Survey of Accounting 2nd 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	6.	1	K	11.	2	K	16.	2	C	21.	2	K
2.	1	K	7.	1	C	12.	2	K	17.	2	K	22.	2	K
3.	1	K	8.	2	K	13.	2	K	18.	2	K	23.	2	K
4.	1	K	9.	2	C	14.	2	K	19.	2	K	24.	2	K
5.	1	C	10.	2	K	15.	2	K	20.	2	K	25.	2	C
Multiple Choice Questions														
26.	1	K	44.	2	K	62.	2	K	80.	2	AP	98.	2	AP
27.	1	K	45.	1	AP	63.	2	K	81.	2	K	99.	2	AP
28.	1	K	46.	1	AP	64.	2	K	82.	2	K			
29.	1	K	47.	1	AP	65.	2	C	83.	2	K			
30.	1	K	48.	2	AP	66.	2	K	84.	2	C			
31.	1	K	49.	2	AP	67.	2	K	85.	1	C			
32.	1	K	50.	1	AP	68.	2	K	86.	2	C			
33.	1	K	51.	1	AP	69.	2	K	87.	2	AP			
34.	1	K	52.	1	AP	70.	2	C	88.	2	AP			
35.	1	K	53.	2	AP	71.	2	K	89.	2	AP			
36.	1	K	54.	2	AP	72.	2	K	90.	2	AP			
37.	1	K	55.	1	AP	73.	1	AP	91.	2	K			
38.	1	K	56.	1	AP	74.	2	AP	92.	2	AP			
39.	1	K	57.	1	AP	75.	2	AP	93.	2	AP			
40.	1	K	58.	1	AP	76.	2	AP	94.	2	AP			
41.	1	K	59.	1	AP	77.	2	AP	95.	2	AP			
42.	1	AP	60.	2	AP	78.	2	AP	96.	2	AP			
43.	1	K	61.	2	AP	79.	2	AP	97.	1	K			
Brief Exercises														
100.	1	AP	101.	2	AP	102.	2	AP						
Exercises														
103.	1	AP	107.	1, 2	AP	111.	2	AP	115.	2	AP			
104.	1	K	108.	1	AP	112.	2	AP						
105.	1	AP	109.	1	AP	113.	2	AN						
106.	1, 2	AP	110.	2	AP	114.	2	AN						
Completion Statements														
116.	1	K	117.	2	K	118.	2	K	119.	2	K			
120.	2	K	121.	1	K									
Matching														
122.	1-2	K												
Short Answer Essay														
123.	1	K	124.	2	K	125.	1, 2	K	126.	2	C	127.	2	E

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SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Learning Objective 1											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
1.	TF	28.	MC	37.	MC	47.	MC	73.	MC	108.	Ex
2.	TF	29.	MC	38.	MC	50.	MC	92.	MC	109.	Ex
3.	TF	30.	MC	39.	MC	51.	MC	97.	MC	117.	CS
4.	TF	31.	MC	40.	MC	52.	MC	100.	BE	121.	CS
5.	TF	32.	MC	41.	MC	55.	MC	103.	Ex	123.	Ma
6.	TF	33.	MC	42.	MC	56.	MC	104.	Ex	124.	SA
7.	TF	34.	MC	43.	MC	57.	MC	105.	Ex	126.	SA
26.	MC	35.	MC	45.	MC	58.	MC	106.	Ex		
27.	MC	36.	MC	46.	MC	59.	MC	107.	Ex		
Learning Objective 2											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
8.	TF	25.	TF	71.	MC	89.	MC	114.	Ex		
9.	TF	44.	MC	72.	MC	90.	MC	115.	Ex		
10.	TF	48.	MC	74.	MC	91.	MC	116.	Ex		
11.	TF	49.	MC	75.	MC	93.	MC	118.	CS		
12.	TF	53.	MC	76.	MC	94.	MC	119.	CS		
13.	TF	54.	MC	77.	MC	95.	MC	120.	CS		
14.	TF	60.	MC	78.	MC	96.	MC	122.	CS		
15.	TF	61.	MC	79.	MC	98.	MC	125.	SA		
16.	TF	62.	MC	80.	MC	99.	MC	126.	SA		
17.	TF	63.	MC	81.	MC	101.	BE	127.	SA		
18.	TF	64.	MC	82.	MC	102.	BE	128.	SA		
19.	TF	65.	MC	83.	MC	106.	Ex				
20.	TF	66.	MC	84.	MC	107.	Ex				
21.	TF	67.	MC	85.	MC	110.	Ex				
22.	TF	68.	MC	86.	MC	111.	Ex				
23.	TF	69.	MC	87.	MC	112.	Ex				
24.	TF	70.	MC	88.	MC	113.	Ex				

