Accounting Tools for Business Decision Making 6th edition Kimmel Test Bank

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CHAPTER 2

A FURTHER LOOK AT FINANCIAL STATEMENTS

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVE AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
True-False Statements														
1.	1	K	12.	2	K	23.	2	K	34.	3	K	45.	3	K
2.	1	K	13.	2	K	24.	2	K	35.	3	C	46.	3	K
3.	1	K	14.	2	K	25.	2	C	36.	3	K	47.	3	K
4.	1	K	15.	2	K	26.	3	K	37.	3	K	48.	3	K
5.	1	C	16.	2	C	27.	3	K	38.	3	C	49.	3	K
6.	1	K	17.	2	K	28.	3	K	39.	3	K	50.	3	K
7.	1	C	18.	2	K	29.	3	K	40.	3	K	51.	3	K
8.	2	K	19.	2	K	30.	3	K	41.	3	K	52.	3	K
9.	2	C	20.	2	K	31.	3	K	42.	3	K	53.	3	K
10.	2	K	21.	2	K	32.	3	C	43.	3	K	54.	3	K
11.	2	K	22.	2	K	33.	3	K	44.	3	K	55.	3	K
Multiple Choice Questions														
56.	1	K	84.	2	AP	112.	2	C	140.	2	AP	168.	3	K
57.	1	K	85.	1	AP	113.	2	K	141.	2	AP	169.	3	C
58.	1	K	86.	1	AP	114.	2	K	142.	2	AN	170.	3	C
59.	1	K	87.	1	AP	115.	1	AP	143.	2	AP	171.	3	C
60.	1	K	88.	1	AP	116.	2	AP	144.	2	AP	172.	3	C
61.	1	K	89.	1	AP	117.	2	AP	145.	2	C	173.	3	K
62.	1	K	90.	2	AP	118.	2	AP	146.	3	K	174.	3	C
63.	1	K	91.	2	AP	119.	2	AP	147.	3	K	175.	3	C
64.	1	K	92.	2	K	120.	2	AP	148.	3	K	176.	3	K
65.	1	K	93.	2	AP	121.	2	AP	149.	3	K	177.	3	K
66.	1	K	94.	2	AP	122.	2	AP	150.	3	K	178.	3	K
67.	1	K	95.	2	K	123.	2	AP	151.	3	K	179.	3	K
68.	1	K	96.	2	K	124.	2	AP	152.	3	K	180.	3	C
69.	1	K	97.	2	C	125.	2	K	153.	3	K	181.	3	K
70.	1	K	98.	2	K	126.	2	K	154.	3	K	182.	3	K
71.	1	K	99.	2	AN	127.	2	K	155.	3	K	183.	3	K
72.	1	AP	100.	2	AN	128.	2	C	156.	3	K	184.	3	K
73.	1	K	101.	2	AP	129.	2	C	157.	3	K	185.	3	K
74.	2	K	102.	2	AN	130.	2	C	158.	3	K	186.	3	C
75.	1	AP	103.	2	K	131.	2	C	159.	3	K	187.	3	C
76.	1	AP	104.	2	K	132.	2	AP	160.	3	K	188.	3	K
77.	1	AP	105.	2	K	133.	2	AP	161.	3	K	189.	3	K
78.	2	AP	106.	2	C	134.	2	AP	162.	3	K	190.	3	C
79.	2	AP	107.	2	K	135.	2	AP	163.	3	K	191.	3	C
80.	1	AP	108.	2	K	136.	2	K	164.	3	K	192.	3	C
81.	1	AP	109.	2	K	137.	2	K	165.	3	C			
82.	1	AP	110.	2	K	138.	2	K	166.	3	C			
83.	2	AP	111.	2	C	139.	2	K	167.	3	C			

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Brief Exercises												
193.	1	AP	195.	2	AP	197.	3	K	199.	3	C	201. 3 K
194.	2	AP	196.	3	K	198.	3	C	200.	3	C	
Exercises												
202.	1	AP	206.	1, 2	AP	210.	2	AP	214.	2	K	
203.	1	K	207.	1	AP	211.	2	AP	215.	2	AP	
204.	1.	AP	208.	1	AP	212.	2	AP	216.	2	AP	
205.	1, 2	AP	209.	2	AP	213.	2	AN	217.	2	AN	
Completion Statements												
218.	3	K	220.	3	K	222.	2	K	224.	2	K	225. 2 K
219.	3	K	221.	3	K	223.	1	K				
Matching												
226.	1-3	K										
Short Answer Essay												
227.	1	K	230.	2	C	233.	3	C	236.	2	E	237. 3 E
228.	2,	K	231.	3	C	234.	3	K				
229.	1, 2	K	232.	3	C	235.	3	K				

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Learning Objective 1											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
1.	TF	58.	MC	67.	MC	77.	MC	115.	MC	223.	CS
2.	TF	59.	MC	68.	MC	80.	MC	193.	BE	226.	Ma
3.	TF	60.	MC	69.	MC	81.	MC	202.	Ex	227.	SA
4.	TF	61.	MC	70.	MC	82.	MC	203.	Ex	229.	SA
5.	TF	62.	MC	71.	MC	85.	MC	204.	Ex		
6.	TF	63.	MC	72.	MC	86.	MC	205.	Ex		
7.	TF	64.	MC	73.	MC	87.	MC	206.	Ex		
56.	MC	65.	MC	75.	MC	88.	MC	207.	Ex		
57.	MC	66.	MC	76.	MC	89.	MC	208.	Ex		
Learning Objective 2											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
8.	TF	25.	TF	101.	MC	119.	MC	136.	MC	212.	Ex
9.	TF	74.	MC	102.	MC	120.	MC	137.	MC	213.	Ex
10.	TF	78.	MC	103.	MC	121.	MC	138.	MC	214.	Ex
11.	TF	79.	MC	104.	MC	122.	MC	139.	MC	215.	Ex
12.	TF	83.	MC	105.	MC	123.	MC	140.	MC	216.	Ex
13.	TF	84.	MC	106.	MC	124.	MC	141.	MC	217.	Ex
14.	TF	90.	MC	107.	MC	125.	MC	142.	MC	222.	CS
15.	TF	91.	MC	108.	MC	126.	MC	143.	MC	224.	CS
16.	TF	92.	MC	109.	MC	127.	MC	144.	MC	225.	CS
17.	TF	93.	MC	110.	MC	128.	MC	145.	MC	228.	SA
18.	TF	94.	MC	111.	MC	129.	MC	194.	BE	229.	SA
19.	TF	95.	MC	112.	MC	130.	MC	195.	BE	230.	SA
20.	TF	96.	MC	113.	MC	131.	MC	205.	Ex	236	SA
21.	TF	97.	MC	114.	MC	132.	MC	206.	Ex		
22.	TF	98.	MC	116.	MC	133.	MC	209.	Ex		
23.	TF	99.	MC	117.	MC	134.	MC	210.	Ex		
24.	TF	100.	MC	118.	MC	135.	MC	211.	Ex		

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Learning Objective 3											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
26.	TF	43.	TF	150.	MC	167.	MC	184.	MC	220.	CS
27.	TF	44.	TF	151.	MC	168.	MC	185.	MC	221.	CS
28.	TF	44.	TF	152.	MC	169.	MC	186.	MC	226.	Ma
29.	TF	45.	TF	153.	MC	170.	MC	187.	MC	231.	SA
30.	TF	47.	TF	154.	MC	171.	MC	188.	MC	232.	SA
31.	TF	48.	TF	155.	MC	172.	MC	189.	MC	233.	SA
32.	TF	49.	TF	156.	MC	173.	MC	190.	MC	234.	SA
33.	TF	50.	TF	157.	MC	174.	MC	191.	MC	235.	SA
34.	TF	51.	TF	158.	MC	175.	MC	192.	MC	237.	SA
35.	TF	52.	TF	159.	MC	176.	MC	196.	BE		
36.	TF	53.	TF	160.	MC	177.	MC	197.	BE		
37.	TF	54.	TF	161.	MC	178.	MC	198.	BE		
38.	TF	55.	TF	162.	MC	179.	MC	199.	BE		
39.	TF	146.	MC	163.	MC	180.	MC	200.	BE		
40.	TF	147.	MC	164.	MC	181.	MC	201.	BE		
41.	TF	148.	MC	165.	MC	182.	MC	218.	CS		
42.	TF	149.	MC	166.	MC	183.	MC	219.	CS		

Note: TF = True-False
MC = Multiple Choice
Ma = Matching
C = Completion
Ex = Exercise
SA = Short Answer Essay

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CHAPTER LEARNING OBJECTIVES

1. ***Identify the sections of a classified balance sheet.*** In a classified balance sheet, companies classify assets as current assets; long-term investments; property, plant, and equipment; and intangibles. They classify liabilities as either current or long-term. A stockholders' equity section shows common stock and retained earnings.

2. ***Use ratios to evaluate a company's profitability, liquidity, and solvency.*** Ratio analysis expresses the relationship among selected items of financial statements data. Profitability ratios, such as earnings per share (EPS), measure aspects of the operating success of a company for a given period of time.

   Liquidity ratios, such as the current ratio, measure the short-term ability of a company to pay its maturing obligations and to meet unexpected needs for cash. Solvency ratios, such as the debt to assets ratio, measure the ability of a company to survive over a long period.

   Free cash flow indicates a company's ability to generate cash from operations that is sufficient to pay debts, acquire assets, and distribute dividends.

3. ***Discuss financial reporting concepts.*** Generally accepted accounting principles are a set of rules and practices recognized as a general guide for financial reporting purposes. The basic objective of financial reporting is to provide information that is useful for decision making.

   To be judged useful, information should have the primary characteristics of relevance and faithful representation. In addition, useful information is comparable, consistency, verifiable, timely, and understandable.

   The *monetary unit assumption* requires that companies include in the accounting records only transaction data that can be expressed in terms of money. The *economic entity assumption* states that economic events can be identified with a particular unit of accountability. The *periodicity assumption* states that the economic life of a business can be divided into artificial time periods and that meaningful accounting reports can be prepared for each period. The *going concern assumption* states that the company will continue in operation long enough to carry out its existing objectives and commitments.

   The historical *cost principle* states that the companies should record assets at their cost. The fair value principle indicates that assets and liabilities should be reported at fair value. The *full disclosure principle* requires that companies disclose circumstances and events that matter to financial statement users.

   The cost constraint weighs the cost that companies incur to provide a type of information against its benefit to financial statement users.

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TRUE-FALSE STATEMENTS

1. Cash and supplies are both classified as current assets.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

2. Long-term investments appear in the property, plant, and equipment section of the balance sheet.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

3. A liability is classified as a current liability if it is to be paid within the coming year.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

4. Stockholders' equity is divided into two parts: common stock and retained earnings.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

5. It is possible for an asset to be a current asset even though the expected conversion of that asset into cash is to be longer than one year or the normal operating cycle.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

6. The investment category on the balance sheet normally includes investments that are intended to be held for a short period of time (less than one year).

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

7. The main difference between intangible assets and property, plant and equipment is the length of the asset's life.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

8. Profitability means having enough funds on hand to pay debts when they fall due.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Risk Management, AICPA PC: None, IMA: Business Economics

9. Earnings per share is calculated by dividing net income minus preferred stock dividends for the period by the average number of common shares outstanding during the period.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

10. Earnings per share measures the net income earned on each share of common stock.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

11. Liquidity ratios measure the short-term ability of a company to pay its maturing obligations and meet unexpected needs for cash.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

12. Solvency ratios measure the ability of a company to survive over a short period of time.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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13. Profitability ratios measure the operating success of a company for a given period of time.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

14. The current ratio is computed as current liabilities divided by current assets.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

15. The excess of current assets over current liabilities is called working capital.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

16. The current ratio takes into account the composition of current assets.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

17. Solvency ratios measure the short-term ability of the company to pay its maturing obligations.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

18. The debt to assets ratio measures the percentage of assets financed by creditors.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

19. Solvency is a company's ability to pay interest as it comes due and to repay the balance of a debt due at its maturity.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FC: Risk Management, AICPA PC: Project Management, IMA: Business Economics

20. Net cash provided by operating activities takes into account that a company must invest in capital expenditures just to maintain its current level of operations.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

21. Both investors and creditors have an interest in a company’s ability to generate favorable cash flows.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

22. Free cash flow is net cash provided by operating activities less capital expenditures.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

23. In the statement of cash flows, net cash provided by operating activities indicates the cash-generating capability of the company.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

24. Free cash flow is net cash provided by operating activities less dividends.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

25. Long-term creditors consider a high free cash flow amount an indication of solvency.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Risk Management, AICPA PC: None, IMA: Business Economics

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26. The primary accounting standard-setting body in the United States is the Securities and Exchange Commission.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

27. Generally accepted accounting principles are rules and practices that are recognized as a general guide for financial reporting purposes.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

28. GAAP stands for generally accepted accounting procedures.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

29. To be faithfully representative, accounting information should predict future events, confirm prior expectations, and be reported on a timely basis.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

30. In order for information to be relevant, it must be reported on a monthly basis.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

31. For information to be useful, it must be both relevant and faithfully representative.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

32. Consistent use of the same accounting principles and methods is necessary for meaningful analysis of trends within a company.

Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

33. A major function of management is to provide the accountant with relevant and useful information.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

34. The advantage of accounting information is that it provides exact and completely reliable measures.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

35. Consistency in accounting means that a company uses the same generally accepted accounting principles from one accounting period to the next accounting period.

Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

36. The convention of consistency pertains to the use of the same accounting principles by firms in the same industry.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

37. The periodicity assumption states that the business will remain in operation for the foreseeable future.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Risk Management, AICPA PC: None, IMA: Business Economics

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38. If a building is offered for sale at $100,000 and the buyer pays $95,000 cash for it, the buyer would record the building at $100,000.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: FSA

39. The most generally accepted value used in accounting is market value.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: FSA

40. For accounting purposes, business transactions should be kept separate from the personal transactions of the stockholders of the business.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: FSA

41. The economic entity assumption states that economic events can be identified with a particular unit of accountability.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

42. The economic entity assumption states that assets should be recorded at their cost.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: FSA

43. The monetary unit assumption states that transactions that can be measured in terms of money should be recorded in the accounting records.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: FSA

44. The monetary unit assumption has led to an increase in the notes to financial statements.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

45. The going concern assumption is that the business will continue in operation long enough to carry out its existing objectives and commitments.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Risk Management, AICPA PC: None, IMA: Business Economics

46. When preparing financial statements, the accountant assumes that the business will stay in business for the foreseeable future.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

47. Full disclosure of all important facts aids in overcoming the limitations of accounting information.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

48. The economic entity assumption is that a company will remain in operations for the foreseeable future.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: FSA

49. Materiality is a company-specific aspect of faithful representation.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: FSA

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50. Relevance and cost are two constraints in accounting.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Risk Management, AICPA PC: None, IMA: Business Economics

51. Materiality relates to whether an item is large enough to likely influence the decision of an investor or creditor.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

52. Cost constraint weighs the cost that companies incur to provide a type of information against its benefit to financial statement users.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

53. In general, the FASB indicates that most assets must follow the fair value principle.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

54. A material item is one that is likely to influence an investor's decision.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

55. The periodicity assumption states that every economic entity can be separately identified and accounted for.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Answers to True-False Statements

1.	T	13.	T	25.	T	37.	F	49.	F
2.	F	14.	F	26.	F	38.	F	50.	F
3.	T	15.	T	27.	T	39.	F	51.	T
4.	T	16.	F	28.	F	40.	T	52.	T
5.	F	17.	F	29.	F	41.	T	53.	F
6.	F	18.	T	30.	F	42.	F	54.	T
7.	F	19.	T	31	T	43.	T	55.	F
8.	F	20.	F	32.	T	44	F		
9.	T	21.	T	33.	F	45.	T		
10.	T	22.	F	34.	F	46.	T		
11.	T	23.	T	35.	T	47.	T		
12.	F	24.	F	36.	F	48.	F		

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MULTIPLE CHOICE QUESTIONS

56. In a classified balance sheet, assets are usually classified as
    a. current assets; long-term assets; property, plant, and equipment; and intangible assets.
    b. current assets; long-term investments; property, plant, and equipment; and common stocks.
    c. current assets; long-term investments; tangible assets; and intangible assets.
    d. current assets; long-term investments; property, plant, and equipment; and intangible assets.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

57. On a classified balance sheet, short-term investments are classified as
    a. an intangible asset.
    b. property, plant, and equipment.
    c. a current asset.
    d. a long-term investment.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

58. A current asset is
    a. the last asset purchased by a business.
    b. an asset which is currently being used to produce a product or service.
    c. usually found as a separate classification in the income statement.
    d. expected to be converted to cash or used in the business within a relatively short period of time.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

59. Which of the following is not classified properly as a current asset?
    a. Supplies
    b. Debt investments
    c. A fund to be used to purchase a building within the next year
    d. A receivable from the sale of an asset to be collected in two years

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

60. An intangible asset
    a. derives its value from the rights and privileges it provides the owner.
    b. is worthless because it has no physical substance.
    c. is converted into a tangible asset during the operating cycle.
    d. cannot be classified on the balance sheet because it lacks physical substance.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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61. Which of the following is not considered an asset?
    a. Equipment
    b. Dividends
    c. Accounts receivable
    d. Inventory

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

62. Trademarks would appear in which balance sheet section?
    a. Intangible assets
    b. Investments
    c. Property, plant, and equipment
    d. Current assets

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

63. Liabilities are generally classified on a balance sheet as
    a. small liabilities and large liabilities.
    b. present liabilities and future liabilities.
    c. tangible liabilities and intangible liabilities.
    d. current liabilities and long-term liabilities.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

64. Which of the following would not be classified as a long-term liability?
    a. Current maturities of long-term debt
    b. Bonds payable
    c. Mortgage payable
    d. Lease liabilities

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

65. Which of the following is not a current liability?
    a. Salaries and Wages Payable
    b. Accounts Payable
    c. Taxes Payable
    d. Bonds Payable

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

66. Equipment is classified on the balance sheet as
    a. a current asset.
    b. property, plant, and equipment.
    c. an intangible asset.
    d. a long-term investment.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

67. It is not true that current assets are resources that are expected to be
    a. realized in cash within one year.
    b. sold within one year.
    c. consumed within one year.
    d. acquired within one year.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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68. The operating cycle of a company is the average time that is required to go from cash to
    a. sales in producing revenues.
    b. cash in producing revenues.
    c. inventory in producing revenues.
    d. accounts receivable in producing revenues.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

69. On a classified balance sheet, companies usually list current assets
    a. in alphabetical order.
    b. with the largest dollar amounts first.
    c. in the order in which they are expected to be converted into cash.
    d. in the order of acquisition.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

70. Intangible assets are
    a. listed directly under current assets on the balance sheet.
    b. not listed on the balance sheet because they do not have physical substance.
    c. listed after property, plant, and equipment.
    d. listed as a long-term investment on the balance sheet.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

71. Which statement about long-term investments is not true?
    a. They will be held for more than one year.
    b. They are not currently used in the operation of the business.
    c. They include investments in stock of other companies and land held for future use.
    d. They do not include long-term notes receivable.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

72. These are selected account balances on December 31, 2017.

Land	$150,000
Land (held for future use)	225,000
Buildings	1,200,000
Inventory	300,000
Equipment	675,000
Furniture	150,000
Accumulated Depreciation	450,000

What is the total amount of property, plant, and equipment that will appear on the balance sheet?
    a. $2,250,000
    b. $1,950,000
    c. $2,700,000
    d. $1,725,000

Ans: D, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $150,000 + $1,200,000 + $675,000 + $150,000 – $450,000 = $1,725,000
(Land + Build. + Equip + Furn –.Acc. Dep.)

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73. What is the order in which assets are generally listed on a classified balance sheet?
    a. Current and long-term
    b. Current; property, plant and equipment; long-term investments; intangibles
    c. Current; property, plant and equipment; intangibles; long-term investments
    d. Current; long-term investments; property, plant and equipment, intangibles

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

74. Ratios that measure the income or operating success of a company for a given period of time are
    a. liquidity ratios.
    b. profitability ratios.
    c. solvency ratios.
    d. trending ratios.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

75. Use the following data to determine the total dollar amount of assets to be classified as current assets.

Koonce Office Supplies
Balance Sheet
December 31, 2017

Cash		$ 195,000	Accounts payable	$ 210,000
Accounts receivable		150,000	Salaries and wages payable	30,000
Inventory		165,000	Mortgage payable	240,000
Prepaid insurance		90,000	Total liabilities	$480,000
Stock investments		255,000		
Land		270,000		
Buildings	$315,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	255,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,590,000	stockholders' equity	$1,590,000

    a. $855,000
    b. $600,000
    c. $510,000
    d. $435,000

Ans: B, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $195,000 + $150,000 + $165,000 + $90,000 = $600,000
(Cash + Acc. rec. + Inven. + Prep.ins.)

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76. Use the following data to determine the total dollar amount of assets to be classified as property, plant, and equipment.

Koonce Office Supplies
Balance Sheet
December 31, 2017

Cash		$ 195,000	Accounts payable	$ 210,000
Accounts receivable		150,000	Salaries and wages payable	30,000
Inventory		165,000	Mortgage payable	240,000
Prepaid insurance		90,000	Total liabilities	480,000
Stock investments		255,000		
Land		270,000		
Buildings	$315,000		Common stock	360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	255,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,590,000	stockholders' equity	$1 590,000

a. $990,000
b. $525,000
c. $735,000
d. $585,000

Ans: B, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $270,000 + $255,000 = $525,000
[Land + (Build. — Acc. dep.)]

77. Use the following data to determine the total dollar amount of assets to be classified as investments.

Koonce Office Supplies
Balance Sheet
December 31, 2017

Cash		$ 195,000	Accounts payable	$ 210,000
Accounts receivable		150,000	Salaries and wages payable	30,000
Inventory		165,000	Mortgage payable	240,000
Prepaid insurance		90,000	Total liabilities	$480,000
Stock investments		255,000		
Land		270,000		
Buildings	$315,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	255,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,590,000	stockholders' equity	$1,590,000

a. $0
b. $525,000
c. $255,000
d. $465,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: Stock investments = $255,000

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78. Use the following data to determine the total amount of working capital.

Koonce Office Supplies
Balance Sheet
December 31, 2017

Cash		$ 195,000	Accounts payable	$ 210,000
Accounts receivable		150,000	Salaries and wages payable	30,000
Inventory		165,000	Mortgage payable	240,000
Prepaid insurance		90,000	Total liabilities	$480,000
Stock investments		255,000		
Land		270,000		
Buildings	$315,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	275,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,590,000	stockholders' equity	$1,590,000

a. $360,000
b. $390,000
c. $130,000
d. $180,000

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($195,000 + $150,000 + $165,000 + $90,000) – ($210,000 + $30,000) = $360,000
(Cash + Acc. rec.+ Inv. + Prep. Ins) – (Acct. pay + Sal./wag. pay.)

79. Use the following data to calculate the current ratio.

Koonce Office Supplies
Balance Sheet
December 31, 2017

Cash		$ 195,000	Accounts payable	$ 210,000
Accounts receivable		150,000	Salaries and wages payable	30,000
Inventory		165,000	Mortgage payable	240,000
Prepaid insurance		90,000	Total liabilities	$480,000
Stock investments		255,000		
Land		270,000		
Buildings	$315,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	275,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,590,000	stockholders' equity	$1,590,000

a. 2.13 : 1
b. 1.44 : 1
c. 2.86 : 1
d. 2.50 : 1

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($195,000 + $150,000 + $165,000 + $90,000) ÷ ($210,000 + $30,000) = 2.50:1
(Cash + Acc. rec. + Inv. + Prep . ins.) ÷ (Acc. pay. + Sal. / wag. pay.)

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80. Use the following data to determine the total dollar amount of assets to be classified as current assets.

Carne Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 70,000	Accounts payable	$ 130,000
Accounts receivable		100,000	Salaries and wages payable	20,000
Inventory		140,000	Mortgage payable	180,000
Prepaid insurance		80,000	Total liabilities	$330,000
Stock investments		180,000		
Land		190,000		
Buildings	$230,000		Common stock	$240,000
Less: Accumulated			Retained earnings	500,000
depreciation	(60,000)	170,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total liabilities and	
Total assets		$1,070,000	stockholders' equity	$1,070,000

a. $390,000
b. $250,000
c. $570,000
d. $330,000

Ans: A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $70,000 + $100,000 + $140,000 + $80,000 = $390,000
(Cash + Acc. rec + Inv. + Prep. ins.)

81. Use the following data to determine the total dollar amount of assets to be classified as property, plant, and equipment.

Carne Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 70,000	Accounts payable	$ 130,000
Accounts receivable		100,000	Salaries and wages payable	20,000
Inventory		140,000	Mortgage payable	180,000
Prepaid insurance		80,000	Total liabilities	$330,000
Stock investments		180,000		
Land		190,000		
Buildings	$230,000		Common stock	$240,000
Less: Accumulated			Retained earnings	500,000
depreciation	(60,000)	170,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total liabilities and	
Total assets		$1,070,000	stockholders' equity	$1,070,000

a. $540,000
b. $500,000
c. $360,000
d. $420,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $95,000 + $85,000 = $180,000
[Land + (Build. – Acc. dep.)]

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82. Use the following data to determine the total dollar amount of assets to be classified as investments.

Carne Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 70,000	Accounts payable	$ 130,000
Accounts receivable		100,000	Salaries and wages payable	20,000
Inventory		140,000	Mortgage payable	180,000
Prepaid insurance		80,000	Total liabilities	$330,000
Stock investments		180,000		
Land		190,000		
Buildings	$230,000		Common stock	$240,000
Less: Accumulated			Retained earnings	500,000
depreciation	(60,000)	170,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total liabilities and	
Total assets		$1,070,000	stockholders' equity	$1,070,000

a. $0
b. $320,000
c. $180,000
d. $280,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: Stock investments = $180,000

83. Use the following data to determine the total amount of working capital.

Carne Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 70,000	Accounts payable	$ 130,000
Accounts receivable		100,000	Salaries and wages payable	20,000
Inventory		140,000	Mortgage payable	180,000
Prepaid insurance		80,000	Total liabilities	$330,000
Stock investments		180,000		
Land		190,000		
Buildings	$230,000		Common stock	$240,000
Less: Accumulated			Retained earnings	500,000
depreciation	(60,000)	170,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total liabilities and	
Total assets		$1,070,000	stockholders' equity	$1,070,000

a. $260,000
b. $240,000
c. $160,000
d. $420,000

Ans: B, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($70,000 + $100,000 + $140,000 + $80,000) – ($130,000 + $20,000) = $240,000
(Cash + Acc. rec. + Inv. + Prep. ins.) - (Acc. pay. + Sal./wag. pay.)

