Financial Accounting 11th edition Pratt Test Bank

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Financial Accounting, 11th edition
Test Bank and Video Questions
By Pratt and Peters

Chapter 2: A Closer Look at the Financial Statements

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Multiple Choice Questions

1) When an entrepreneur wishes to start a business, capital must be attracted in the form of:
A) net income.
B) cost of goods sold.
C) operating activities.
D) equity or debt financing.

Answer: D
Diff: Easy
Learning Objective: 2.1
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; Industry; FN: Measurement
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 1 / None

2) The acquisition of equity and debt capital is considered:
A) a financing activity.
B) net income.
C) an investing activity.
D) an operating activity.

Answer: A
Diff: Easy
Learning Objective: 2.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 2 / None

3) Which one of the following is considered an operating activity?
A) Payment to a vendor for supplies.
B) Purchase of company trucks for cash.
C) Payment of dividends to shareholders.
D) Issuing stock to investors for cash.

Answer: A
Diff: Easy
Learning Objective: 2.3
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 3 / None

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4) Your bank loaned ten million dollars to Hamilton Stores to finance the construction of a manufacturing plant. In which section of Hamilton's statement of cash flows would you be able to determine whether the company used the cash to build the new plant?
A) Operating activities
B) Owner activities
C) Financing activities
D) Investing activities

Answer: D
Diff: Easy
Learning Objective: 2.3
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 4 / None

5) Garrison Corporation has the following transactions:
1. Dividends are paid to the shareholders.
2. A utility bill for July is paid in August.
3. A new warehouse facility is purchased with cash.
4. Principal payments on outstanding debt are paid.
5. Employee wages are paid.
6. Forty-five units of inventory are sold for $100 each.
7. Common stock is issued for $230,000 in cash.
8. A delivery van used for 5-years is sold for $12,000, which is its book value.

Which of the above transaction(s) are examples of financing activities?
A) 1, 4, 7
B) 1, 7, 8
C) 3, 8
D) 1, 3, 4, 7, 8

Answer: A
Diff: Medium
Learning Objective: 2.3; 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 5 / None

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6) Garrison Corporation has the following transactions:
1. Dividends are paid to the shareholders.
2. A utility bill for July is paid in August.
3. A new warehouse facility is purchased with cash.
4. Principal payments on outstanding debt are paid.
5. Employee wages are paid.
6. Forty-five units of inventory are sold for $100 each.
7. Common stock is issued for $230,000 in cash.
8. A delivery van used for 5-years is sold for $12,000, which is its book value.

Which of the above transaction(s) are examples of investing activities?
A) 3, 4, 7, 8
B) 1, 4, 7
C) 4, 7
D) 3, 8

Answer: D
Diff: Medium
Learning Objective: 2.3; 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 6 / None

7) Garrison Corporation has the following transactions:
1. Dividends are paid to the shareholders.
2. A utility bill for July is paid in August.
3. A new warehouse facility is purchased for cash.
4. Principal payments on outstanding debt are paid.
5. Employee wages are paid.
6. Forty-five units of inventory are sold for $100 each.
7. Common stock is issued for $230,000 in cash.
8. A delivery van used for 5-years is sold for $12,000, which is its book value.

Which of the above transaction(s) are examples of operating activities?
A) 2, 3, 5
B) 5, 6, 8
C) 2, 3, 5, 6, 8
D) 2, 5, 6

Answer: D
Diff: Medium
Learning Objective: 2.3; 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 7 / None

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8) Current assets include:
A) all assets except inventory.
B) all assets that provide benefits extending beyond one year.
C) cash, accounts receivable, and buildings.
D) all assets expected to be converted to cash in the near future.

Answer: D
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 8 / None

9) Intangible assets include:
A) goodwill, patents, copyrights, and trademarks.
B) property, plant, and equipment.
C) all assets except current assets.
D) assets that an owner can purchase with cash only.

Answer: A
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 9 / None

10) Long-term investments can include all of the following except:
A) notes receivable maturing in nine months.
B) equity securities of another company to be held for more than a year.
C) ten-year debt securities issued by another company.
D) land to be held beyond one year.

Answer: A
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 10 / None

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11) Which one of the following is an asset?
A) The cost of a patent covering a formula for reverse osmosis.
B) Retained earnings.
C) Notes payable.
D) Accounts payable.

Answer: A
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 11 / None

12) Which one of the following groups of accounts contains only assets?
A) Equipment, patents, accounts receivable.
B) Accounts receivable, building, retained earnings.
C) Accounts payable, notes payable, contributed capital.
D) Retained earnings, goodwill, and accounts payable.