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 balance sheet.*** Ratio analysis expresses the relationship among selected items of financial statements data. 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.

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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: Governance 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: Governance 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: Governance 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: Governance 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: Governance 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: Governance 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: Governance 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: Governance Perspective, AICPA FC: Risk Management, AICPA PC: None, IMA: Business Economics

9. The current ratio is calculated by dividing current assets by current liabilities.

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

10. The current ratio is a more dependable indicator of liquidity than working capital.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance 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: Governance 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: Governance 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: Governance 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: Governance 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: Governance 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: Governance 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: Governance 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: Governance 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: Goverance Perspective, AICPA FC: Risk Assessment, Analysis and Management, AICPA PC: Project Management, IMA: Business Economics

20. The current ratio includes long-term investments in the numerator.

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

22. Working capital is total assets less total liabilities.

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

23. The current ratio helps users determine if a company can meet its near-term obligations.

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

24. The current ratio is current assets less accounts payable.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

25. Long-term creditors consider a lower debt to assets ratio to be less risky.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Risk Assessment, Analysis and Management, AICPA PC: None, IMA: Business Economics

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Answers to True-False Statements

1.	T	14.	F
2.	F	15.	T
3.	T	16.	F
4.	T	17.	F
5.	F	18.	T
6.	F	19.	T
7.	F	20.	F
8.	F	21.	T
9.	T	22.	F
10.	T	23.	T
11.	T	24.	F
12.	F	25.	T
13.	T		

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MULTIPLE CHOICE QUESTIONS

26. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

27. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

28. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

29. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

30. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

31. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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32. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

33. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

34. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

35. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

36. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

37. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

38. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

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39. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

40. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

41. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

42. These are selected account balances on December 31, 2022.

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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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

43. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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44. 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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

45. 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, 2022

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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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

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46. 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, 2022

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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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

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

Koonce Office Supplies
Balance Sheet
December 31, 2022

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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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

Koonce Office Supplies
Balance Sheet
December 31, 2022

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. $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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, 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.)

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

Koonce Office Supplies
Balance Sheet
December 31, 2022

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. 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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, 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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50. 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, 2022

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
Patent		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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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

51. 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, 2022

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
Patent		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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $190,00 + $170,000 = $360,000
[Land + (Build. – Acc. dep.)]

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

Carne Auto Supplies
Balance Sheet
December 31, 2022

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
Patent		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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: Stock investments = $180,000

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

Carne Auto Supplies
Balance Sheet
December 31, 2022

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
Patent		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: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, 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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54. Use the following data to calculate the current ratio.

Carne Auto Supplies
Balance Sheet
December 31, 2022

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
Patent		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: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, 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.)

55. 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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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

56. 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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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

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

Edie's Flower Shoppe
Balance Sheet
December 31, 2022

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		$1,575,000	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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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

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

Edie's Flower Shoppe
Balance Sheet
December 31, 2022

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		$1,575,000	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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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

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

Edie's Flower Shoppe
Balance Sheet
December 31, 2022

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		$1,575,000	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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: Stock investments = $255,000

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

Edie's Flower Shoppe
Balance Sheet
December 31, 2022

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		$1,575,000	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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, 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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61. Use the following data to calculate the current ratio.

Edie's Flower Shoppe
Balance Sheet
December 31, 2022

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		$1,575,000	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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, 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.)

62. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

63. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

64. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

65. The most important information needed to determine if companies can pay their current

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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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

66. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

67. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

68. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

69. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

70. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

71. A liquidity ratio measures the

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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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

72. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

73. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

74. 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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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

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

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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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting
Solution: ($114,000 + $70,000 + $138,000 + $80,000 + $2,000) – ($64,000 + $56,000) = $284,000
(Acc. rec. + Cash. + Inv.+ Sh.- term inv. + Prep. ins.) – (Acc. Pay. + Not. + Pay.)

76. 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		

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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

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

77. 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		

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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics
Solution: $32,000 ÷ $16,000 = 2.0:1
(Cur. Assets/ Cur. liab.)

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

Current assets	$ 32,000	Net income	$ 42,000

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Current liabilities	16,000	Stockholders' equity	78,000
Average assets	160,000	Total liabilities	42,000
Total assets	120,000		

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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

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

79. 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		

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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

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

80. 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		

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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

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

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

Current assets	$ 21,000	Net income	$ 45,000

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Current liabilities	12,000	Stockholders' equity	63,000
Average assets	132,000	Total liabilities	27,000
Total assets	90,000		

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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

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

82. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

83. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

84. 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: Medium, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

85. 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: Hard, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

86. 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

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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: Medium, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

87. 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: Hard, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, 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)

88. 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: Hard, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

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

89. 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: Hard, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, 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)

90. 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?
a. 2.4:1
b. 1.9:1
c. 1.7:1
d. 2.13:1

Ans: A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

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

91. The debt to assets ratio is a
a. liquidity ratio.
b. profitability ratio.

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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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

92. Which of the following is not considered an asset?
a. Patents
b. Common stock
c. Accounts receivable
d. Supplies

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

93. Using the following balance sheet and income statement data for Castillo Company, what is the company's debt to assets ratio?

Current assets	$ 41,000	Net income	$ 48,000
Current liabilities	22,000	Stockholders' equity	75,000
Average assets	210,000	Total liabilities	125,000
Total assets	200,000		

a. 24.3 percent
b. 35.7 percent
c. 37.5 percent
d. 62.5 percent

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

Solution: $125,000 ÷ $200,000 = 62.5%
(Tot. liab. ÷ Tot. assets)

94. Using the following balance sheet and income statement data for Castillo Company, what percentage of the company is financed with equity?

Current assets	$ 41,000	Net income	$ 48,000
Current liabilities	22,000	Stockholders' equity	75,000
Average assets	210,000	Total liabilities	125,000
Total assets	200,000		

a. 24.3 percent
b. 35.7 percent
c. 37.5 percent
d. 62.5 percent

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

Solution: $75,000 ÷ $200,000 = 37.5%
(Tot. equity. ÷ Tot. assets)

95. Using the following balance sheet and income statement data for Castillo Company, what is the company's current ratio?

Current assets	$ 41,000	Net income	$ 48,000
Current liabilities	22,000	Stockholders' equity	75,000
Average assets	210,000	Total liabilities	125,000

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Total assets	200,000

a. 1:86: 1
b. 2 times
c. 186%
d. 54%

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

Solution: $41,000 ÷ $22,000 = 1.86:1
(Tot. current assets. ÷ Tot. current liabilities)

96. Using the following balance sheet and income statement data for Castillo Company, what is the company's working capital at the period?

Current assets	$ 41,000	Net income	$ 48,000
Current liabilities	22,000	Stockholders' equity	75,000
Average assets	210,000	Total liabilities	125,000
Total assets	200,000		

a. $10,000
b. $19,000
c. $27,000
d. $50,000

Ans: B LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

Solution: $41,000 - $22,000 = $19,000

97. Which of the following is not classified properly as a current asset at December 31, 2022?
a. Accounts receivable
b. A certificate of deposit maturing July 2023
c. A prepaid insurance policy which provides coverage through November 2023
d. A note receivable due in 2024

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

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

Drew's Lawn Service
Balance Sheet
December 31, 2022

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Cash		$ 2,000	Accounts payable	$ 600
Accounts receivable		300	Salaries and wages payable	200
Supplies		100	Note payable (due 2024)	22,100
Prepaid insurance		900	Total liabilities	22,900
Equipment	$33,000		Common stock	7,000
Less: Accumulated			Retained earnings	1,400
depreciation	(6,000)	27,000	Total stockholders' equity	8,400
Internet domain		1,000	Total liabilities and	
Total assets		$31,300	stockholders' equity	$31,300

a. 1.37: 1
b. 2.80: 1
c. 4.00: 1
d. 4.12: 1

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics
Solution: ($2,000 + $300 + $100 + $900)/ ($600 + $200) = 4.12
(Cash + Acc. Rec. + Supplies + Prepd.Ins.)/ (Acc. Pay. + Sal. And wages pay.)