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84. Use the following data to calculate the current ratio.

Carne Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 70,000	Accounts payable	$ 130,000
Accounts receivable		100,000	Salaries and wages payable	20,000
Inventory		140,000	Mortgage payable	180,000
Prepaid insurance		80,000	Total liabilities	$330,000
Stock investments		180,000		
Land		190,000		
Buildings	$230,000		Common stock	$240,000
Less: Accumulated			Retained earnings	500,000
depreciation	(60,000)	170,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total liabilities and	
Total assets		$1,070,000	stockholders' equity	$1,070,000

a. 2.07 : 1
b. 1.67 : 1
c. 3.00 : 1
d. 2.60 : 1

Ans: D, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($70,000 + $100,000 + $140,000 + $80,000) ÷ ($130,000 + $20,000) = $2.60:1
(Cash + Acc. rec. + Inv. + Prep. ins.) ÷ (Acc. pay. + Sal/wag. pay.)

85. N3 Corporation has assets of $4,200,000, common stock of $1,092,000, and retained earnings of $665,000. What are the creditors' claims on their assets?
a. $3,773,000
b. $1,757,000
c. $2,443,000
d. $4,627,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $4,200,000 – $1,092,000 – $665,000 = $2,443,000
(Assets - Com.st.- Ret.earn.)

86. K2 Corporation has assets of $3,600,000, common stock of $936,000, and retained earnings of $570,000. What are the creditors' claims on their assets?
a. $3,234,000
b. $1,506,000
c. $2,094,000
d. $3,966,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $3,600,000 – $936,000 – $570,000 = $2,094,000
(Assets - Com.st.- Ret.earn)

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87. Use the following data to determine the total dollar amount of assets to be classified as current assets.

Eddy Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 126,000	Accounts payable	$ 165,000
Accounts receivable		120,000	Salaries and wages payable	30,000
Inventory		210,000	Mortgage payable	270,000
Prepaid insurance		90,000	Total liabilities	$465,000
Stock investments		255,000		
Land		285,000		
Buildings	$339,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	279,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,050,000	stockholders' equity	$1,575,000

a. $801,000
b. $336,000
c. $546,000
d. $546,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $126,000 + $120,000 + $210,000 + $90,000 = $546,000
(Cash + Acc, rec. + Inv. + Prep. ins.)

88. Use the following data to determine the total dollar amount of assets to be classified as property, plant, and equipment.

Eddy Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 126,000	Accounts payable	$ 165,000
Accounts receivable		120,000	Salaries and wages payable	30,000
Inventory		210,000	Mortgage payable	270,000
Prepaid insurance		90,000	Total liabilities	$465,000
Stock investments		255,000		
Land		285,000		
Buildings	$339,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	279,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,050,000	stockholders' equity	$1,575,000

a. $1,029,000
b. $774,000
c. $834,000
d. $564,000

Ans: D, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $285,000 + $279,000 = $564,000
[Land + (Build. – Acc. dep.)]

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89. Use the following data to determine the total dollar amount of assets to be classified as investments.

Eddy Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 126,000	Accounts payable	$ 165,000
Accounts receivable		120,000	Salaries and wages payable	30,000
Inventory		210,000	Mortgage payable	270,000
Prepaid insurance		90,000	Total liabilities	$465,000
Stock investments		255,000		
Land		285,000		
Buildings	$339,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	279,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,050,000	stockholders' equity	$1,575,000

a. $0
b. $465,000
c. $255,000
d. $585,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: Stock investments = $255,000

90. Use the following data to determine the total amount of working capital.

Eddy Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 126,000	Accounts payable	$ 165,000
Accounts receivable		120,000	Salaries and wages payable	30,000
Inventory		210,000	Mortgage payable	270,000
Prepaid insurance		90,000	Total liabilities	$465,000
Stock investments		255,000		
Land		285,000		
Buildings	$339,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	279,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,050,000	stockholders' equity	$1,575,000

a. $606,000
b. $351,000
c. $381,000
d. $261,000

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($126,000 + $120,000 + $210,000 + $90,000) – ($165,000 + $30,000) = $351,000
(Cash + Acc. rec. + Inv. + Prep. ins.) – (Acc. pay. + Sal./wag. pay.)

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91. Use the following data to calculate the current ratio.

Eddy Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 126,000	Accounts payable	$ 165,000
Accounts receivable		120,000	Salaries and wages payable	30,000
Inventory		210,000	Mortgage payable	270,000
Prepaid insurance		90,000	Total liabilities	$465,000
Stock investments		255,000		
Land		285,000		
Buildings	$339,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	279,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total Liabilities and	
Total assets		$1,050,000	stockholders' equity	$1,575,000

a. 2.34 : 1
b. 2.80 : 1
c. 3.31 : 1
d. 1.26 : 1

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($126,000 + $120,000 + $210,000 + $90,000) ÷ ($165,000 + $30,000) = 2.80:1
(Cash + Acc. rec. + Inv. + Prep. ins.) ÷ (Acc. pay. + Sal./wag. pay.)

92. A measure of profitability is the
a. current ratio.
b. debt to assets ratio.
c. earnings per share.
d. working capital.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

93. For 2017 Kuhlman Corporation reported net income of $36,000; net sales $400,000; and average share outstanding 16,000. There were no preferred dividends. What was the 2017 earnings per share?
a. $2.25
b. $0.44
c. $25.00
d. $0.09

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($36,000 – 0) ÷ 16,000 = $2.25
[(Net inc. – Pref.div) ÷ Ave.sh.out.

94. For 2017 Fielder Corporation reported net income of $32,000; net sales $400,000; and average share outstanding 16,000. There were no preferred dividends. What was the 2017 earnings per share?
a. $0.08
b. $0.50
c. $25.00
d. $2.00

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($32,000 – 0) ÷ 16,000 = $2.00

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[(Net inc. – Pref.div) ÷ Ave.sh.out.

95. Earnings per share are calculated by dividing
    a. gross profit by average common shares outstanding.
    b. (net income less preferred dividends) by average common shares outstanding.
    c. net income by average common shares outstanding.
    d. net sales by average common shares outstanding.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

96. Earnings per share is a
    a. profitability ratio.
    b. liquidity ratio.
    c. solvency ratio.
    d. trending ratio.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

97. Which of the following statements is true?
    a. Earnings per share is an internal measure and is not used by stockholders.
    b. The denominator used in computing earnings per share represents the shares of common stock outstanding on the last day of the accounting period.
    c. Net income is not adjusted when computing earnings per share.
    d. By comparing earnings per share of a single corporation over time, a stockholder can evaluate the corporation's relative earnings performance.

Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

98. Earnings available to common stockholders is equal to
    a. total revenues
    b. net income + preferred dividends.
    c. preferred dividends – net income.
    d. net income – preferred dividends.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

99. The following information is available for Bradshaw Corporation and Newell Corporation:

	Bradshaw Corporation		Newell Corporation	
(in millions)	2017	2016	2017	2016
Preferred dividends	25	10	0	30
Net income	500	480	490	520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on this information, the earnings per share calculations (rounded to two decimals) suggest
    a. lower performance in 2016 than in 2017 for Bradshaw Corporation.
    b. higher performance in 2017 than in 2016 for Bradshaw Corporation.
    c. fewer earnings available to Bradshaw's common stockholders in 2017 than in 2016.
    d. an increase in the average number of common shares outstanding between 2016 and 2017 for Bradshaw Corporation.

Ans: D, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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100. The following information is available for Bradshaw Corporation and Newell Corporation:

(in millions)	Bradshaw Corporation		Newell Corporation	
	2017	2016	2017	2016
Preferred dividends	25	10	0	30
Net income	500	480	490	520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on this information, which of the following is suggested by the earnings per share calculations (rounded to two decimals) and the information given?

a. There is lower performance in 2016 than in 2017 for Newell Corporation.
b. There is higher performance in 2016 than in 2017 for Newell Corporation.
c. There are fewer earnings available to Newell's common stockholders in 2017 than in 2016.
d. There is a decrease in preferred shares of stock in 2017 as compared with 2016.

Ans: A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

101. The following information is available for Bradshaw Corporation and Newell Corporation:

(in millions)	Bradshaw Corporation		Newell Corporation	
	2017	2016	2017	2016
Preferred dividends	25	10	0	30
Net income	500	480	490	520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on this information, what is the amount of Bradshaw's earnings per share (rounded to two decimals) for 2017?

a. $2.76
b. $2.50
c. $1.25
d. $1.32

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($500 – $25) ÷ [(200 + 180) ÷ 2] = $2.50
(Net inc. – Pref. div) ÷ [End. ch. Out. + beg. .sh. out.) ÷ 2]

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102. The following information is available for Bradshaw Corporation and Newell Corporation:

(in millions)	Bradshaw Corporation		Newell Corporation	
	2017	2016	2017	2016
Preferred dividends	25	10	0	30
Net income	500	480	490	520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on the information for both Bradshaw and Newell over the two-year period, the earnings per share calculations (rounded to two decimals) indicate that
a. Bradshaw is seeing a greater performance improvement than Newell.
b. the earnings available to common stockholders is decreasing for Newell and increasing for Bradshaw.
c. the earnings per share calculations for both companies assume that changes in shares between 2016 and 2017 occur in the middle of the year.
d. Newell is more financially stable than Bradshaw.

Ans: C, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

103. The relationship between current assets and current liabilities is important in evaluating a company's
a. profitability.
b. liquidity.
c. market value.
d. solvency.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

104. Which of the following is a measure of liquidity?
a. Working capital
b. Profit margin
c. Earnings per share
d. Debt to assets ratio

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

105. Current assets divided by current liabilities is known as the
a. working capital.
b. current ratio.
c. profit margin.
d. capital structure.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

106. The most important information needed to determine if companies can pay their current obligations is the
a. net income for this year.
b. projected net income for next year.
c. relationship between current assets and current liabilities.
d. relationship between short-term and long-term liabilities.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

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107. A short-term creditor is primarily interested in the _____ of the borrower.
   a. liquidity
   b. profitability
   c. consistency
   d. solvency

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

108. The current ratio is
   a. current assets plus current liabilities.
   b. current assets minus current liabilities.
   c. current assets divided by current liabilities.
   d. current assets times current liabilities.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

109. Working capital is calculated by taking
   a. current assets plus current liabilities.
   b. current assets minus current liabilities.
   c. current assets divided by current liabilities.
   d. current assets times current liabilities.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

110. Working capital is a measure of
   a. consistency.
   b. liquidity.
   c. profitability.
   d. solvency.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

111. Long-term creditors are usually most interested in evaluating
   a. liquidity and profitability.
   b. consistency and profitability.
   c. liquidity and solvency.
   d. consistency and solvency.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

112. A liquidity ratio measures the
   a. income or operating success of a company over a period of time.
   b. ability of a company to survive over a long period of time.
   c. short-term ability of a company to pay its maturing obligations and to meet unexpected needs for cash.
   d. percentage of total financing provided by creditors.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

113. Working capital is
   a. calculated by dividing current assets by current liabilities.
   b. used to evaluate a company's liquidity and short-term debt paying ability.
   c. used to evaluate a company's solvency and long-term debt paying ability.
   d. calculated by subtracting current assets from current liabilities.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

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114. The ability of a business to pay obligations that are expected to become due within the next year or operating cycle is
a. leverage.
b. liquidity.
c. profitability.
d. wealth.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

115. Based on the following data, what is the amount of current assets?

Accounts payable	$62,000
Accounts receivable	100,000
Cash	70,000
Intangible assets	100,000
Inventory	138,000
Long-term investments	160,000
Long-term liabilities	200,000
Short-term investments	80,000
Notes payable	56,000
Property, plant, and equipment	1,340,000
Prepaid insurance	2,000

a. $232,000
b. $390,000
c. $252,000
d. $250,000

Ans: B, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $100,000 + $70,000 + $138,000 + $80,000 + $2,000 = $390,000
(Acc. rec.+ Cash + Inven. +Sh.-term inv + Prep. ins.)

116. Based on the following data, what is the amount of working capital?

Accounts payable	$64,000
Accounts receivable	114,000
Cash	70,000
Intangible assets	100,000
Inventory	138,000
Long-term investments	160,000
Long-term liabilities	200,000
Short-term investments	80,000
Notes payable (short-term)	56,000
Property, plant, and equipment	1,340,000
Prepaid insurance	2,000

a. $284,000
b. $332,000
c. $370,000
d. $326,000

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($114,000 + $70,000 + $138,000 + $80,000 + $2,000) − ($64,000 + $56,000) = $284,000

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(Acc. rec. + Cash. + Inv.+ Sh.-term inv. + Prep. ins.) – (Acc. Pay. + Not. + Pay.)

