSWER: ($165,000 Fees Earned + $3,000 Interest Revenue) − ($40,000 Salaries and Wages Expense + $44,000 Selling Expenses + $18,000 Income Taxes Expense + $20,000 Rent Expense) = $46,000 Net Income

Scott Industries had net income for the period of $46,000. As revenues exceeded expenses for the period, the company would be considered profitable.

183. Daniels Company made the following selected transactions during May:

1. Received cash from sale of stock, $55,000.
2. Paid creditors on account, $7,000.
3. Billed customers for services on account, $2,565.
4. Received cash from customers on account, $8,450.
5. Paid dividends to stockholders, $2,500.
6. Purchased supplies on account, $160.

Indicate the effect of each transaction on the accounting equation by:

(a) Account type—(A)assets, (L)liabilities, (SE)stockholders' equity, (R)revenue, and (E)expense
(b) Name of account
(c) Amount of the transaction
(d) Direction of change (increase or decrease) in the account affected

Note: Each transaction has two entries.

	Entry				Entry			
	Account Type (a)	**Name of Account (b)**	**Amount (c)**	**Increase or Decrease (d)**	**Account Type (a)**	**Name of Account (b)**	**Amount (c)**	**Increase or Decrease (d)**
1								
2								
3								
4								
5								
6								

ANSWER:

	Entry				Entry			
	Account Type (a)	**Name of Account (b)**	**Amount (c)**	**Increase or Decrease (d)**	**Account Type (a)**	**Name of Account (b)**	**Amount (c)**	**Increase or Decrease (d)**
1	A	Cash	$55,000	Increase	SE	Common Stock	$55,000	Increase
2	A	Cash	$7,000	Decrease	L	Accounts Payable	$7,000	Decrease
3	A	Accounts Receivable	$2,565	Increase	R	Fees Earned	$2,565	Increase
4	A	Cash	$8,450	Increase	A	Accounts	$8,450	Decrease

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						Receivable		
5	A	Cash	$2,500	Decrease	SE	Dividends	$2,500	Increase
6	A	Supplies	$160	Increase	L	Accounts Payable	$160	Increase

184. Collins Landscape Company purchased various landscaping supplies on account to be used for landscape designs for its customers. How will this business transaction affect the accounting equation?

ANSWER: Increase assets (Supplies) and increase liabilities (Accounts Payable)

185. Ramirez Company paid its electric bill in the amount of $60. How will this transaction affect the accounting equation?

ANSWER: Decrease assets (Cash) and decrease stockholders' equity (Utilities Expense)

186. Indicate how the following transactions affect the accounting equation.

(a) Purchase of supplies on account
(b) Purchase of supplies for cash
(c) Payment of cash dividends to stockholders
(d) Revenues received in cash
(e) Sale made on account

ANSWER: (a) Assets increase; liabilities increase
(b) No net effect as assets increase and decrease by the same amount
(c) Assets decrease; stockholders' equity decreases
(d) Assets increase; stockholders' equity increases
(e) Assets increase; stockholders' equity increases

187. (a) A vacant lot acquired for $83,000 cash is sold for $127,000 in cash. What is the effect of the sale on the total amount of the seller's (1) assets, (2) liabilities, and (3) stockholders' equity?

(b) Assume that the seller owes $52,000 on a loan for the land. After receiving the $127,000 cash in (a), the seller pays the $52,000 owed. What is the effect of the payment on the total amount of the seller's (1) assets, (2) liabilities, and (3) stockholders' equity?

ANSWER: (a) (1) Total assets increased $44,000
(2) No change in liabilities
(3) Stockholders' equity increased $44,000

(b) (1) Total assets decreased $52,000
(2) Total liabilities decreased $52,000
(3) No change in stockholders' equity

188. Austin Land Company sold land for $85,000 in cash. The land was originally purchased for $65,000. At the time of the sale, $40,000 was still owed to Regions Bank. After the sale, Austin Land Company paid off the loan. Explain the effect of the sale and the payoff of the loan on the accounting equation.

ANSWER: Total assets decrease $20,000 (Cash increases by $45,000; Land decreases by $65,000)
Total liabilities decrease $40,000 (Loan payoff to Regions Bank)
Stockholders' equity increases $20,000 (Sales price − Cost of the land)

189. There are four transactions that affect stockholders' equity.

(a) What are the two types of transactions that increase stockholders' equity?
(b) What are the two types of transactions that decrease stockholders' equity?