99. Use the following data to calculate working capital.

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Drew's Lawn Service
Balance Sheet
December 31, 2022

Cash		$ 2,000	Accounts payable	$ 600
Accounts receivable		300	Salaries and wages payable	200
Supplies		100	Note payable (due 2024)	22,100
Prepaid insurance		900	Total liabilities	22,900
Equipment	$33,000		Common stock	7,000
Less: Accumulated			Retained earnings	1,400
depreciation	(6,000)	27,000	Total stockholders' equity	8,400
Internet domain		1,000	Total liabilities and	
Total assets		$31,300	stockholders' equity	$31,300

a. $1,600
b. $2,300
c. $2,500
d. $2,900

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

Solution: ($2,000 + $300 + $100 + $900) - ($600 + $200) = $2,300
(Cash + Acc. Rec. + Supplies + Prepd.Ins.) - (Acc. Pay. + Sal. And wages pay.)

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Answers to Multiple Choice Questions

26.	d	48.	a	70.	c	92.	b
27.	c	49.	d	71.	c	93.	d
28.	d	50.	a	72.	b	94.	c
29.	d	51.	c	73.	b	95.	a
30.	a	52.	c	74.	b	96.	b
31.	b	53.	b	75.	a	97.	d
32.	a	54.	d	76.	d	98.	d
33.	d	55.	c	77.	a	99.	c
34.	a	56.	c	78.	d		
35.	d	57.	c	79.	c		
36.	b	58.	d	80.	d		
37.	d	59.	c	81.	b		
38.	b	60.	b	82.	c		
39.	c	61.	b	83.	c		
40.	c	62.	b	84.	b		
41	d	63.	a	85.	c		
42.	d	64.	b	86.	a		
43.	d	65.	c	87.	a		
44.	b	66.	a	88.	a		
45.	b	67.	c	89.	a		
46.	b	68.	b	90.	a		
47.	c	69.	b	91.	c		

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BRIEF EXERCISES

BE. 100

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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution 100

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. 101

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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

Solution 101

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. 102

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Andrew Smith prepared the following balance sheet at December 31, 2002. He is planning to apply for a loan at the First County Bank in the hope of buying a new new delivery truck.

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Smith Delivery Service
Balance Sheet
December 31, 2022

Cash		$ 800	Accounts payable	$ 600
Accounts receivable		400	Salaries and wages payable	200
Supplies		100	Note payable	12,100
Prepaid insurance		900	Total liabilities	12,900
Equipment	$23,000		Common stock	5,200
Less: Accumulated			Retained earnings	1,100
depreciation	(6,000)	17,000	Total stockholders' equity	6,300
			Total liabilities and	
Total assets		$19,200	stockholders' equity	$19,200

The note is due in monthly installments of $450. Compute the company's current ratio and working capital ratio.

Ans: NA, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

Sol.102

Current assets: $800 + $400 + $100 + $900 = $2,200

Current liabilities: $600 + $200 + ($450 x 12) = $6,200

Current ratio: $2,200/ $6,200 = .35:1

Working capital: $2,200 - $6,200 = ($4,000)

EXERCISES

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Ex. 103

The following information is available for Mullen Company for the year ended December 31, 2022:

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, 2022.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution 103

MULLEN COMPANY
Balance Sheet
December 31, 2022

Assets

Current assets			
Cash		$ 2,600	
Debt investments		3,000	
Accounts receivable		1,500	
Total current assets			$ 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

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Solution 103 (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

Ex. 104

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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Solution 104

_____ 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. 105

These items are taken from the financial statements of Donovan Company. at December 31, 2022.