117. Using the following balance sheet and income statement data, what is the total amount of working capital?

Current assets	$ 32,000	Net income	$ 42,000
Current liabilities	16,000	Stockholders' equity	78,000
Average assets	160,000	Total liabilities	42,000
Total assets	120,000		

Average common shares outstanding was 15,000.

a. $ 8,000
b. $ 32,000
c. $ 10,000
d. $ 16,000

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $32,000 – $16,000 = $16,000
(Cur. assets – Cur. liab.)

118. Using the following balance sheet and income statement data, what is the current ratio?

Current assets	$ 32,000	Net income	$ 42,000
Current liabilities	16,000	Stockholders' equity	78,000
Average assets	160,000	Total liabilities	42,000
Total assets	120,000		

Average common shares outstanding was 15,000.

a. 2.0 : 1
b. 2.6 : 1
c. 0.5 : 1
d. 2.9 : 1

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $32,000 ÷ $16,000 = $2.0:1
(Cur. assets – Cur. liab.)

119. Using the following balance sheet and income statement data, what is the earnings per share?

Current assets	$ 32,000	Net income	$ 42,000
Current liabilities	16,000	Stockholders' equity	78,000
Average assets	160,000	Total liabilities	42,000
Total assets	120,000		

Average common shares outstanding was 15,000.

a. $5.20
b. $8.00
c. $2.80
d. $0.36

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $42,000 ÷ $15,000 = $2.80
(Net + inc. ÷ Ave. sh. out.)

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120. Using the following balance sheet and income statement data, what is the debt to assets ratio?

Current assets	$ 32,000	Net income	$ 42,000
Current liabilities	16,000	Stockholders' equity	78,000
Average assets	160,000	Total liabilities	42,000
Total assets	120,000		

Average common shares outstanding was 15,000.

a. 26 percent
b. 13 percent
c. 65 percent
d. 35 percent

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $42,000 ÷ $120,000 = $35%
(Tol. Liab. ÷ Tot. assets)

121. Using the following balance sheet and income statement data, what is the total amount of working capital?

Current assets	$ 21,000	Net income	$ 45,000
Current liabilities	12,000	Stockholders' equity	63,000
Average assets	132,000	Total liabilities	27,000
Total assets	90,000		

Average common shares outstanding was 15,000.

a. $7,000
b. $5,000
c. $9,000
d. $2,000

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $21,000 – $12,000 = $9,000
(Cur. assets – Cur. liab.)

122. Using the following balance sheet and income statement data, what is the current ratio?

Current assets	$ 21,000	Net income	$ 45,000
Current liabilities	12,000	Stockholders' equity	63,000
Average assets	132,000	Total liabilities	27,000
Total assets	90,000		

Average common shares outstanding was 15,000.

a. 0.78 : 1
b. 3.33 : 1
c. 0.57 : 1
d. 1.75: 1

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $21,000 ÷ $12,000 = $1.75:1
(Cur. assets ÷ Cur. liab.)

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123. Using the following balance sheet and income statement data, what is the earnings per share?

Current assets	$ 21,000	Net income	$ 45,000
Current liabilities	12,000	Stockholders' equity	63,000
Average assets	132,000	Total liabilities	27,000
Total assets	90,000		

Average common shares outstanding was 15,000.

a. $3.00
b. $4.20
c. $0.33
d. $0.50

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $45,000 ÷ $15,000 = $3.00
(Net inc ÷ Ave. sh. out).

124. Using the following balance sheet and income statement data, what is the debt to assets ratio?

Current assets	$ 21,000	Net income	$ 45,000
Current liabilities	12,000	Stockholders' equity	63,000
Average assets	132,000	Total liabilities	27,000
Total assets	90,000		

Average common shares outstanding was 15,000.

a. 20.5 percent
b. 30 percent
c. 33.3 percent
d. 40.9 percent

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $27,000 ÷ $90,000 = $30%
(Tot. liab. ÷ Tot. assets)

125. The debt to assets ratio is computed by dividing
a. long-term liabilities by total assets.
b. long-term liabilities by average assets.
c. total liabilities by total assets.
d. total liabilities by average assets.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

126. A useful measure of solvency is the
a. current ratio.
b. earnings per share.
c. return on assets ratio.
d. debt to assets ratio.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

127. Which of the following is **not** considered a measure of liquidity?
a. Current ratio
b. Working capital
c. Debt to assets ratio
d. Each of these answer choices are liquidity measures

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

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128. Which measure would a long-term creditor be least interested in reviewing?
   a. Free cash flow
   b. Debt to assets ratio
   c. Current ratio
   d. Solvency measure

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

129. Bathlinks Corporation has a debt to assets ratio of 73%. This tells the user of Bathlinks's financial statements that
   a. Bathlinks is getting a 27% return on its assets.
   b. there is a risk that Bathlinks cannot pay its debts as they come due.
   c. 73% of the assets are financed by the stockholders.
   d. based on this measure, the user should not invest in Bathlinks.

Ans: B, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

130. Ace Company is a retail store. Due to competition, it is having trouble selling its products. Thus, inventory has been building up. Ace's current ratio has not changed for the past three years, in spite of the inventory build up. Which of the following statements is true?
   a. As long as the current ratio remains constant, there is no need for concern.
   b. The composition of current assets and current liabilities does not matter.
   c. The management of Ace should consider the effect of slow moving inventory on its liquidity.
   d. Since inventory is a current asset, any increases should automatically cause the current ratio to rise.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

131. How can a company improve its current ratio?
   a. Work with a creditor to reclassify some current debt into long-term debt
   b. Use cash to reduce current liabilities
   c. Nothing can ethically be done to improve the current ratio
   d. Use excess cash to buy new equipment

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

132. Kingery Corporation has current assets of $1,800,000 and current liabilities of $750,000. If they pay $350,000 of their accounts payable what will their new current ratio be?
   a. 3.6:1
   b. 2.4:1
   c. 4.5:1
   d. 2.0:1

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($1,800,000 – $350,000) ÷ ($750,000 – $350,000) = 3.6:1
[(Cur. assets – A/P Paid) ÷ (Cur. liab. – A/P Paid

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133. Kingery Corporation has current assets of $1,800,000 and current liabilities of $750,000. If they issue $150,000 of new stock what will their new current ratio be? (rounded)
    a. 2.6:1
    b. 2.1:1
    c. 2.2:1
    d. 2.4:1

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($1,800,000 + $150,000) ÷ $750,000 = $2.6:1
(Cur. assets + New stock) ÷ Cur. liab.

134. Mitchell Corporation has current assets of $1,600,000 million and current liabilities of $750,000. If they pay $350,000 of their accounts payable what will their new current ratio be?
    a. 3.1:1
    b. 4.0:1
    c. 1.5:1
    d. 2.1:1

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($1,600,000 – $350,000) ÷ ($750,000 – $350,000) = $3.1:1
[(Cur. assets – A/p paid) ÷ (Cur. liab.- A/p paid)

135. Mitchell Corporation has current assets of $1,600,000 and current liabilities of $750,000. If they issue $200,000 of new stock what will their new current ratio be? (rounded)
    a. 2.4:1
    b. 1.9:1
    c. 1.7:1
    d. 2.13:1

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($1,600,000 + $200,000) ÷ $750,000 = $2.4:1
(Cur. assets + New stock) ÷ Cur. liab.

136. The debt to assets ratio is a
    a. liquidity ratio.
    b. profitability ratio.
    c. solvency ratio.
    d. None of the answer choices is correct.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

137. Free cash flow provides an indication of a company's ability to
    a. generate cash to invest in new capital expenditures.
    b. generate net income.
    c. generate cash to pay dividends.
    d. generate cash to invest in new capital expenditures and to pay dividends.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

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138. Free cash flow represents
   a. cash provided by operations less adjustments for capital expenditures and dividends.
   b. a measurement of a company's cash generating ability.
   c. a measure of solvency.
   d. All of these answer choices are correct.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

139. Free cash flow is net cash provided by operating activities
   a. less capital expenditures.
   b. less cash dividends.
   c. less capital expenditures and cash dividends.
   d. less capital expenditures and salaries expense.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

140. In 2017 Grider Corporation had cash receipts of $56,000 and cash disbursements of $32,000. Grider's ending cash balance at December 31, 2017 was $78,000. What was Grider's beginning cash balance?
   a. $54,000
   b. $70,000
   c. $110,000
   d. $102,000

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $78,000 – $56,000 + $32,000 = $54,000
(End. cash.-cash rec. + cash disb.)

141. In 2017 Grider Corporation had cash receipts of $35,000 and cash disbursements of $20,000. Grider's ending cash balance at December 31, 2017 was $65,000. What was Grider's beginning cash balance?
   a. $50,000
   b. $60,000
   c. $85,000
   d. $80,000

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $65,000 – $35,000 + $20,000 = $50,000
(End. cash – cash rec. + cash disb.)

142. Suppose that Morgan Corporation produced and sold 4,800 laptop computers during 2017. It reported $130,000 cash provided by operating activities. In order to maintain production at 4,800 laptops, Morgan invested in $8,600 in equipment. Morgan paid $1,400 in dividends. What is Morgan's free cash flow?
   a. $120,000
   b. $140,000
   c. $137,000
   d. $130,000

Ans: A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $130,000 – $8,600 – $1,400 = $120,000
(Cash fr. oper. act – equip. inv. – div.)

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143. The following information is available for Cooke Corporation:

	(in million)
Cash receipts from operating activities	$780
Cash payments from operating activities	$240
Net cash used by investing	$210
Net cash provided by financing	$750
Net increase in cash and equivalents	?
Cash and equivalents at start of year	$550
Cash and equivalents at year-end	?

What is the net increase in cash and equivalents?
a. $1,500
b. $1,080
c. $530
d. $2,050

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $780,000 – $240,000 – $210,000 + $750,000 = $1,080,000
(Cash rec. – Cash pay. – inv. act.+ fin. act.)

144. The following information is available for Cooke Corporation:

	(in million)
Cash receipts from operating activities	$780
Cash payments from operating activities	$240
Net cash used by investing	$210
Net cash provided by financing	$750
Net increase in cash and equivalents	?
Cash and equivalents at start of year	$550
Cash and equivalents at year-end	?

What is the cash and equivalents amount at year-end?
a. $1,090
b. $530
c. $1,630
d. $2,530

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $780 – $240 – $210 + $750 + $550 = $1,630
(Cash rec. – Cash pay. – inv. act. + fin. act. + Beg. cash)

145. If Morris Corporation has a negative $131 million free cash flow, which of the following statements is most likely true?
a. Morris' capital expenditures plus its cash dividends are less than its cash provided by operations.
b. This free cash flow indicates that Morris is in good shape to repay its long-term obligations when they come due.
c. This free cash flow indicates that Morris presents good cash generating ability to retire stock.
d. Morris' cash provided by operations is less than its cash dividends plus capital expenditures.

Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Risk Management, AICPA PC: None, IMA: Business Economics

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146. Which of the following organizations issues accounting standards for countries outside the United States?
   a. SEC
   b. GAAP
   c. IASB
   d. FASB

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

147. Generally accepted accounting principles
   a. are accounting rules formulated by the Internal Revenue Service.
   b. are sound in theory but rarely used in real life.
   c. are accounting rules that are recognized as a general guide for financial reporting.
   d. have eliminated all errors in accounting.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

148. The agency of the United States Government that oversees the U.S. financial markets is the
   a. Internal Revenue Service.
   b. Security Exchange Commission.
   c. Financial Accounting Standards Board.
   d. International Auditing Standards Committee.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

149. What organization issues U.S. accounting standards?
   a. Security Exchange Commission
   b. International Accounting Standards Committee
   c. International Auditing Standards Committee
   d. Financial Accounting Standards Board

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

150. Which one of the following is **not** an enhancing quality of useful information?
   a. Timeliness
   b. Understandability
   c. Materiality
   d. Comparability

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

151. All of the following are qualities of useful information **except**
   a. faithful representation.
   b. materiality.
   c. relevance.
   d. flexibility.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

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152. The two fundamental qualities of useful information are
   a. relevance and faithful representation.
   b. verifiability and timeliness.
   c. comparability and flexibility.
   d. understandability and consistency.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

153. The convention of consistency refers to consistent use of accounting principles
   a. among firms.
   b. among accounting periods.
   c. throughout the accounting periods.
   d. within industries.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

154. The quality of consistency enhances
   a. relevance.
   b. materiality.
   c. comparability.
   d. faithful representation.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

155. Information that is presented in a clear fashion, so that users of that information can interpret it is an example of
   a. relevance.
   b. faithful representation.
   c. understandability.
   d. comparability.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

155. In order for accounting information to be relevant, it must
   a. have very little cost.
   b. help predict future events or confirm prior expectations.
   c. not be reported to the public.
   d. be used by a lot of different firms.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

156. Accounting information should be verifiable in order to enhance
   a. comparability.
   b. faithful representation.
   c. consistency.
   d. relevance.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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158. Accounting information is relevant to business decisions because it
   a. has been verified by external audit.
   b. is prepared on an annual basis.
   c. confirms prior expectations.
   d. is neutral in its representations.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

159. If accounting information has relevance, it is useful in making predictions about
   a. future IRS audits.
   b. new accounting principles.
   c. foreign currency exchange rates.
   d. the future events of a company.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

160. Relevant accounting information
   a. is information that has been audited.
   b. must be reported within the operating cycle or one year, whichever is longer.
   c. has been objectively determined.
   d. is information that is capable of making a difference in a business decision.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

161. Which of the following is **not** a quality associated with faithful representation?
   a. Complete
   b. Materiality
   c. Neutral
   d. All of these answer choices are correct.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

162. Accounting information should be neutral in order to enhance
   a. faithful representation.
   b. consistency.
   c. comparability.
   d. relevance.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

163. Characteristics associated with relevant accounting information are
   a. comparability and timeliness.
   b. predictive value and confirmatory value.
   c. neutral and verifiable.
   d. consistency and understandability.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

164. Characteristics associated with faithfully representative accounting information are
   a. verifiable and timely.
   b. verifiable and neutral.
   c. complete and neutral.
   d. relevance and verifiable.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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165. Which of the following statements is **not** true?
   a. Comparability means using the same accounting principles from year to year within a company.
   b. Faithful representation is the quality of information that gives assurance that it is free of error.
   c. Relevant accounting information must be capable of making a difference in the decision.
   d. The primary objective of financial reporting is to provide financial information that is useful to investors and creditors for making decisions.