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ANSWER: (a) Purchase of additional common stock by stockholders and an increase in revenues
(b) Payment of dividends to stockholders and an increase in expenses

190. Identify each of the following as an (1) increase to stockholders' equity or a (2) decrease to stockholders' equity.

(a) Fees earned
(b) Wages expense
(c) Dividends
(d) Lawn care revenue
(e) Investment
(f) Supplies expense

ANSWER: (a) 1
(b) 2
(c) 2
(d) 1
(e) 1
(f) 2

191. Use the following information to determine the net income or net loss.

Beginning stockholders' equity	$58,000
Ending stockholders' equity	30,000
Stockholder dividends	25,000

ANSWER:

Ending stockholders' equity	$–30,000
Beginning stockholders' equity	(58,000)
Decrease in stockholders' equity	$(28,000)
Dividends	–25,000
Net loss	$ (3,000)

Thompson Computer Services

The assets and liabilities of Thompson Computer Services at March 31, the end of the current year, and its revenue and expenses for the year follow. The common stock was $120,000 and the retained earnings was $60,000 at April 1, the beginning of the current year. During the year, shareholders purchased an additional $25,000 in stock. Use this information to answer the questions that follow.

Accounts payable	$ 2,000	Miscellaneous expense	$ 1,030
Accounts receivable	10,340	Office expense	1,240
Cash	21,420	Supplies	1,670
Fees earned	73,450	Wages expense	23,550
Land	47,000	Dividends	16,570
Building	157,630		

192. Using the provided information, prepare an income statement for the current year ended March 31.

ANSWER:

Thompson Computer Services

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Income Statement For the Year Ended March 31		
Fees earned		$ 73,450
Expenses:		
Wages expense	$23,550	
Office expense	1,240	
Miscellaneous expense	1,030	
Total expenses		(25,820)
Net income		$ 47,630

193. Using the provided information, prepare a statement of stockholders' equity for the current year ended March 31.

ANSWER:

Thompson Computer Services
Statement of Stockholders' Equity
For the Year Ended March 31

	Common Stock	Retained Earnings	Total
Balances, April 1	$120,000	$ 60,000	$180,000
Issued common stock	25,000		25,000
Net income*		47,630	47,630
Dividends		(16,570)	(16,570)
Balances, March 31	$145,000	$ 91,060	$236,060

*Net Income = $73,450 Fees Earned – $23,550 Wages Expense – $1,240 Office Expense – $1,030 Miscellaneous Expense = $47,630

194. Using the provided information, prepare a statement of stockholders' equity for the current year ended March 31.

ANSWER:

Thompson Computer Services
Balance Sheet
March 31

Assets		
Cash		$ 21,420
Accounts receivable		10,340
Supplies		1,670
Land		47,000
Building		157,630
Total assets		$238,060
Liabilities		
Accounts payable		$ 2,000
Stockholders' Equity		
Common stock*	$145,000	
Retained earnings**	91,060	
Total stockholders' equity		236,060
Total liabilities and stockholders' equity		$238,060

Net Income = $73,450 Fees Earned – $23,550 Wages Expense – $1,240 Office Expense – $1,030 Miscellaneous Expense = $47,630
*Common Stock = $120,000 + $25,000 = $145,000

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**Retained Earnings = $60,000 + $47,630 – $16,570 = $91,060

195. A summary of cash flows for Linda's Design Services for the year ended December 31 follows:

Cash receipts:	
Cash received from customers	$83,990
Cash received from sale of stock	25,000
Cash payments:	
Cash paid for expenses	$27,000
Cash paid for land	47,000
Cash paid for supplies	410
Dividends	5,000
Cash balance as of January 1	$40,600

Prepare a statement of cash flows for Linda's Design Services for the year ended December 31.

ANSWER:

Linda's Design Services
Statement of Cash Flows
For the Year Ended December 31

Cash flows from (used for) operating activities:		
Cash received from customers	$ 83,990	
Cash paid for expenses and supplies	(27,410)	
Net cash flows from operating activities		$ 56,580
Cash flows from (used for) investing activities:		
Cash paid for land		(47,000)
Cash flows from (used for) financing activities:		
Cash received from issuing common stock	$ 25,000	
Cash dividends	(5,000)	
Net cash flows from financing activities		20,000
Net increase in cash		$29,580
Cash balance, January 1		40,600
Cash balance, December 31		$70,180

196. What information does the income statement give to business users?

ANSWER: The income statement reports the revenues and expenses for a period of time. The result is either a net income or a net loss.