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, 2022)	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 2023.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution 105

DONOVAN COMPANY
Balance Sheet
December 31, 2022

Assets			
Current assets			
Cash		$18,840	
Accounts receivable		15,600	
Prepaid Insurance		4,680	
Total current assets		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

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Solution 105 (Cont.)

Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$15,500	
Current portion of mortgage 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

*Net income = $17,180 – $780 – $7,300 – $2,600 = $6,500

Ex. 106

The following items are taken from the financial statements of Tracy Company for the year ending December 31, 2022:

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 2025)	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. 106 (Cont.)

Instructions

(a) Calculate the net income.

(b) Calculate the retained earnings balance that would appear on a balance sheet at December 31, 2022.

(c) Prepare a classified balance sheet for Tracy Company at December 31, 2022 assuming the note payable is a long-term liability.

(d) Compute the current ratio and the debt to assets ratio

Ans: N/A, LO: 1, 2, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution 106

(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. – Supp. 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

(c)

TRACY COMPANY
Balance Sheet
December 31, 2022

Assets		
Current assets		
Cash	$ 14,000	
Accounts receivable	11,000	
Supplies	4,000	
Prepaid insurance	6,000	
Total current assets		$ 35,000
Property, plant, and equipment		
Equipment	210,000	
Less: Accumulated depreciation—equipment	38,000	172,000
Total assets		$207,000

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Solution 106 (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

(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)

Ex. 107

The following items are taken from the financial statements of Grove Company for the year ending December 31, 2022:

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

Ans: N/A, LO: 1, 2 Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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Solution 107

(a)

GROVE COMPANY
Income Statement
For the Year Ended December 31, 2022

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

GROVE COMPANY
Balance Sheet
December 31, 2022

Assets

Current assets		
Cash	$24,000	
Accounts receivable	8,000	
Supplies	4,500	
Total current assets		$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

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

*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.)

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Ex. 108

These financial statement items are for Snyder Corporation at year-end, July 31, 2022.

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 2024)	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, 2022.

(b) Prepare a classified balance sheet at July 31, 2022.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation;, AICPA PC: None, IMA: Reporting

Solution 108

(a)

SNYDER CORPORATION
Income Statement
For the Year Ended July 31, 2022

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)

SNYDER CORPORATION
Retained Earnings Statement
For the Year Ended July 31, 2022

Retained earnings, August 1, 2021		$35,200
Less: Net loss	$6,700	
Dividends	5,000	11,700
Retained earnings, July 31, 2022		$23,500

(Beg. ret. earn. – Net loss – Div.)

Solution 108 (Cont.)

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(b)

SNYDER CORPORATION
Balance Sheet
July 31, 2022

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
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 4,100	
Salaries and wages payable	2,580	
Total current liabilities		$ 6,680
Notes payable (due 2024)		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

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Ex. 109

These items are taken from the financial statements of Drew Corporation for the year ending December 31, 2022.

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, 2022 and a classified balance sheet as of December 31, 2022.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution 109

DREW CORPORATION
Income Statement
For the Year Ended December 31, 2022

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

DREW CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2022

Retained earnings, January 1, 2022	$33,000
Add: Net income	21,700
	54,700
Less: Dividends	14,000
Retained earnings, December 31, 2022	$40,700

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Solution 109 (Cont.)

DREW CORPORATION
Balance Sheet
December 31, 2022

Assets		
Current assets		
Cash		$15,900
Accounts receivable		14,200
Prepaid insurance		3,500
Total current assets		$33,600
Property, plant, and equipment		
Equipment	$56,000	
Less: Accumulated depreciation—equipment	17,600	38,400
Total assets		$72,000
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

Ex. 110

The following data are taken from the financial statements of Rosen, Inc. as of the end of the year 2022. 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) Debts to assets ratio.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

Solution 110

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

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

Ex. 111

Use the following data to calculate the ratios listed below.

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) Debt to assets ratio.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

Solution 111

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

Ex. 112

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) Debt to assets ratio.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

Solution 112

(a) Current ratio = Current assets* ÷ Current liabilities**

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= $121,000 ÷ $55,000 = 2.2: 1

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

(c) 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. 113

Comparative financial statement data for Arthur Corporation and Lancelot Corporation, two competitors, appear below. All balance sheet data are as of December 31, 2022.