Ans: A, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

166. A company can change to a new method of accounting if management can justify that the new method results in
   a. more meaningful financial information.
   b. a higher net income.
   c. a lower net income for tax purposes.
   d. less likelihood of clerical errors.

Ans: A, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

167. An item is considered material if
   a. it doesn't costs a lot of money.
   b. it is of a tangible good.
   c. its size is likely to influence the decision of an investor or creditor.
   d. the cost of reporting the item is greater than its benefits.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

168. Information presented in a clear and concise fashion so that users can comprehend its meaning is an application of
   a. consistency.
   b. timeliness.
   c. verifiability.
   d. understandability.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

169. A company using the same accounting principles from year to year is an application of
   a. timeliness.
   b. consistency.
   c. full disclosure.
   d. materiality.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

170. Information is _____ if independent measures, using the same methods, obtain similar results.
   a. Verifiable
   b. Consistent
   c. Understandable
   d. Relevant

Ans: A, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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171. Different companies using the same accounting principles is an application of
    a. consistency.
    b. materiality.
    c. full disclosure.
    d. comparability.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

172. The assumption that requires only those things that can be expressed in money are included in the accounting records is the
    a. economic entity assumption.
    b. monetary unit assumption.
    c. going concern assumption.
    d. periodicity assumption.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

173. Which of the following is a constraint in accounting?
    a. Comparability
    b. Cost
    c. Consistency
    d. Relevance

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

174. The accounting concept that indicates assets should be reported at the price received to sell an asset is the
    a. economic entity assumption.
    b. monetary unit assumption.
    c. fair value principle.
    d. historical cost principle.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

175. For accounting information to have relevance, it must be
    a. consistent.
    b. timely.
    c. verifiable.
    d. understandable.

Ans: B, LO: .3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

176. The periodicity assumption states that the economic life of a business can be divided into
    a. equal time periods.
    b. cyclical time periods.
    c. artificial time periods.
    d. perpetual time periods.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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177. Which accounting assumption requires that only those things that can be expressed in dollar values are included in the accounting records?
   a. monetary unit assumption.
   b. historical cost principle.
   c. periodicity assumption.
   d. full disclosure principle.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

178. The principle that indicates that assets should be reported at the price received to sell an asset is the
   a. historical cost principle.
   b. fair value principle.
   c. full disclosure principle.
   d. consistency principle.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Risk Management, AICPA PC: None, IMA: Business Economics

179. Which accounting assumption assumes that an enterprise will continue in operation long enough to carry out its existing objectives and commitments?
   a. Monetary unit assumption
   b. Economic entity assumption
   c. Periodicity assumption
   d. Going concern assumption

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

180. It is assumed that the activities of Ford Motor company can be distinguished from those of General Motors because of the
   a. going concern assumption.
   b. economic entity assumption.
   c. monetary unit assumption.
   d. periodicity assumption.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

181. The going concern assumption assumes that the business
   a. will be liquidated in the near future.
   b. will be purchased by another business.
   c. is in a growth industry.
   d. will remain in operation for the foreseeable future.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

182. The economic entity assumption states that economic events
   a. of different entities can be combined if all the entities are corporations.
   b. must be reported to the Securities and Exchange Commission.
   c. of a sole proprietorship cannot be distinguished from the personal economic events of its owners.
   d. of every entity can be separately identified and accounted for.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

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183. The concept that a business has a reasonable expectation of remaining in business for the foreseeable future is called the
   a. economic entity assumption.
   b. monetary unit assumption.
   c. periodicity assumption.
   d. going concern assumption.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

184. Which of the following is not an accounting assumption?
   a. Integrity
   b. Going concern
   c. Periodicity
   d. Economic entity

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

185. The periodicity assumption states
   a. the business will remain in operation for the foreseeable future.
   b. the life of a business can be divided into artificial time periods and that useful reports covering those periods can be prepared.
   c. every economic entity can be separately identified and accounted for.
   d. only those things that can be expressed in money are included in the accounting records.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

186. The TNT Company has five plants nationwide that cost $300 million. The current fair value of the plants is $500 million. The plants will be reported as assets at
   a. $200 million.
   b. $800 million.
   c. $300 million.
   d. $500 million.

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

187. The Mac Company has four plants nationwide that cost $350 million. The current fair value of the plants is $300 million. The plants will be reported as assets at
   a. $350 million.
   b. $700 million.
   c. $300 million.
   d. $600 million.

Ans: A, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

188. The historical cost principle requires that when assets are acquired, they be recorded at
   a. market value.
   b. the amount paid for them.
   c. selling price.
   d. list price.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: FSA

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189. Valuing assets at their fair value rather than at their cost is inconsistent with the
   a. economic entity assumption.
   b. historical cost principle.
   c. periodicity assumption.
   d. full disclosure principle.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

190. Jackson Cement Corporation reported $35 million for sales when it only had $20 million of actual sales. Which of the following qualities of useful information has Jackson most likely violated?
   a. Comparability
   b. Relevance
   c. Faithful representation
   d. Consistency

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

191. Connor Corporation hired a new accountant. Over the next four years, the accountant used four different accounting methods to depreciation for Connor's equipment. Which of the following qualities of useful information has Connor most likely violated?
   a. Comparability
   b. Relevance
   c. Faithful representation
   d. Consistency

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

192. Garrison Company prepares quarterly reports, which it distributes to all stockholders and other entities that rely on its accounting information. Which of the following is the best term for the key assumption in financial reporting that Garrison is following?
   a. Monetary unit assumption
   b. Going concern assumption
   c. Economic entity assumption
   d. Periodicity assumption.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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Answers to Multiple Choice Questions

56. d	78. a	100. a	122. d	144. c	166. a	188. b
57. c	79. d	101. b	123. a	145. d	167. c	189. b
58. d	80. a	102. c	124. b	146. c	168. d	190. c
59. d	81. c	103. b	125. c	147. c	169. b	191. d
60. a	82. c	104. a	126. d	148. b	170. a	192. d
61. b	83. b	105. b	127. c	149. d	171. d	
62. a	84. d	106. c	128. c	150. c	172. b	
63. d	85. c	107. a	129. b	151. d	173. b	
64. a	86. c	108. c	130. c	152. a	174. c	
65. d	87. c	109. b	131. a	153. b	175. b	
66. b	88. d	110. b	132. a	154. c	176. c	
67. d	89. c	111. c	133. a	155. c	177. a	
68. b	90. b	112. c	134. a	156. b	178. b	
69. c	91. b	113. b	135. a	157. b	179. d	
70. c	92. c	114. b	136. c	158. c	180. b	
71 d	93. a	115. b	137. d	159. d	181. d	
72. d	94. d	116. a	138. d	160. d	182. d	
73. d	95. b	117. d	139. c	161. b	183. d	
74. b	96. a	118. a	140. a	162. a	184. a	
75. b	97. d	119. c	141. a	163. b	185. b	
76. b	98. d	120. d	142. a	164. c	186. c	
77. c	99. d	121. c	143. b	165. a	187. a	

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BRIEF EXERCISES

BE. 193

A list of financial statement items for Maloney Company includes the following:

Accounts receivable	$19,500	Prepaid insurance	$5,400
Cash	$22,400	Supplies	$1,800
Debt investments	$ 6,200		

Prepare the current assets section of the balance sheet listing the items in the proper sequence.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 193 (5 min.)

MALONEY COMPANY
Balance Sheet (PARTIAL)

Assets

Current assets		
Cash	$ 22,400	
Debt investments	6,200	
Accounts receivable	19,500	
Supplies	1,800	
Prepaid insurance	5,400	
Total current assets		$55,300

BE. 194

The following information (in millions of dollars) is available for Kline Sportswear for 2017:

Sales revenue	$6,300	Net income	$588.7
Stock price per share	$18.45	Preferred stock dividend	$0
Average shares outstanding	336.4 million		

Compute the earnings per share for Kline Sportswear.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 194 (5 min.)

$$\text{Earnings per share} = \frac{\$588.7 - 0}{336.4} = \$1.75$$

[(Net inc. – Pref. stock div.) ÷ Aver. sh. out.]

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BE. 195

These selected condensed data are taken from a recent balance sheet of Sanson Company (in millions of dollars).

Cash	$ 7.2
Accounts receivable	14.4
Inventory	18.0
Other current assets	11.1
Total current liabilities	24.8

Additional information: Current liabilities at the beginning of the year were $35.6 million.

What are (a) the working capital, and (b) the current ratio?

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 195 (5 min.)

a. $25.9 ($50.7 – $24.8) (Cash + Acc. rec. + Inv. + oth. C.A.) – Tot. cur. liab.
b. 2.04: 1 ($50.7 ÷ $24.8) (Cash + Acc. rec. + Inv. + oth. C.A.) ÷ Tot. cur. liab.

BE. 196

Insert the qualitative characteristics listed below that are associated with relevance and faithful representation.

Confirmatory value
Free from error
Neutral
Materiality
Complete
Predictive value

RELEVANCE	FAITHFUL REPRESENTATION
1. _____	1. _____
2. _____	2. _____
3. _____	3. _____

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Solution 196 (5 min.)

RELEVANCE	FAITHFUL REPRESENTATION
1. Confirmatory value	1. Free from error
2. Predictive value	2. Complete
3. Materiality	3. Neutral

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BE. 197

The following terms relate to the fundamental qualities of useful information. Match the key letter of the correct term with the descriptive statement below.

a.	Confirmatory value	e.	Faithful representation
b.	Neutral	f.	Timely
c.	Predictive value	g.	Verifiable
d.	Relevant		

_____ 1. Accounting information that is not biased toward one position or another.

_____ 2. Providing information before it loses its capacity to influence decisions.

_____ 3. Providing information that is proven to be free from error.

_____ 4. Providing information that would make a difference in a business decision.

_____ 5. Provide information that accurately depicts what really happened.

_____ 6. Confirms or corrects prior decisions.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Solution 197 (5 min.)

1. b	3. g	5. e
2. f	4. d	6. a

BE. 198

For each of the independent situations described below, list the fundamental or enhancing of quality or useful information that has been violated, if any. List only one term for each case.

1. Carrier Company is in its third year of operation and has yet to issue financial statements.
2. Larsen Corporation has selected the FIFO inventory costing method during the current year. Last year it used the LIFO method and next year it plans to change to the average cost method.
3. Reiser Company expenses some office equipment that is inexpensive even though it has a useful life that exceeds 1 year.

Ans: N/A, LO: 3, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Solution 198 (5 min.)

1. Relevance (timely)
2. Consistency
3. No violation (materiality)

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BE. 199
Each of the following statements is justified by an accounting concept. Write the letter in the blank next to each statement corresponding to the concept involved.

a. Consistency
b. Materiality
c. Full disclosure
d. Periodicity

_____ 1. The life of a business is divided into artificial time periods.

_____ 2. This characteristic best enhances comparability of financial statements between years.

_____ 3. A merger agreed on just after the balance sheet date nevertheless is reported in the notes to the financial statement.

_____ 4. A large company rounds its financial statement figures to the nearest thousand.

Ans: N/A, LO: 3, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Solution 199 (5 min.)

1. d 2. a 3. c 4. b

BE. 200

Each of the following statements is justified by a fundamental quality or an enhancing of quality accounting. Write the letter in the blank next to each statement corresponding to the quality involved.

a. Comparability
b. Understandability
c. Verifiable
d. Consistency
e. Relevance
f. Faithful representation

_____ 1. A company uses the same accounting principles from year to year.

_____ 2. Information that is free from error.

_____ 3. Information presented in a clear and concise fashion.

_____ 4. Information that makes a difference in a decision.

_____ 5. Information accurately depicts what really happened.

Ans: N/A, LO: 3, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Solution 200 (5 min.)

1. d 2. c 3. b 4. e. 5. f

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Be. 201

Presented below are the basic assumptions and principles underlying financial statements.

a. Historical cost principle
b. Economic entity assumption
c. Full disclosure principle
d. Going concern assumption
e. Monetary unit assumption
f. Periodicity assumption

Identify the basic assumption or principle that is described below.