Answer: A
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 12 / None

13) Which one of the following groups of accounts contains only assets?
A) Contributed capital, retained earnings, revenues.
B) Cash, contributed capital, retained earnings.
C) Prepaid expenses, land, accounts receivable.
D) Building, equipment, depreciation expense.

Answer: C
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 13 / None

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14) Which one of the following is a liability?
A) Interest receivable.
B) Contributed capital.
C) Retained earnings.
D) Wages payable.

Answer: D
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 14 / None

15) Which one of the following groups of accounts contains only current assets?
A) Inventory, accounts receivable, equipment.
B) Cash, equipment, copyrights.
C) Cash, accounts receivable, merchandise inventory.
D) Patents, copyrights, and trademarks.

Answer: C
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 15 / None

16) Which one of the following creates a decrease in retained earnings?
A) Prepaid assets.
B) Equipment.
C) Dividends.
D) Merchandise inventory not sold.

Answer: C
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 16 / None

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17) Which account is associated with the sale of inventory?
A) Cost of goods sold.
B) Short-term investments.
C) Wages payable.
D) Equipment.

Answer: A
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 17 / None

18) Which account is associated with borrowing money?
A) Interest expense.
B) Goodwill.
C) Cost of goods sold.
D) Depreciation.

Answer: A
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 18 / None

19) Which expense is associated with long-term assets?
A) Wage expense.
B) Depreciation expense.
C) Cost of goods sold.
D) Interest expense.

Answer: B
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 19 / None

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20) Which expense is associated with the use of patents?
A) Interest expense.
B) Amortization expense.
C) Cost of goods sold.
D) Depreciation expense.

Answer: B
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 20 / None

21) The major accounting difference between interest expense and dividends is that interest expense:
A) decreases retained earnings and dividends increase retained earnings.
B) impacts cash flows, while dividends do not.
C) does not appear on the income statement while dividends do.
D) appears on the income statement while dividends do not.

Answer: D
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 21 / None

22) Which one of the following equations represents retained earnings activity for a year?
A) Beginning balance + expenses - dividends = ending balance.
B) Beginning balance + cash receipts - cash payments = ending balance.
C) Beginning balance + dividends - net income = ending balance.
D) Beginning balance + net income - dividends = ending balance.

Answer: D
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 22 / None

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23) Which one of the following appears on the income statement?
A) Inventory
B) Retained earnings
C) Dividends
D) Interest revenue

Answer: D
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 23 / None

24) Which one of the following groups of accounts contains only liabilities?
A) Accounts payable, retained earnings, notes payable.
B) Supplies expense, cost of goods sold, interest expense.
C) Wages payable, mortgage payable, taxes payable.
D) Contributed capital, accounts payable, retained earnings.

Answer: C
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 24 / None

25) Smith Corp. earned $300,000 net income during 2020. On which financial statement(s) will the exact dollar amount of the net income be clearly stated?
A) Statement of shareholders' equity and income statement.
B) Income statement only.
C) Balance sheet and income statement.
D) Statement of shareholders' equity, income statement, and the balance sheet.

Answer: A
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 25 / None

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26) On which financial statements will you find a company's financial position at a specific point in time?
A) Statement of cash flows.
B) Income statement and balance sheet.
C) Balance sheet and statement of shareholders' equity.
D) Balance sheet only.

Answer: D
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 26 / None

27) Why are liabilities separated into current and long-term?
A) To provide users with a sense of which liabilities will have to be paid off in the near term.
B) Because current and long-term classifications relate to future revenue generation.
C) This format helps a company determine how much profit was made.
D) The American Institute of CPAs requires companies to do so.

Answer: A
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 27 / None

28) Which one of the following statements is true?
A) A company's own stock is its most liquid asset.
B) Profits are recorded as retained earnings until distributed as dividends.
C) Long-term investments will be used to pay off current liabilities.
D) Current assets have no physical substance.

Answer: B
Diff: Medium
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 28 / None

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29) Cash reported on a company's balance sheet represents:
A) the profit a company made during the current year.
B) the dollar amount remaining after all liabilities have been paid off.
C) the amount collected from customers during the current year less the amount paid for expenses.
D) the currency a company has access to at the balance sheet date.

Answer: D
Diff: Medium
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 29 / None

30) The amount a company expects to collect from its customers is:
A) accounts receivable.
B) short-term equity securities.
C) inventory.
D) accounts payable.