	Arthur Corporation 2022	Lancelot Corporation 2022
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 for each company for 2022.

(b) Comment on the relative solvency of the companies by computing the debt to assets ratio for each company for 2022.

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

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Solution 113

(a) Arthur Company appears to be more profitable. Its net income for 2022 is $228,000 ($1,850,000 – $1,225,000 – $303,000 – $9,000 – $85,000). Lancelot's net income for 2022 is $116,400 ($620,000 – $365,000 – $98,000 – $3,800 – $36,800).

(b) Arthur appears to be slightly more solvent. Arthur's 2022 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.

[a]$214,825 ($66,325 + $148,500) is Arthur's 2022 total liabilities
$959,200 ($427,200 + $532,000) is Arthur's 2022 total assets.

[b]$64,968 ($35,348 + $29,620) is Lancelot's 2022 total liabilities
$270,064 ($130,336 + $139,728) is Lancelot's 2022 total assets.

Ex. 114
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

Instructions

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

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

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 12, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

Solution 114

(a)	Marin	Nance
1. Current ratio	1.72:1 ($13,712 ÷ $7,966)	2.04:1 ($28,447 ÷ $13,950)
2. Debt to assets ratio	73% ($16,136 ÷ $22,088)	81% ($29,222 ÷ $36,167)

(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.

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Ex. 115

The chief financial officer (CFO) of SuperClean Corporation requested that the accounting department prepare a preliminary balance sheet on December 30, 2022 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, 2022

Current assets			Current liabilities		
Cash	$25,000		Accounts payable	$ 20,000	
Accounts receivable	20,000		Salaries and wages payable	20,000	$ 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, 2022. 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: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Business Economics

Solution 115

(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. + Prep. ins. – 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

116. 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: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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

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

118. The _____ is computed as total liabilities divided by total assets.

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

119. The excess of current assets over current liabilities is called _____.

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

120. Stockholders' equity has two sections: _____ and _____.

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

121. _____ measure the ability of the company to survive in the long-run.

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

Answers to Completion Statements

116. current assets
117. current ratio
118. debt to assets ratio
119. working capital
120. Common stock, retained earnings
121. Solvency ratios

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MATCHING

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

A. Liquidity ratios
B. Intangible assets
C. Debt to assets ratio
D. Working capital
E. Current ratio
F. Long-term liabilities
G. Solvency ratios

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

____ 2. Current assets divided by current liabilities.

____ 3. Total liabilities divided by total assets.

____ 4. Noncurrent assets that do not have physical substance.

____ 5. Obligations the company expects to pay after one year.

____ 6. Measures of the short-term ability of the enterprise to pay its maturing obligations.

____ 7. The excess of current assets over current liabilities.

Ans: N/A, LO: 1-2, Bloom: K, Difficulty: Easy, Min: 6, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

Answers to Matching

1.	G	2.	E	3.	C	4.	B
5.	F	6.	A	7.	D		

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SHORT-ANSWER ESSAY QUESTIONS

S-A E 123

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: Governance Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 123

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 124

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

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

Solution 124

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

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

S-A E 125

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: Governance Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Business Economics

Solution 125

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 126

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: Governance Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Business Economics

Solution 126

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 solvency of the company.

S-A E127 (Ethics)

Many bonus plans are based upon the attainment of some specified short-term goal. For example, some employees in the finance area at Metal Crafters are given a bonus of 5% if the current ratio is 1.2 or greater. 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, authorizes payment, on 12/30, of a current liability earlier than usual to increase the current ratio from 1.15 ($300,000/$260,000) to 1.2 ($240,000/$200,000). 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: Governance Perspective, AICPA FC: None, AICPA PC: Ethical Conduct, IMA: Performance Measurement

Solution 127

The bonus system described is not necessarily unethical, but it may be short-sighted. When employees are able to manipulate financial numbers to obtain bonuses by performing actions which may not be in the best interest of the company, then the bonus system is not working as intended. While the bonus system may not be unethical, it could encourage employees to act unethically in order to receive the bonus. For Sara Crown to authorize a payment earlier than is normal within the company's normal procedures 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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