____ 1. The economic life of a business can be divided into artificial time periods.

____ 2. The business will continue in operation long enough to carry out its existing objectives.

____ 3. Assets should be recorded at their cost.

____ 4. Economic events can be identified with a particular unit of accountability.

____ 5. Circumstances and events that make a difference to financial statement users should be disclosed.

____ 6. Only transaction data that can be expressed in terms of money should be included in the accounting records.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Solution 201 (5 min.)

1. f
2. d
3. a
4. b
5. c
6. e

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EXERCISES

Ex. 202

The following information is available for Mullen Company for the year ended December 31, 2017:

Accounts payable	4,700
Stock investments (long-term)	8,400
Accumulated depreciation, equipment	4,000
Retained earnings	16,000
Common stock	4,800
Intangible assets	2,500
Notes payable (due in 5 years)	6,000
Accounts receivable	1,500
Cash	2,600
Debt investments (short-term)	3,000
Land	10,000
Equipment	7,500

Instructions

Use the above information to prepare a classified balance sheet for the year ended December 31, 2017.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 202 (20 min.)

MULLEN COMPANY
Balance Sheet
December 31, 2017

Assets

Current assets			
Cash		$ 2,600	
Debt investments		3,000	
Accounts receivable		1,500	
Total current assets(Cash + Debt inv. + Acc. rec.)			$7,100
Investments			
Stock investments			8,400
Property, plant, and equipment			
Land		10,000	
Equipment	$7,500		
Less Accumulated depreciation-equipment	4,000	3,500	13,500
Intangible assets			2,500
Total assets …….			$31,500

(Tot. cur. assets + Stock inv. + Land + Equip. – Acc. dep. + Int. assets)

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Solution 202 (Cont.)

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable		$ 4,700
Long-term liabilities		
Notes payable		6,000
Total liabilities		$10,700
Stockholders' equity		
Common stock	4,800	
Retained earnings	16,000	
Total stockholders' equity		20,800
Total liabilities and stockholders' equity		$31,500

(Acc. pay. + Not. pay. + Com. stock + Ret. earn.)

Ex. 203

The following lettered items represent a classification scheme for a balance sheet, and the numbered items represent data found on balance sheets. In the blank next to each account, write the letter indicating to which category it belongs.

A. Current assets
B. Investments
C. Property, plant, and equipment
D. Intangible assets
E. Current liabilities
F. Long-term liabilities
G. Stockholders' equity
H. Not on the balance sheet

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Solution 203 (5 min.)

_____ 1. Accumulated depreciation-equip.
_____ 2. Common stock
_____ 3. Interest expense
_____ 4. Salaries and wages payable
_____ 5. Retained earnings
_____ 6. Inventory
_____ 7. Patents
_____ 8. Prepaid insurance
_____ 9. Mortgage payable
_____ 10. Land (held for investment)

1. C 2. G 3. H 4. E 5. G 6. A 7. D 8. A 9. F 10. B

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Ex. 204
These items are taken from the financial statements of Donovan Company. at December 31, 2017.

Buildings	$95,800
Accounts receivable	15,600
Prepaid insurance	4,680
Cash	18,840
Equipment	79,400
Land	61,200
Insurance expense	780
Depreciation expense	7,300
Interest expense	2,600
Common stock	57,000
Retained earnings (January 1, 2017)	40,000
Accumulated depreciation—buildings	45,600
Accounts payable	15,500
Mortgage payable	88,600
Accumulated depreciation—equipment	18,720
Interest payable	3,600
Service revenue	17,180

Instructions
Prepare a classified balance sheet. Assume that $13,600 of the mortgage payable will be paid in 2018.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 204 (20 min.)

DONOVAN COMPANY
Balance Sheet
December 31, 2017

Assets			
Current assets			
Cash		$18,840	
Accounts receivable		15,600	
Prepaid Insurance		4,680	
Total current assets (Cash + Acc. rec. + Prep. ins.)			$39,120
Property, plant, and equipment			
Land		61,200	
Buildings	$95,800		
Less: Accumulated depreciation—buildings	45,600	50,200	
Equipment	79,400		
Less: Accumulated depreciation—equipment	18,720	60,680	172,080
Total assets			$211,200

(Tot. cur. assets + Land + Build. – Acc. depr. + Equip. – Acc. depr.)

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Solution 204 (Cont.)

Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 15,500	
Current portion of note payable	13,600	
Interest payable	3,600	
Total current liabilities		$ 32,700
Long-term liabilities		
Mortgage payable		75,000
Total liabilities		107,700
Stockholders' equity		
Common stock	57,000	
Retained earnings		
($40,000 + $6,500*)	46,500	
Total stockholders' equity		103,500
Total liabilities and		
Stockholders' equity		$211,200

(Tot. cur. liab. + Mort. pay. + Com. stock + Beg. ret. earn. + Net. inc.*)
*Net income = $17,180 – $780 – $7,300 – $2,600 = $6,500

Ex. 205
The following items are taken from the financial statements of Tracy Company for 2017:

Accounts payable	$ 10,000
Accounts receivable	11,000
Accumulated depreciation—equipment	38,000
Advertising expense	21,000
Cash	14,000
Common stock	90,000
Depreciation expense	12,000
Dividends	15,000
Equipment	210,000
Insurance expense	3,000
Notes payable (due 2020)	70,000
Prepaid insurance	6,000
Rent expense	17,000
Retained earnings (beginning)	12,000
Salaries and wages expense	34,000
Salaries and wages payable	3,000
Service revenue	130,000
Supplies	4,000
Supplies expense	6,000

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Ex. 205 (Cont.)

Instructions

(a) Calculate the net income.

(b) Calculate the retained earnings balance that would appear on a balance sheet at December 31, 2017

(c) Prepare a classified balance sheet for Tracy Company at December 31, 2017 assuming the note payable is a long-term liability.

(d) Compute the current ratio, debt to assets ratio, and earnings per share value. The average number of shares outstanding for 2017 was 10,000.

Ans: N/A, LO: 1, 2, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 205 (20 min.)

(a) Net income = $37,000: ($130,000 – $21,000 – $12,000 – $3,000 – $17,000 – $34,000 – $6,000)
(Ser. rev. – Adv. exp. – Dep. exp. – Ins. exp. –Rent exp. – Sal./wag. exp. – Sup. exp.)

(b)

Retained earnings, January 1	$12,000
Add: Net income	37,000
	49,000
Less: Dividends	15,000
Retained earnings, December 31	$34,000

(Beg. ret. earn. + Net inc. – Div.)

(c)

TRACY COMPANY
Balance Sheet
December 31, 2017

Assets		
Current assets		
Cash	$ 14,000	
Accounts receivable	11,000	
Supplies	4,000	
Prepaid insurance	6,000	
Total current assets (Cash + Acc. rec. + Sup. + Prep. ins.)		$35,000
Property, plant, and equipment		
Equipment	210,000	
Less: Accumulated depreciation—equipment	38,000	172,000
Total assets		$207,000
(Tot. cur. assets + Equip. – Acc. dep.)		

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Solution 205 (Cont.)

Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 10,000	
Salaries and wages payable	3,000	
Total current liabilities		$13,000
Long-term liabilities		
Notes payable		70,000
Total liabilities		83,000
Stockholders' equity		
Common stock	90,000	
Retained earnings	34,000	124,000
Total liabilities and stockholders' equity		$207,000
(Tot. cur. liab. + Not. pay. + Com. stock + End. ret. earn.)		

(d) Current ratio: $35,000 ÷ $13,000 = 2.7:1 (Cur. assets ÷ Cur. liab.)
Debt to assets ratio: $83,000 ÷ $207,000 = 40.1% (Tot. liab. ÷ Tot. assets)
Earnings per share: $37,000 ÷ 10,000= $3.70 (Net inc. ÷ Ave. sh. out.)

Ex. 206

The following items are taken from the financial statements of Grove Company for 2017:

Accounts payable	$18,500
Accounts receivable	8,000
Accumulated depreciation-equipment	4,800
Bonds payable	18,000
Cash	24,000
Common stock	25,000
Cost of goods sold	27,000
Depreciation expense	4,800
Dividends	5,300
Equipment	44,000
Interest expense	2,500
Patents	7,500
Retained earnings, January 1	16,000
Salaries and wages expense	5,200
Sales revenue	50,500
Supplies	4,500

Instructions

(a) Prepare an income statement and a classified balance sheet for Grove Company.

(b) Compute the following ratios and values:
1. Current ratio
2. Debt to assets ratio
3. Working capital
4. Earnings per share (Grove's average number of shares outstanding during the year was 5,000.)

Ans: N/A, LO: 1, 2 Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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Solution 206 (25 min.)

(a)

GROVE COMPANY
Income Statement
For the Year Ended December 31, 2017

Sales revenue		$50,500
Cost of goods sold		27,000
Gross profit		23,500
Operating expenses		
Depreciation expense	$4,800	
Salaries and wages expense	5,200	10,000
Income from operations		13,500
Other expenses and losses		
Interest expense		2,500
Net income		$ 11,000

(Sal. rev. – Cost of goods sold – Dep. exp. – Sal./wag. exp. – Int. exp.)

GROVE COMPANY
Balance Sheet
December 31, 2017

Assets

Current assets		
Cash	$24,000	
Accounts receivable	8,000	
Supplies	4,500	
Total current assets (Cash + Acc. rec. + Sup.)		$36,500
Property, plant, and equipment		
Equipment	44,000	
Less: Accumulated depreciation—equipment	4,800	39,200
Intangible assets		
Patents		7,500
Total assets		$83,200

(Tot. cur. assets + Equip. – Acc. dep. + Pat.)

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable		$18,500
Long-term liabilities		
Bonds payable		18,000
Total liabilities		36,500
Stockholders' equity		
Common stock	$25,000	
Retained earnings	21,700*	46,700
Total liabilities and stockholders' equity		$83,200

[Acc. pay. + Bonds Pay. + Com. stock + (Beg. ret. earn. + Net inc. – Div.)]

*Retained earnings = $21,700 ($16,000 + $11,000 – $5,300).

(b) 1. Current ratio: $36,500 ÷ $18,500 = 1.97:1 (Cur. assets ÷ Cur. liab.)
2. Debt to assets ratio: $36,500 ÷ $83,200 = 43.9% (Tot. liab. ÷ Tot assets)
3. Working capital $36,500 – $18,500 = $18,000 (Cur. assets – Cur. liab.)
4. Earnings per share ($11,000 ÷ 5,000) = $2.20 (Net inc. ÷ Ave. sh. out.)

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Ex. 207

These financial statement items are for Snyder Corporation at year-end, July 31, 2017.

Salaries and wages payable	$ 2,580
Salaries and wages expense	50,700
Utilities expense	22,600
Equipment	21,000
Accounts payable	4,100
Service revenue	62,100
Rent revenue	8,500
Notes payable (due 2019)	1,800
Common stock	16,000
Cash	20,200
Accounts receivable	12,780
Accumulated depreciation—equipment	6,000
Dividends	5,000
Depreciation expense	4,000
Retained earnings (beginning of the year)	35,200

Instructions

(a) Prepare an income statement and a retained earnings statement for the year ended July 31, 2017. Snyder Corporation did not issue any new stock during the year.

(b) Prepare a classified balance sheet at July 31, 2017.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 207 (25 min.)

(a)

SNYDER CORPORATION
Income Statement
For the Year Ended July 31, 2017

Revenues		
Service revenue	$62,100	
Rent revenue	8,500	
Total revenues		$70,600
Expenses		
Salaries and wages expense	50,700	
Utilities expense	22,600	
Depreciation expense	4,000	
Total expense		77,300
Net loss		$(6,700)

(Ser. rev. + Rent rev. – Sal./wag. exp. – Util. exp. – Dep. exp.)

SNYDER CORPORATION
Retained Earnings Statement
For the Year Ended July 31, 2017

Retained earnings, August 1, 2016		$35,200
Less: Net loss	$6,700	
Dividends	5,000	11,700
Retained earnings, July 31, 2017		$23,500

(Beg. ret. earn. – Net loss – Div.)

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Solution 207 (25 min.)

(b)

SNYDER CORPORATION
Balance Sheet
July 31, 2017

Assets		
Current assets		
Cash	$20,200	
Accounts receivable	12,780	
Total current assets		$32,980
Property, plant, and equipment		
Equipment	21,000	
Less: Accumulated depreciation—equipment	6,000	15,000
Total assets		$47,980
(Cash + Acc. rec. + Equip. − Acc. depr.)		
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 4,100	
Salaries and wages payable	2,580	
Total current liabilities		$6,680
Notes payable (due 2019)		1,800
Total liabilities		8,480
Stockholders' equity		
Common stock	16,000	
Retained earnings	23,500	
Total stockholders' equity		39,500
Total liabilities and stockholders' equity		$47,980
(Acc. pay. + Sal./wag. pay. + Not. pay. + Com. stock + End. ret. earn.)		

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Ex. 208

These items are taken from the financial statements of Drew Corporation for 2017.