197. What are the three sections of the statement of cash flows?

ANSWER: Cash flows from (used for) operating activities
Cash flows from (used for) investing activities
Cash flows from (used for) financing activities

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198. Name and describe the four primary financial statements for a corporation.

ANSWER: 1. Income statement: A summary of the revenue and expenses *for a specific period of time*, such as a month or a year.
2. Statement of stockholders' equity: A summary of the changes in stockholders' equity that have occurred *during a specific period of time,* such as a month or a year.
3. Balance sheet: A list of the assets, liabilities, and owner's equity *as of a specific date*, usually at the close of the last day of a month or a year.
4. Statement of cash flows: A summary of the cash receipts and cash payments for a *specific period of time*, such as a month or a year.

199. A summary of cash flows for Evelyn's Event Planning for the year ended December 31 follows:

Cash receipts:	
Cash received from customers	$57,360
Cash received from bank loan	15,000
Cash payments:	
Cash paid for operating expenses	$12,120
Cash paid for equipment	18,070
Cash paid for party supplies	9,480
Dividends	12,000
Cash balance as of January 1	$15,580

Prepare a statement of cash flows for Evelyn's Event Planning for the year ended December 31.

ANSWER:

Evelyn's Event Planning
Statement of Cash Flows
For the Year Ended December 31

Cash flows from (used for) operating activities:		
Cash received from customers	$ 57,360	
Cash paid for expenses and supplies	(21,600)	
Net cash flows from operating activities		$ 35,760
Cash flows from (used for) investing activities:		
Cash paid for equipment		(18,070)
Cash flow from (used for) financing activities:		
Cash received from bank loan	$ 15,000	
Cash dividends	(12,000)	
Net cash flows from financing activities		3,000
Net increase in cash		$ 20,690
Cash balance, January 1		15,580
Cash balance, December 31		$ 36,270

Rocky's Day Spa

The assets and liabilities of Rocky's Day Spa at December 31 and expenses for the year are listed. The stockholders'

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equity was $68,000 ($48,000 in Common Stock and $20,000 in Retained Earnings) at January 1. The shareholders invested in an additional $10,000 of common stock during the year. Net income for the year is $45,625.

Accounts payable	$ 4,375	Spa operating expense	$23,760
Accounts receivable	8,490	Office expense	2,470
Cash	13,980	Spa supplies	9,230
Fees earned	???	Wages expense	26,580
Spa furniture and equipment	56,000	Dividends	38,170
Computers	2,130		

200. Using the provided information, prepare an income statement for Rocky's Day Spa for the year ended December 31.

ANSWER:

Rocky's Day Spa
Income Statement
For the Year Ended December 31

Fees earned		$ 98,435
Expenses:		
Wages expense	$26,580	
Spa operating expense	23,760	
Office expense	2,470	
Total expenses		(52,810)
Net income		$ 45,625

201. Using the provided information, prepare a statement of stockholders' equity for Rocky's Day Spa for the year ended December 31.

ANSWER:

Rocky's Day Spa
Statement of Stockholders' Equity
For the Year Ended December 31

	Common Stock	Retained Earnings	Total
Balances, January 1	$48,000	$ 20,000	$ 68,000
Issued common stock	10,000		10,000
Net income		45,625	45,625
Dividends		(38,170)	(38,170)
Balances, December 31	$58,000	$ 27,455	$ 85,455

202. Using the provided information, prepare a balance sheet for Rocky's Day Spa for the year ended December 31.

ANSWER:

Rocky's Day Spa
Balance Sheet
December 31

Assets	
Cash	$13,980
Accounts receivable	8,490

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Spa supplies		9,230
Computers		2,130
Spa furniture and equipment		56,000
Total assets		$89,830
Liabilities		
Accounts payable		$ 4,375
Stockholders' Equity		
Common stock	$58,000	
Retained earnings	27,455	
Total stockholders' equity		85,455
Total liabilities and stockholders' equity		$89,830

203. Explain the interrelationship between the balance sheet and the statement of cash flows.

ANSWER: The cash reported on the balance sheet is also reported as the end-of-period cash on the statement of cash flows.

204. From the following list of accounts taken from Lamar's accounting records, identify those that would appear on the income statement.