Answer: A
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 30 / None

31) As used in accounting, "notes" may be reported:
A) only as company debt offerings.
B) only as assets on the balance sheet.
C) as either assets or liabilities.
D) on the income statement or the balance sheet.

Answer: C
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 31 / None

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32) Property, plant and equipment may include which of the following?
A) Intangible assets and land.
B) Inventory and equipment.
C) Buildings and cash.
D) Land and office buildings.

Answer: D
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 32 / None

33) On the balance sheet, a company should report the cost of intangible assets:
A) in the current assets section.
B) as an amount owed to shareholders.
C) after adjusting it for increases in the market value of the intangible assets.
D) at acquired cost less any accumulated amortization.

Answer: D
Diff: Medium
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 33 / None

34) The most common revenue account is:
A) cash.
B) sales.
C) shareholders' equity.
D) liabilities.

Answer: B
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 34 / None

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35) Most investors believe that the statement of cash flows is:
A) a useful source of information regarding the cash inflows and outflows of an entity.
B) a statement of the financial position of the company at a point in time.
C) a direct measure of the company's earning power.
D) a useful measure of a company's profit.

Answer: A
Diff: Medium
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 35 / None

36) The amount reported on a company's balance sheet as retained earnings is the same as the amount reported on the company's:
A) income statement as net income.
B) statement of shareholders' equity as beginning retained earnings.
C) statement of cash flows as cash received from operating activities.
D) statement of shareholders' equity as ending retained earnings.

Answer: D
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 36 / None

37) Which one of the following is not an asset?
A) A company's investment in the common stock of another company.
B) The cost of a company's trademarked name for a process.
C) Retained earnings.
D) Notes receivable.

Answer: C
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 37 / None

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38) Baron Company has six major headings in its income statement, which include Sales, Fees Earned, Other Revenues, Cost of Goods Sold, Operating Expenses, and Other Expenses. Below are some of the income statement accounts for Baron:

1. Sales of inventories
2. Depreciation expense
3. Income from interest on savings account
4. Income from dividends on investments
5. Advertising expense.
6. Loss on sale of building
7. Salespeople commission expense
8. Office salary expense
9. Gain on sale of short-term investments
10. Sales of services provided
11. Cost of sold inventories
12. Interest

Which of these would be found under the heading "Other Revenues"?
A) 1, 10
B) 1, 3, 4
C) 3, 4, 10
D) 3, 4, 9

Answer: D
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 38 / None

Financial Accounting 11th edition Pratt Test Bank

39) Baron Company has six major headings in its income statement, which include Sales, Fees Earned, Other Revenues, Cost of Goods Sold, Operating Expenses, and Other Expenses. Below are some of the income statement accounts for Baron:

1. Sales of inventories
2. Depreciation expense
3. Income from interest on savings account
4. Income from interest on investments
5. Advertising expense.
6. Loss on sale of building
7. Salespeople commission expense
8. Insurance expense
9. Gain on sale of short-term investments
10. Sales of services provided
11. Cost of sold inventories
12. Interest expense on outstanding loans

Which of these would be found under the heading "Operating Expenses"?
A) 2, 8, 12
B) 2, 7, 8, 12
C) 2, 5, 7, 8, 11
D) 2, 5, 11

Answer: C
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 39 / None

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40) Hsu Company has eight major section headings in its balance sheet, which include Current Assets, Long-Term Investments, Property, Plant, and Equipment, Intangible Assets, Current Liabilities, Long-Term Liabilities, and Shareholders' Equity. Below are some of the balance sheet accounts for Hsu:

1. Dividends Payable
2. Prepaid Rent
3. Trademarks
4. Bonds Payable
5. Investment Funds for Plant Expansion
6. Inventories
7. Wages Payable
8. Deferred Revenues
9. Accumulated Depreciation - Building
10. Accounts Receivable
11. Accounts Payable

Which of these would be found under the heading "Current Assets"?
A) 2, 10
B) 2, 6, 8, 10
C) 2, 6, 10
D) 2, 5, 10

Answer: C
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 40 / None

Financial Accounting 11th edition Pratt Test Bank

41) Hsu Company has eight major section headings in its balance sheet, which include Current Assets, Long-Term Investments, Property, Plant, and Equipment, Intangible Assets, Current Liabilities, Long-Term Liabilities, and Shareholders' Equity. Below are some of the balance sheet accounts for Hsu:

1. Dividends Payable
2. Prepaid Rent
3. Trademarks
4. Bonds Payable
5. Investment Funds for Plant Expansion
6. Inventories
7. Wages Payable
8. Deferred Revenues
9. Accumulated Depreciation - Building
10. Accounts Receivable
11. Accounts Payable

Which of these would be found under the heading "Property, Plant, and Equipment"?
A) 5, 9
B) 5, 6, 9
C) 3, 5, 6, 9
D) 9

Answer: D
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 41 / None

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42) The information below was taken from the 2021 annual report of Jena Corporation.