Retained earnings (beginning of year)	$33,000
Utilities expense	2,000
Equipment	56,000
Accounts payable	15,300
Cash	15,900
Salaries and wages payable	3,000
Common stock	13,000
Dividends	14,000
Service revenue	78,000
Prepaid insurance	3,500
Maintenance and repairs expense	1,800
Depreciation expense	3,300
Accounts receivable	14,200
Insurance expense	2,200
Salaries and wages expense	47,000
Accumulated depreciation—equipment	17,600

Instructions

Prepare an income statement and a retained earnings statement for the year ended December 31, 2017 and a classified balance sheet as of December 31, 2017.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 208 (25 min.)

DREW CORPORATION
Income Statement
For the Year Ended December 31, 2017

Revenues		
Service revenue		$78,000
Expense		
Salaries and wages expense	$47,000	
Depreciation expense	3,300	
Insurance expense	2,200	
Utilities expense	2,000	
Maintenance and repairs expense	1,800	
Total expenses		56,300
Net income		$21,700

(Ser. rev. – Sal./wag. exp. – Dep. exp. – Ins. exp. –Util. exp. – Main./rep. exp.)

DREW CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2017

Retained earnings, January 1, 2016	$33,000
Add: Net income	21,700
	54,700
Less: Dividends	14,000
Retained earnings, December 31, 2017	$40,700

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(Beg. ret. earn. + Net inc. – Div.)

Solution 208 (Cont.)

DREW CORPORATION
Balance Sheet
December 31, 2017

Assets		
Current assets		
Cash		$15,900
Accounts receivable		14,200
Prepaid insurance		3,500
Total current assets		$33,600
(Cash + Acc. rec. + Prep. ins.)		
Property, plant, and equipment		
Equipment	$56,000	
Less: Accumulated depreciation—equipment	17,600	38,400
Total assets		$72,000
(Tot. cur. assets + Equip. – Acc. dep.)		
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$15,300	
Salaries and wages payable	3,000	
Total current liabilities		$18,300
Stockholders' equity		
Common stock	13,000	
Retained earnings	40,700	
Total stockholders' equity		53,700
Total liabilities and stockholders' equity		$72,000
(Acc. pay. + Sal./wag. pay. + Com. stock + End. ret. earn.)		

Ex. 209

The Dobson Company gathered the following condensed data for the year ended December 31, 2017:

Cost of goods sold	$ 720,000
Net sales	1,249,000
Administrative expenses	289,000
Interest expense	68,000
Dividends paid	38,000
Selling expenses	45,000

Instructions

Prepare an income statement for the year ended December 31, 2017.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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Solution 209 (10 min.)

DOBSON COMPANY
Income Statement
For the Year Ended December 31, 2017

Revenues		
Net sales		$1,249,000
Expenses		
Cost of goods sold	$720,000	
Administrative expenses	289,000	
Selling expenses	45,000	
Interest expense	68,000	
Total expenses		1,122,000
Net income		$ 127,000

(Net sal. – Cost of goods sold – Admin. exp. – Sell. exp. – Int. exp.)

Ex. 210

The following data are taken from the financial statements of Rosen, Inc. as of the end of the year 2017. The data are in alphabetical order.

Accounts payable	$ 28,000	Net income	$ 48,000
Accounts receivable	66,000	Other current liabilities	17,000
Cash	24,000	Salaries and wages payable	5,000
Gross profit	160,000	Total assets	250,000
Income before income taxes	54,000	Total liabilities	175,000

Additional information: The average common shares outstanding during the year was 40,000.

Instructions

Compute the following:

(a) Current ratio.
(b) Working capital.
(c) Earnings per share.
(d) Debts to assets ratio.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 210 (5 min.)

(a) Current ratio = Current assets* ÷ Current liabilities** = $90,000 ÷ $50,000 = 1.8 : 1

(b) Working capital = Current assets* – Current liabilities** = $90,000 – $50,000 = $40,000

(c) Earnings per share = (Net income–Preferred dividends) ÷ Average common shares outstanding = $48,000 ÷ 40,000 = $1.20

(d) Debt to assets ratio = Total debt ÷ Total assets = $175,000 ÷ $250,000 = 70%

*(Acc. rec. + Cash) **(Acc. pay. + Oth. cur. liab. + Sal./wag. pay.)

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Ex. 211

Use the following data to calculate the liquidity and profitability ratios listed below.

Average common shares outstanding	10,000	Current liabilities	$100,000
Capital expenditures	$20,000	Net income	21,000
Cash provided by operating activities	32,000	Net sales	150,000
Dividends paid	5,000	Total liabilities	126,000
Current assets	190,000	Total assets	210,000

Instructions

Compute the following:

(a) Current ratio.
(b) Working capital.
(c) Earnings per share.
(d) Debt to assets ratio.
(e) Free cash flow.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 211 (15 min.)

(a) Current ratio = Current assets ÷ Current liabilities = $190,000 ÷ $100,000 = 1.9 : 1

(b) Working capital = Current assets – Current liabilities = $190,000 – $100,000 = $90,000

(c) Earnings per share ratio = (Net income – Preferred stock dividends) ÷ Average common share outstanding = $21,000 ÷ 10,000 = $2.10

(d) Debt to assets ratio = Total debt ÷ Total assets = $126,000 ÷ $210,000 = 60%

(e) Free cash flow = Cash provided by operating activities – Capital expenditures – Dividends paid = $32,000 – $20,000 – $5,000 = $7,000.

Ex. 212

The following data are taken from the financial statements of Edington Company. The data are in alphabetical order.

Accounts payable	$ 28,000	Net sales	500,000
Accounts receivable	65,000	Other current liabilities	20,000
Average common shares out.	20,000	Salaries and wages payable	7,000
Cash	56,000	Stockholders' equity	135,000
Gross profit	190,000	Total assets	300,000
Net income	50,000		

Instructions

Compute the following:

(a) Current ratio.
(b) Working capital.
(c) Earnings per share.
(d) Debt to assets ratio.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

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Solution 212 (10 min.)

(a) Current ratio = Current assets* ÷ Current liabilities**
= $121,000 ÷ $55,000 = 2.2 : 1

(b) Working capital = Current assets* – Current liabilities**
= $121,000 – $55,000 = $66,000

(c) Earnings per share = Net income ÷ Average common shares outstanding
= $50,000 ÷ 20,000 = $2.50

(d) Debt to assets ratio = Total debt ÷ Total assets
= $165,000 ÷ $300,000 = 55%
(Total debt = Total assets – Stockholders' equity = $300,000 – $135,000)

*(Acc. rec. + Cash) **(Acc. pay. + Oth. cur. liab. + Sal./wag. pay.)

Ex. 213

Comparative financial statement data for Arthur Corporation and Lancelot Corporation, two competitors, appear below. All balance sheet data are as of December 31, 2017.

	Arthur Corporation 2017	Lancelot Corporation 2017
Net sales	$1,850,000	$620,000
Cost of goods sold	1,225,000	365,000
Operating expenses	303,000	98,000
Interest expense	9,000	3,800
Income tax expense	85,000	36,800
Current assets	427,200	130,336
Plant assets (net)	532,000	139,728
Current liabilities	66,325	35,348
Long-term liabilities	148,500	29,620
Additional Information:		
Cash from operating activities	$153,000	$44,000
Capital expenditures	$90,000	$20,000
Dividends paid	$36,000	$15,000
Average number of shares outstanding	100,000	50,000

Instructions

(a) Comment on the relative profitability of the companies by computing the net income and earnings per share for each company for 2017.

(b) Comment on the relative solvency of the companies by computing the debt to assets ratio and the free cash flow for each company for 2017.

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

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Solution 213 (15 min.)

(a) Arthur Company appears to be more profitable.
Its net income for 2017 is $228,000 ($1,850,000 – $1,225,000 – $303,000 – $9,000 – $85,000). Its earnings per share is $2.28 ($228,000 ÷ 100,000 shares outstanding). Lancelot's net income for 2017 is $116,400 ($620,000 – $365,000 – $98,000 – $3,800 – $36,800). Its earnings per share is $2.33 ($116,400 ÷ 50,000 shares outstanding).

(b) Arthur appears to be slightly more solvent. Arthur's 2017 debt to assets ratio of 22.4% ($214,825 ÷ $959,200)[a] is lower than Lancelot's ratio of 24.1% ($64,968 ÷ $270,064)[b]. The lower the percentage of debt to assets, the lower the risk that a company may be unable to pay its debts as they income due.

Another measure of solvency, free cash flow, also indicates that Arthur is more solvent. Arthur had $27,000 ($153,000 – $90,000 – $36,000) of free cash flow while Lancelot had only $9,000 ($44,000 – $20,000 – $15,000).

[a]$214,825 ($66,325 + $148,500) is Arthur's 2017 total liabilities
$959,200 ($427,200 + $532,000) is Arthur's 2017 total assets.

[b]$64,968 ($35,348 + $29,620) is Lancelot's 2017 total liabilities
$270,064 ($130,336 + $139,728) is Lancelot's 2017 total assets.

Ex. 214

For each of the ratios listed below, indicate by the appropriate code letter, whether it is a liquidity ratio, a profitability ratio, or a solvency ratio.

Code:
L = Liquidity ratio
P = Profitability ratio
S = Solvency ratio

____ 1. Price-earnings ratio

____ 2. Free cash flow

____ 3. Debt to assets ratio

____ 4. Earnings per share

____ 5. Current ratio

Ans: N/A, LO: 2, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 214 (5 min.)

P 1. Price-earnings ratio
S 2. Free cash flow
S 3. Debt to assets ratio
P 4. Earnings per share
L 5. Current ratio

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Ex. 215

The following information is available from the annual reports of Marin Company and Nance Company.

	(amounts in millions) Marin	Nance
Sales	$26,510	$34,512
Gross profit	6,610	8,887
Net income	565	1,221
Current assets	13,712	28,447
Beginning total assets	17,102	33,130
Ending total assets	22,088	36,167
Current liabilities	7,966	13,950
Total liabilities	16,136	29,222
Average common shares outstanding	250	480
Preferred stock dividends paid	-0-	-0-

Instructions

(a) For each company, compute the following ratios:
1. Current ratio
2. Debt to assets ratio
3. Earnings per share

(b) Based on your calculations, discuss the relative liquidity, solvency, and profitability of the two companies.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 12, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 215 (12 min.)

(a)	Marin	Nance
1. Current ratio (Cur. assets/Cur. liab.)	1.72:1 ($13,712 ÷ $7,966)	2.04:1 ($28,447 ÷ $13,950)
2. Debt to assets ratio (Tot. liab. ÷ Tot. assets)	73% ($16,136 ÷ 22,088)	81% ($29,222 ÷ $36,167)
3. Earnings per share (Net. inc. ÷ Ave. sh. out.)	$2.26 ($565 ÷ 250)	$2.54 ($1,221 ÷ 480)

(b) Based on the current ratio, Nance is more liquid than Marin since its current ratio (2.04:1) is 19% higher than Marin's ratio (1.72:1). However, Marin would be considered more solvent than Nance since its debt to assets ratio (73%) is 10% lower than Nance's debt ratio (81%). A lower debt to assets ratio indicates a company is more solvent and better able to survive over a long period of time.

Nance is more profitable than Marin since its earnings per share and is higher than Marin's respective vaules. Nance's earnings per share ($2.54) is 12.4% higher than Marin's value.

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Ex. 216
You are provide with the following information for Trent Company, effective as of its April 30, 2017, year-end.

Accounts payable	$ 834
Accounts receivable	810
Buildings, net of accumulated depreciation	3,537
Cash	770
Common stock	900
Cost of goods sold	2,500
Current portion of long-term debt	450
Depreciation expense	335
Dividends paid during the year	475
Equipment, net of accumulated depreciation	1,220
Income tax expense	265
Income taxes payable	265
Interest expense	400
Inventory	967
Land	1,600
Long-term debt	3,500
Prepaid expenses	12
Retained earnings, beginning	1,600
Service revenue	9,600
Selling expenses	310
Debt investments	1,200
Salaries and wages expense	700
Salaries and wages payable	222

Instructions
Prepare an income statement for Trent Company for the year ended April 30, 2017.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 216 (15 min.)

TRENT COMPANY
Income Statement
For the Year Ended April 30, 2017

Service revenue		$9,600
Expense		
Cost of goods sold	$2,500	
Salaries and wages expense	700	
Interest expense	400	
Depreciation expense	335	
Selling expenses	310	
Income tax expense	265	
Total expenses		4,510
Net income		$5,090

(Ser. rev. – Cost of goods sold – Sal./wag. exp. – Int. exp. – Dep. exp. – Sell. exp. – Inc. tax exp.)

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Ex. 217

The chief financial officer (CFO) of SuperClean Corporation requested that the accounting department prepare a preliminary balance sheet on December 30, 2017, so that the CFO could get an idea of how the company stood. He knows that certain debt agreements with its creditors require the company to maintain a current ratio of at least 2:1. The preliminary balance sheet is as follows.

SUPERCLEAN CORPORATION
Balance Sheet
December 30, 2017

Current assets			Current liabilities		
Cash	$25,000		Accounts payable	$ 20,000	
Accounts receivable	20,000		Salaries and wages payable	10,000	$ 40,000
Prepaid insurance	15,000	$ 60,000	Long-term liabilities		
			Notes payable		90,000
			Total liabilities		130,000
Property, plant, and equipment (net)		210,000	Stockholders' equity		
Total assets		$270,000	Common stock	100,000	
			Retained earnings	40,000	140,000
			Total liabilities and stockholders equity		$270,000

Instructions

(a) Calculate the current ratio and working capital based on the preliminary balance sheet.