(a) Rent Expense
(b) Land
(c) Common Stock
(d) Fees Earned
(e) Dividends
(f) Wages Expense
(g) Investments

ANSWER: (a), (d), (f)

205. Identify which of the following accounts would appear on a balance sheet.

(a) Cash
(b) Fees Earned
(c) Common Stock
(d) Wages Payable
(e) Rent Expense
(f) Supplies
(g) Land

ANSWER: (a), (c), (d), (f), (g)

206. Indicate whether each of the following activities would be reported on the statement of cash flows as an operating activity, an investing activity, or a financing activity.

(a) Cash paid for building
(b) Cash paid to suppliers
(c) Cash paid for dividends
(d) Cash received from customers
(e) Cash received from the sale of common stock
(f) Cash received from the sale of a building

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(g) Cash borrowed from a bank

ANSWER: (a) Investing
(b) Operating
(c) Financing
(d) Operating
(e) Financing
(f) Investing
(g) Financing

207. For each of the following, determine the amount of net income or net loss for the year.

(a) Revenues for the year totaled $71,300 and expenses totaled $35,500. The shareholders purchased $15,000 of common stock during the year.
(b) Revenues for the year totaled $220,500 and expenses totaled $175,000. The shareholders were paid $40,000 dividends during the year.
(c) Revenues for the year totaled $149,000 and expenses totaled $172,000. The shareholders purchased $12,000 of common stock and were paid $16,000 in dividends during the year.
(d) Revenues for the year totaled $198,150 and expenses totaled $174,200. The shareholders were paid $35,000 dividends during the year.

ANSWER: (a) $35,800 net income ($71,300 − $35,500)
(b) $45,500 net income ($220,500 − $175,000)
(c) $(23,000) net loss ($149,000 − $172,000)
(d) $23,950 net income ($198,150 − $174,200)

208. The total assets and total liabilities of Paul's Pools and Palaces at the beginning and end of the current fiscal year are as follows:

	Jan. 1	Dec. 31
Total assets	$280,000	$475,000
Total liabilities	205,000	130,000

(a) Determine the amount of net income earned during the year. No additional common stock was issued and no dividends were paid.
(b) Determine the amount of net income during the year. The assets and liabilities at the beginning and end of the year are unchanged from the amounts initially presented. However, the shareholders were paid $53,000 in cash dividends during the year (no additional purchase of common stock).
(c) Determine the amount of net income earned during the year. The assets and liabilities at the beginning and end of the year are unchanged from the amounts initially presented. However, the shareholders paid for $35,000 of common stock in June of the current fiscal year (no dividends).
(d) Determine the amount of net income earned during the year. The assets and liabilities at the beginning and end of the year are unchanged from the amounts initially presented. However, the shareholders paid for $12,000 of common stock in August of the current fiscal year and were paid 12 monthly cash dividends of $1,500 each during the year.

ANSWER: (a)

Stockholders' equity at end of year ($475,000 − $130,000)	$345,000
Deduct stockholders' equity at beginning of year ($280,000 − $205,000)	75,000
Net income	$270,000

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(b) Increase in stockholders' equity as in (a)	$270,000
Add dividends	53,000
Net income	$323,000
(c) Increase in stockholders' equity as in (a)	$270,000
Deduct sale of common stock	(35,000)
Net income	$235,000
(d) Increase in stockholders' equity as in (a)	$270,000
Add dividends ($1,500 × 12)	18,000
Deduct sale of common stock	(12,000)
Net income	$276,000

209. Selected transaction data of a business for September are summarized as follows:

Service sales charged to customers on account during September	$33,000
Cash received from cash customers for services performed in September	28,000
Cash received from customers on account during September:	
Services performed and charged to customers prior to September	13,000
Services performed and charged to customers during September	18,000
Expenses incurred prior to September and paid during September	6,500
Expenses incurred and paid in September	36,250
Expenses incurred in September but not paid in September	5,000
Expenses for supplies used and insurance (not included above) applicable to September	2,000

Determine the following amounts for September: (a) total revenue, (b) total expenses, (c) net income.

ANSWER: (a) $61,000 ($33,000 + $28,000)
(b) $43,250 ($36,250 + $5,000 + $2,000)
(c) $17,750 ($61,000 − $43,250)

210. On March 1, the amount of common stock and retained earnings in Richard's Catering Company was $100,000 and $50,000, respectively. During March, stockholders were paid $31,000 in dividends from the business. The amounts of the various assets, liabilities, revenues, and expenses are as follows:

Accounts payable	$10,250
Accounts receivable	45,950
Cash	23,840
Fees earned	64,950
Insurance expense	1,275
Land	88,400
Miscellaneous expense	1,210
Rent expense	9,000
Salary expense	20,300
Supplies	900
Supplies expense	525
Utilities expense	2,800

Prepare (a) an income statement for March, (b) a statement of stockholders' equity for March, and (c) a balance sheet as of March 31.