	2021	2020	2019
Beginning cash balance	$12,000	$?	$5,000
Net cash flow from operating activities	7,987	?	9,100
Net cash flow from investing activities	2,450	4,330	?
Net cash flow from financing activities	?	(9,612)	(7,500)
Ending cash balance	$11,000	$?	$12,500

Which of the following is the missing amount for the net cash flow from investing activities for 2019?
A) $5,900
B) $10,900
C) $15,000
D) $4,450

Answer: A
Explanation: $12,500 + $7,500 - $9,100 - $5,000 = $5,900
Diff: Medium
Learning Objective: 2.3; 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 42 / None

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43) The information below was taken from the 2021 annual report of Jena Corp.

	2021	2020	2019
Beginning cash balance	$12,000	$?	$ 5,000
Net cash flow from operating activities	7,987	?	9,100
Net cash flow from investing activities	2,450	4,330	?
Net cash flow from financing activities	?	(9,612)	(7,500)
Ending cash balance	$11,000	$?	$12,500

Which of the following is the missing amount for the beginning cash balance for 2020?
A) $5,925
B) $8,741
C) $12,500
D) $5,282

Answer: C
Explanation: 2020 beg. cash balance = 2019 ending cash bal.
Diff: Medium
Learning Objective: 2.3; 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 43 / None

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44) The information below was taken from the 2018 annual report of Jena Corp.

	2021	2020	2019
Beginning cash balance	$12,000	$?	$5,000
Net cash flow from operating activities	7,987	?	9,100
Net cash flow from investing activities	2,450	4,330	?
Net cash flow from financing activities	?	(9,612)	(7,500)
Ending cash balance	$11,000	$?	$12,500

Which of the following is the missing amount for the net cash flow from operating activities for 2020?
A) $8,110
B) $4,782
C) $8,475
D) $3,874

Answer: B
Explanation: $12,000 + $9,612 - $4,330 - $12,500 = $4,782
Diff: Medium
Learning Objective: 2.3; 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 44 / None

Financial Accounting 11th edition Pratt Test Bank

45) The information below was taken from the 2021 annual report of Jena Corp.

	2021	2020	2019
Beginning cash balance	$12,000	$?	$ 5,000
Net cash flow from operating activities	7,987	?	9,100
Net cash flow from investing activities	2,450	4,330	?
Net cash flow from financing activities	?	(9,612)	(7,500)
Ending cash balance	$11,000	$?	$12,500

Which of the following is the missing amount for the ending cash balance for 2020?
A) $2,759
B) $7,158
C) $12,703
D) $12,000

Answer: D
Explanation: End. 2020 cash balance = Beg. 2019 Cash balance
Diff: Medium
Learning Objective: 2.3; 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 45 / None

Financial Accounting 11th edition Pratt Test Bank

46) The information below was taken from the 2021 annual report of Jena Corp.

	2021	2020	2019
Beginning cash balance	$12,000	$?	$ 5,000
Net cash flow from operating activities	7,987	?	9,100
Net cash flow from investing activities	2,450	4,330	?
Net cash flow from financing activities	?	(9,612)	(7,500)
Ending cash balance	$11,000	$?	$12,500

Which of the following is the missing amount for the net cash flow from financing activities for 2021?
A) ($22,437)
B) ($11,437)
C) ($563)
D) ($14,450)

Answer: B
Explanation: $12,000 + $7,987 + $2,450 - $11,000 = $11,437
Diff: Medium
Learning Objective: 2.3; 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 46 / None

47) At the end of 2020, Campbell Company has total assets and liabilities at $42,000 and $11,000, respectively. Campbell reported net income for 2021 in the amount of $12,000. How much is shareholders' equity at the end of 2021?
A) $30,000
B) $22,000
C) $31,000
D) $43,000

Answer: D
Explanation: $42,000 − $11,000 + $12,000 = $43,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 47 / None

Financial Accounting 11th edition Pratt Test Bank

48) Desert Company has retained earnings of $11,000, total assets totaling $41,000, and total liabilities of $20,000. How much is total shareholders' equity?
A) $8,000
B) $19,000
C) $21,000
D) $27,000