(b) Based in the results in (a), the CFO requested that $20,000 of cash be used to pay off the balance of the accounts payable account on December 31, 2017. Calculate the new current ratio and working capital after the company takes these actions.

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 217 (10 min.)

(a) Current ratio = $\frac{\$60,000}{\$40,000}$ = 1.50:1 (Cash + Acc. rec. + Prep. ins. ÷ Cur. liab.)

Working capital = $60,000 – $40,000 = $20,000 (Cash + Acc. rec. – Cur. liab.)

(b) Current ratio = $\frac{\$40,000^*}{\$20,000^{**}}$ = 2.0:1

Working capital = $40,000 – $20,000 = $20,000

*$60,000 – $20,000 **$40,000 – $20,000

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COMPLETION STATEMENTS

218. The rules and practices that are recognized as general guides for financial reporting are called _____ _____ _____.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: FSA

219. In accounting, _____ results when different companies use the same accounting principles.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

220. _____ is a company-specific aspect of relevance where size is likely to influence the decision of an investor or creditor.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

221. The _____ constraint relates to the fact that providing information is costly.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

222. The earnings per share value is calculated by dividing net income – preferred stock dividends by _____ _____ _____.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

223. Assets that are expected to be converted to cash or used in the business within a relatively short period of time are called _____.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

224. The _____ is current assets divided by current liabilities.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

225. A measurement to provide additional insight regarding a company's cash-generating ability is _____.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

Answers to Completion Statements

218. generally accepted accounting principles
219. comparability
220. materiality
221. cost
222. average common shares outstanding
223. current assets
224. current ratio
225. free cash flow

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MATCHING

226. Match the items below by entering the appropriate code letter in the space provided.

A. Relevance
B. Liquidity ratios
C. Comparability
D. Consistency
E. Intangible assets
F. Free cash flow
G. Working capital
H. Current ratio
I. Earnings per share
J. Solvency ratios
K. Economic entity assumption
L. Materiality

_____ 1. Measures of the ability of the company to survive over a long period of time.

_____ 2. Current assets divided by current liabilities.

_____ 3. Information that has a bearing on a decision.

_____ 4. Economic events can be identified with a particular unit of accountability.

_____ 5. An item important enough to influence the decision of an investor or creditor.

_____ 6. Same accounting principles and methods used from year to year within a company.

_____ 7. Cash from operating activities less capital expenditures and cash dividends.

_____ 8. Noncurrent assets that do not have physical substance.

_____ 9. (Net income – preferred stock dividends) divided by average common shares outstanding.

_____ 10. Different companies using the same accounting principles.

_____ 11. Measures of the short-term ability of the enterprise to pay its maturing obligations.

_____ 12. The excess of current assets over current liabilities.

Ans: N/A, LO: 1-3, Bloom: K, Difficulty: Easy, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

Answers to Matching

1.	J	2.	H	3.	A	4.	K
5.	L	6.	D	7.	F	8.	E
9.	I	10.	C	11.	B	12.	G

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SHORT-ANSWER ESSAY QUESTIONS

S-A E 227

Identify the two parts of stockholders' equity in a corporation and indicate the purpose of each.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 227

The two parts of stockholders' equity and the purpose of each are: (1) **Common stock** is used to record investments of assets in the business by the owners (stockholders). (2) **Retained earnings** is used to record net income retained in the business.

S-A E 228

What do these classes of ratios measure?
(a) Liquidity ratios.
(b) Profitability ratios.
(c) Solvency ratios.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Business Economics

Solution 228

(a) Liquidity ratios measure the short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash.

(b) Profitability ratios measure the income or operating success of a company for a given period of time.

(c) Solvency ratios measure the company's ability to survive over a long period of time.

S-A E 229

Give the definition of current assets, current liabilities and the current ratio.

Ans: N/A, LO: 1, 2, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Business Economics

Solution 229

Current assets are cash or other resources that are reasonably expected to be realized in cash or sold or consumed in the business within one year or the operating cycle, whichever is longer. Current liabilities are obligations reasonably expected to be paid from the existing current assets or through the creation of other current liabilities within the next year or operating cycle, whichever is longer. The current ratio is a measure used to evaluate a company’s liquidity and short-term debt paying ability, computed by dividing current assets by current liabilities.

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S-A E 230

Are short-term creditors, long-term creditors, and stockholders primarily interested in the same characteristics of a company? Explain.

Ans: N/A, LO: 2, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Business Economics

Solution 230

The three parties are not primarily interested in the same characteristics of a company. Short-term creditors are primarily interested in the liquidity of the enterprise. In contrast, long-term creditors and stockholders are primarily interested in the profitability and solvency of the company.

S-A E 231

Relevance and faithful representation are the fundamental qualities of useful information.
(a) Briefly define each term.
(b) Why are these characteristics important to users of financial statements?

Ans: N/A, LO: 3, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 231

(a) Relevance is the quality of information that makes a difference in a business decision. Information is considered relevant if it provides information that provides accurate expectations about future, and confirms or corrects prior expectations.

Faithful representation means that information accurately depicts what really happened. Information must be complete, neutral and free from error to provide a faithful representation.

(b) Relevance and faithful representation are important to the users of financial statements because these users do not have first-hand knowledge of the operations of the business. In order for these users to make decisions, they must have assurances that the information provided by the company is relevant – makes a difference and faithfully representative – means what the company says. Without these assurances, the users cannot have confidence in the information provided to them.

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S-A E 232

You and the CEO of your company are waiting on an elevator. You are going to the 25th floor and the CEO is going to the 35th floor. The CEO says "What is the difference between consistency and comparability?" You have two minutes to respond. What will you say?

Ans: N/A, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 232

You have asked an excellent question and I am glad to respond. Consistency means that a company uses the same accounting principles and methods each year. Decision-makers can work with accounting information, knowing that the company is consistently applying with the principles and methods it has chosen. This is why it is so important that we carefully make these choices. There are procedures for making changes and communicating those changes to financial statement users.

Comparability allows users to compare accounting information of different companies. The financial statement footnotes identify many of the principles and procedures that companies use. Comparisons can be made for companies within certain industries or other groupings.

S-A E 233

Comparability and consistency are enhancing qualities that make accounting information useful for decision-making purposes. Briefly explain the difference between these two qualities and explain how they are related to each other.

Ans: N/A, LO: 3, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 233

Comparability results when different companies use the same accounting principles and methods, while consistency results when one company uses the same principles and methods from year to year. The two qualities are related because information must possess relevance, faithful representation, comparability, and consistency to achieve the highest level of decision usefulness. In addition, accounting information for two entities cannot be comparable unless both companies practice consistency in their choice of principles and methods.

S-A E 234

Identify and briefly explain the two fundamental qualities of useful information.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 234

Relevance and faithful representation are the two fundamental qualities of useful information. Relevance is the quality of information that indicates the information makes a difference in a decision. Faithful representation is information that is complete, neutral, and free from error.

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S-A E 235

What are three of the five enhancing qualities of useful information.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 235

The FASB and IASB describe the following enhancing qualities of useful information: comparability, consistency, verifiability, timeliness, and understandability.

S-A E 236 (Ethics)

Many bonus plans are based upon the attainment of some specified short-term goal. For example, sales personnel at Metal Crafters are given a bonus of 5% of the amount by which their sales exceed $100,000. Sometimes the attainment of these goals is achieved by methods detrimental to the long-term needs of the company. Sales representative Sara Crown, for example, finds herself tempted to court certain customers that place large orders, even though she knows they may not be able to pay. She complains that the bonus system itself is unethical.

Required:
Is a bonus system like the one at Metal Crafters unethical? Explain.

Ans: N/A, LO: 2, Bloom: E, Difficulty: Medium, Min: 5, AACSB: Ethics, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Decision Modeling, AICPA PC: Communication, IMA: Performance Measurement

Solution 236

The bonus system described is not necessarily unethical, but it may be short-sighted. When employees are able to identify and address larger concerns (such as Sara's identification of the problem regarding the ability of a customer to pay) then such issues should probably become part of the system of bonuses. It is very difficult to set a bonus plan that allows for all contingencies, however. Since sales representatives are hired to generate sales, they most often are rewarded based on generating sales. Some of the future events, such as customers defaulting on payments, may not be the fault of the sales representative. For Sara Crown to create sales by soliciting customers with a poor payment record would be unethical on her part. She is required to use integrity, even when the possibility exists of her not using it, and even when she might gain by not using it.

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S-A E 237 (Communication)

Sunshine Sugar grows sugar cane in Florida, California, and Hawaii. Its investment in land to grow sugar exceeds $2 million. Currently, land whose original cost was more than $300,000 in Florida is threatened by plans to flood the Everglades to reclaim the wetlands. Sunshine plans to fight vigorously to keep its land in production, particularly because most of the rest of its land is in California, which is threatened by water shortages. The land in Florida is also significantly more productive than that in California, and the wages paid to workers to process the sugar cane are substantially less. Current plans include litigation to prevent government seizure of the land, an extensive public education campaign, and intense lobbying efforts.

Required:
Sunshine has determined that a footnote disclosure should be made in the financial statements to alert the investors of the threat to the land. Carefully consider how much of the above information is appropriate for inclusion in the footnote. Write the footnote.

Ans: N/A, LO: 3, Bloom: E, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 237

NOTE: A portion of the most valuable land owned by the company is the subject of plans by the Environmental Protection Agency to flood the Florida Everglades to "reclaim" the so-called wetlands. The company is working with the United States Department of Agriculture and other agencies to prevent this result. The company will be spending money to educate the public about this issue. Currently, land costing around $300,000 is at risk.

Usually the details of exactly why the land is so valuable to the company are not appropriate for inclusion. Footnotes need not be emotional or dramatic, either. There should be a systematic listing of at least the minimum amount the public has a right to know—how much land is at risk, and the nature of the risk.

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IFRS Questions

1. The classified balance sheet is
   a. required under GAAP but not under IFRS.
   b. required under IFRS in the same format as under GAAP.
   c. required under IFRS but not under GAAP.
   d. required under IFRS with certain variations in format as compared to GAAP.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

2. IFRS requires the use of
   a. the term balance sheet.
   b. the term statement of financial position.
   c. neither balance sheet nor statement of financial position, but recommends use of the term balance sheet.
   d. neither balance sheet nor statement of financial position, but recommends use of the term statement of financial position.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

3. IFRS
   a. requires a specific format for the balance sheet (statement of financial position) that is identical to U.S. GAAP.
   b. requires a specific format for the balance sheet (statement of financial position) that is different from U.S. GAAP.
   c. requires no specific format for the balance sheet (statement of financial position) but most companies that follow IFRS prepare the statement identical to U.S. GAAP .
   d. requires no specific format for the balance sheet (statement of financial position) but most companies that follow IFRS prepare the statement in a different format from U.S. GAAP.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

4. Most companies that follow IFRS present balance sheet (statement of financial position) information in this order.
   a. current assets; investments; property; plant and equipment; intangible assets; current liabilities; long term liabilities; owners' equity.
   b. intangible assets; property; plant and equipment; investments; current assets; current liabilities; owners' equity; long term liabilities.
   c. current assets; noncurrent assets; current liabilities; noncurrent liabilities; equity.
   d. noncurrent assets; current assets; equity; noncurrent liabilities; current liabilities.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

5. Under IFRS and under GAAP, current assets are listed in

	IFRS	GAAP
a.	order of liquidity	order of liquidity
b.	reverse order of liquidity	order of liquidity
c.	order of liquidity	reverse order of liquidity
d.	reverse order of liquidity	reverse order of liquidity

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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6. The subtotal net assets is used in
   a. both GAAP and IFRS.
   b. GAAP but not IFRS.
   c. IFRS but not GAAP.
   d. neither IFRS nor GAAP.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

7. Both IFRS and GAAP require disclosure about
   a. accounting policies followed.
   b. judgements that management has made in the process of applying the entity's accounting policies.
   c. the key assumptions and estimation uncertainty.
   d. all of the above.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

8. Under IFRS
   a. comparative prior-period information must be presented, but financial statements need not be provided annually.
   b. comparative prior-period information must be presented, and financial statements must be provided annually.
   c. comparative prior-period information is not required, but financial statements need not be provided annually.
   d. comparative prior-period information is not required, but financial statements must be provided annually.

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

9. The use of fair value to report assets
   a. is not allowed under GAAP or IFRS.
   b. is required by GAAP and IFRS.
   c. is increasing under GAAP and IFRS, but GAAP has adopted it more broadly.
   d. is increasing under GAAP and IFRS, but IFRS has adopted it more broadly.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

10 Under IFRS
   a. companies can apply fair value to property, plant, and equipment and natural resources.
   b. companies can apply fair value to property, plant, and equipment but not to natural resources.
   c. companies can apply fair value to neither property, plant, and equipment nor natural resources.
   d. companies can apply fair value to natural resources but not to property, plant, and equipment.

Ans: A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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