ANSWER: (a)

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Richard's Catering Company
Income Statement
For the Month Ended March 31

Fees earned		$ 64,950
Operating expenses:		
Salary expense	$20,300	
Rent expense	9,000	
Utilities expense	2,800	
Insurance expense	1,275	
Supplies expense	525	
Miscellaneous expense	1,210	
Total expenses		(35,110)
Net income		$29,840

(b)

Richard's Catering Company
Statement of Stockholders' Equity
For the Month Ended March 31

	Common Stock	Retained Earnings	Total
Balances, March 1	$100,000	$ 50,000	$150,000
Net income		29,840	29,840
Dividends		(31,000)	(31,000)
Balances, March 31	$100,000	$ 48,840	$148,840

(c)

Richard's Catering Company
Balance Sheet
March 31

Assets		
Cash		$ 23,840
Accounts receivable		45,950
Supplies		900
Land		88,400
Total assets		$159,090
Liabilities		
Accounts payable		$ 10,250
Stockholders' Equity		
Common stock	$100,000	
Retained earnings	48,840	
Total stockholders' equity		148,840
Total liabilities and stockholders' equity		$159,090

211. Using the following accounts and their amounts, prepare an income statement for Bright Futures Company for the

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month ended August 31.

Telephone Expense	$ 1,150
Cash	3,000
Accounts Payable	1,540
Dividends	800
Fees Earned	15,700
Rent Expense	1,400
Supplies	140
Accounts Receivable	1,500
Computer Equipment	17,600
Common Stock	10,000
Retained Earnings (August 1)	4,320
Wages Expense	4,800
Utilities Expense	750
Office Expense	420

ANSWER:

Bright Futures Company
Income Statement
For the Month Ended August 31

Fees earned		$15,700
Expenses:		
Wages expense	$4,800	
Rent expense	1,400	
Telephone expense	1,150	
Utilities expense	750	
Office expense	420	
Total expenses		(8,520)
Net income		$ 7, 180

212. Using the following accounts and their amounts, prepare a statement of stockholders' equity for Bright Futures Company for the month ended August 31. No common stock was issued during the year.

Telephone Expense	$ 1,150
Cash	3,000
Accounts Payable	1,540
Dividends	800
Fees Earned	15,700
Rent Expense	1,400
Supplies	140
Accounts Receivable	1,500
Computer Equipment	17,600
Common Stock	10,000
Retained Earnings (August 1)	4,320
Wages Expense	4,800
Utilities Expense	750
Office Expense	420

ANSWER:

Bright Futures Company
Statement of Stockholders' Equity

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	For the Month Ended August 31		
	Common Stock	**Retained Earnings**	**Total**
Balances, August 1	$10,000	$ 4,320	$14,320
Net income*		7,180	7,180
Dividends		(800)	(800)
Balances, August 31	$10,000	$10,700	$20,700

Net Income* = $15,700 – $4,800 – $1,400 – $1,150 – $750 – $420 = $7,180

213. Using the following accounts and their amounts, prepare a balance sheet for Bright Futures Company as of August 31.

Telephone Expense	$ 1,150
Cash	3,000
Accounts Payable	1,540
Dividends	800
Fees Earned	15,700
Rent Expense	1,400
Supplies	140
Accounts Receivable	1,500
Computer Equipment	17,600
Common Stock	10,000
Retained Earnings (August 1)	4,320
Wages Expense	4,800
Utilities Expense	750
Office Expense	420

ANSWER:

Bright Futures Company
Balance Sheet
August 31

Assets		
Cash		$ 3,000
Accounts receivable		1,500
Supplies		140
Computer equipment		17,600
Total assets		$22,240
Liabilities		
Accounts payable		$ 1,540
Stockholders' Equity		
Common stock	$10,000	
Retained earnings*	10,700	
Total stockholders' equity		20,700
Total liabilities and stockholders' equity		$22,240

Net Income = $15,700 – $4,800 – $1,400 – $1,150 – $750 – $420 = $7,180
*Retained Earnings = $4,320 + $7,180 – $800 = $10,700

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214. The account balances of Awesome Travel Services at December 31 are listed. There were no additional investments or dividends by Awesome Travel Services during the year.