Answer: C
Explanation: $41,000 − $20,000 = $21,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 48 / None

49) Valley Company has cash, current liabilities, and long-term liabilities of $120,000, $30,000, and $31,000, respectively. Valley has no current assets other than cash. How much cash can Valley use to acquire equipment so that amount of current assets is double the amount of current liabilities?
A) $30,000
B) $60,000
C) $15,000
D) $90,000

Answer: B
Explanation: $120,000 − [2 × $30,000] = $60,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 49 / None

Financial Accounting 11th edition Pratt Test Bank

50) Favre Company has current assets, shareholders' equity, current liabilities, and long-term liabilities of $20,000, $54,000, $8,000, and $16,000, respectively. How much are long-term assets?
A) $24,000
B) $58,000
C) $64,000
D) $92,000

Answer: B
Explanation: $20,000 + LTA = $8,000 + $16,000 + $54,000
LTA = $58,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 50 / None

51) If the beginning and ending balances in retained earnings are $15,000 and $10,000, respectively, and dividends during the year are $8,000, then net income for the year is:
A) $10,000.
B) $3,000.
C) $18,000.
D) $32,000.

Answer: B
Explanation: $15,000 + NI − $8,000 = $10,000
NI = $3,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 51 / None

Financial Accounting 11th edition Pratt Test Bank

52) Kelly Company has total assets, liabilities, and shareholders' equity of $32,000, $17,000, and $15,000, respectively at the beginning of 2021. If Kelly reports revenues of $130,000, expenses of $80,000, and pays dividends of $30,000, how much is shareholders' equity at the end of 2021?
A) $35,000
B) $53,000
C) $44,000
D) Not enough information to determine.

Answer: A
Explanation: $15,000 + [$130,000 − $80,000] − $30,000 = $35,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 52 / None

53) Sanchez Corporation has total assets, current liabilities, and long-term liabilities of $40,000, $2,000, and $13,000, respectively. If Sanchez purchases equipment for $5,000 for cash, how much would shareholders' equity be?
A) $25,000
B) $10,000
C) $29,000
D) $11,000

Answer: A
Explanation: $40,000 − $2,000 − $13,000 + $5,000 − $5,000 = $25,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 53 / None

Financial Accounting 11th edition Pratt Test Bank

54) Below are several accounts from Norel Company's accounting records.

Total assets, end of year	$115,000
Total liabilities, end of year	36,000
Contributed capital, end of year	12,000
Retained earnings, beginning of year	23,000
Dividends for the period	31,000
Net income	75,000

The amount of retained earnings at the end of the year is:
A) $39,000.
B) $45,000.
C) $67,000.
D) $69,000.

Answer: C
Explanation: $23,000 + $75,000 − $31,000 = $67,000
or $115,000 − $36,000 − $12,000 = $67,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 54 / None

Financial Accounting 11th edition Pratt Test Bank

55) Given below are several accounts from Caterpillar Company's accounting records.

Cash	$ 15,000
Accumulated depreciation	7,000
Retained earnings, beginning of year	22,000
Contributed capital	25,000
Patents	2,000
Dividends	5,000

Net income for the year was $40,000. How much is total shareholders' equity at the end of the year?
A) $86,000
B) $88,000
C) $87,000
D) $82,000

Answer: D
Explanation: $22,000 + $25,000 - $5,000 + $40,000 = $82,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 55 / None

56) Seuss Company determined its total sales were $500,000, salaries expense was $210,000, dividends paid were $15,000, rent expense was $25,000, other operating expenses were $13,000, and customers still owed $4,000 at the end of the year. How much is net income for the year?
A) $267,000
B) $252,000
C) $263,000
D) $530,000

Answer: B
Explanation: $500,000 - $210,000 - $25,000 - $13,000 = $252,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 56 / None

Financial Accounting 11th edition Pratt Test Bank

57) A partnership and a corporation differ in that:
A) a partnership is a legal entity, while a corporation is not.
B) the equity sections of partnership and corporation balance sheets report different items.
C) partnerships always have more cash than corporations.
D) a corporation has an income statement and a partnership does not.

Answer: B
Diff: Hard
Learning Objective: 2.2A
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Multiple Choice Question 57 / None

Matching Questions

58) For each statement listed in 1 through 5 below, state whether it is correct or not by writing 'Yes' or 'No' in the space provided.