Accounts Payable	$12,000	Retained Earnings (Jan. 1)	$ 6,000
Accounts Receivable	14,000	Supplies	1,000
Cash	18,000	Income Taxes Expense	1,300
Common Stock	4,000	Utilities Expense	8,000
Computer Equipment	21,000	Wages Expense	25,000
Fees Earned	78,000	Supplies Expense	1,700
Rent Expense	10,000		

Prepare an income statement for the year ended December 31, a statement of stockholders' equity for the year ended December 31, and a balance sheet as of December 31.

ANSWER:

Awesome Travel Services
Income Statement
For the Year Ended December 31

Fees earned		$ 78,000
Operating expenses:		
Wages expense	$25,000	
Rent expense	10,000	
Utilities expense	8,000	
Supplies expense	1,700	
Income taxes expense	1,300	
Total expenses		(46,000)
Net income		$ 32,000

Awesome Travel Services
Statement of Stockholders' Equity
For the Year Ended December 31

	Common Stock	**Retained Earnings**	**Total**
Balances, January 1	$4,000	$ 6,000	$10,000
Net income		32,000	32,000
Balances, December 31	$4,000	$38,000	$42,000

Awesome Travel Services
Balance Sheet
December 31

Assets	
Cash	$18,000
Accounts receivable	14,000
Supplies	1,000
Computer equipment	21,000
Total assets	$54,000
Liabilities	
Accounts payable	$12,000

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Stockholders' Equity		
Common stock	$ 4,000	
Retained earnings	38,000	
Total stockholders' equity		42,000
Total liabilities and stockholders' equity		$54,000

215. Schultz Tax Services, a tax preparation business, had the following transactions during the month of June:

1. Received cash for providing accounting services, $3,000.
2. Billed customers on account for providing services, $7,000.
3. Paid advertising expense, $800.
4. Received cash from customers on account, $3,800.
5. Paid shareholder dividends, $1,500.
6. Received telephone bill, $220.
7. Paid telephone bill, $220.

Based on the information provided, compute the balance of Cash at June 30. Use the following format:

Cash, June 1 $25,000

Plus cash receipts for June _____

Minus cash payments for June _____

Cash, June 30 _____

ANSWER:

Cash, June 1	$25,000
Plus cash receipts for June	6,800
Minus cash payments for June	2,520
Cash, June 30	$29,280

216. A company had the following data:

	Dec. 31, Year 2	Dec. 31, Year 1
Total liabilities	$128,250	$120,000
Total stockholders' equity	95,000	80,000

(a) Compute the ratio of liabilities to stockholders' equity for each year. Round answers to two decimal places.
(b) Has the creditors' risk increased or decreased from December 31, Year 1, to December 31, Year 2?

ANSWER: (a)

	Dec. 31, Year 2	Dec. 31, Year 1
Total liabilities	$128,250	$120,000
Total stockholders' equity	95,000	80,000
Ratio of liabilities to stockholders' equity	1.35	1.50
	($128,250 ÷ $95,000)	($120,000 ÷ $80,000)

(b) Decreased

217. Company G has a ratio of liabilities to stockholders' equity of 0.12 and 0.28 for Year 1 and Year 2, respectively. In

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contrast, Company M has a ratio of liabilities to stockholders' equity of 1.13 and 1.29, respectively, for the same period. Based on this information, which company's creditors are more at risk and why? Should the creditors of either company fear the risk of nonpayment?

ANSWER: Company M's creditors are more at risk than Company G's creditors. The lower the ratio of liabilities to owner's equity, the better able the company is to withstand poor business conditions and pay its obligations to creditors. Without additional information, it appears that the creditors of either company are well protected against the risk of nonpayment, because the ratios are relatively low for both. However, the fact that both ratios are increasing over the period should be monitored for downturns in business conditions.

218. The following data were taken from Miller Company's balance sheet:

	Dec. 31, Year 2	Dec. 31, Year 1
Total liabilities	$150,000	$105,000
Total stockholders' equity	75,000	60,000

(a) Compute the ratio of liabilities to stockholders' equity. Round answers to two decimal places.
(b) Has the creditors' risk increased or decreased from December 31, Year 1, to December 31, Year 2?

ANSWER: (a) 12/31/Year 2: $150,000 ÷ $75,000 = 2.00
12/31/Year 1: $105,000 ÷ $60,000 = 1.75

(b) Increased

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