_____ 1. Property differs from plant and equipment in that property has no physical substance, while plant and equipment does.
_____ 2. Current assets of major retailers, such as Walmart, are normally quite large relative to total assets because of merchandise inventory.
_____ 3. Goodwill is common on many major U.S. companies' balance sheets because of the numerous mergers and acquisitions that occur.
_____ 4. Yard Mart Company owes $4,700. If Yard Mart intends to use assets listed in the current asset section of the balance sheet to pay off this debt next year, it must report the $4,700 in the current liability section of its current year balance sheet.
_____ 5. Haloid, Inc. issued common stock for cash. This is an investing activity.

Answer:
1. No
2. Yes
3. Yes
4. Yes
5. No

Diff: Medium
Learning Objective: 2.3; 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 3 min.
Title/Media Ref.: Matching Question 1 / None

Financial Accounting 11th edition Pratt Test Bank

59) For each item numbered 1 through 6 below, identify which accounting element(s) listed in A through H are described by each item. You may use each letter more than once or not at all.

Accounting Elements

A. Assets	E. Revenues
B. Liabilities	F. Expenses
C. Contributed capital	G. Net income
D. Retained earnings	H. Dividends

_____ 1. Total past earnings not distributed to the owners
_____ 2. Inflow of assets from the sale of goods or the provision of services
_____ 3. Obligations which must be met at some future date
_____ 4. That which will be used to generate future economic benefits
_____ 5. The net growth during a period of time measured as revenues less expenses
_____ 6. Amount invested by equity investors

Answer:
1. D
2. E
3. B
4. A
5. G
6. C

Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Matching Question 2 / None

Financial Accounting 11th edition Pratt Test Bank

60) For each financial statement item listed in 1 through 5 below, identify the best description by selecting from items a through f below. You may use each letter more than once or not at all. Write the letter 'X' for each item for which no description is listed.

_____ 1. Current liability
_____ 2. The property part of property, plant, and equipment
_____ 3. Retained earnings
_____ 4. Contributed capital
_____ 5. Current asset

Descriptions
a. Amount of net income or loss less distributions to the owners of the company
b. Must be settled within one year
c. Converted to cash within one year
d. Amount of owners' direct investment in the entity
e. Portion of equity that is reduced by dividends
f. Land used as a site for production

Answer:
1. b
2. f
3. a, e
4. d
5. c
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Matching Question 3 / None

Financial Accounting 11th edition Pratt Test Bank

61) For items 1 through 3, select the appropriate section of the balance sheet in which the item would be reported.

Sections
A Long-term Investments
B Property, Plant, & Equipment
C Current Liabilities
D Long-term Liabilities
E Shareholders' Equity

Section	Balance Sheet Item
_____	1. Amounts owed for purchasing inventory from creditors (due next month).
_____	2. Cumulative profits retained by the company since operations began.
_____	3. Cost of a building expected to be used by the company for ten more years.

Answer:
1. C
2. E
3. B
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Matching Question 4 / None

Financial Accounting 11th edition Pratt Test Bank

62) For each financial statement item listed in 1 through 5 below, identify in which balance sheet category (listed in a through h) it should be reported. You may use each letter more than once or not at all.

Financial Statement Categories
a. Current assets
b. Long-term investments
c. Property, plant, and equipment
d. Intangible assets
e. Current liabilities
f. Long-term liabilities
g. Shareholders' equity
h. Not reported on the balance sheet

_____ 1. Contributed capital
_____ 2. Prepaid insurance
_____ 3. Accounts payable
_____ 4. Sales revenue
_____ 5. Vehicles used in the business

Answer:
1. g
2. a
3. e
4. h
5. c
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Matching Question 5 / None

Financial Accounting 11th edition Pratt Test Bank

63) For each statement listed in 1 through 5 below, state whether it is correct or not by writing 'Yes' or 'No' in the space provided.

_____ 1. Financing activities involve the sale of goods and services of a business.
_____ 2. The income statement is often referred to as a statement of financial condition.
_____ 3. The most liquid of all assets is cash.
_____ 4. The asset sections found on a classified balance sheet include current assets, current liabilities, and owners' equity.
_____ 5. Dividends payable, Inventories, Contributed capital, and Accumulated Depreciation all appear on a company's balance sheet.

Answer:
1. No
2. No
3. Yes
4. No
5. Yes
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 3 min.
Title/Media Ref.: Matching Question 6 / None

Financial Accounting 11th edition Pratt Test Bank

64) For each financial statement item listed in 1 through 7 below, identify in which balance sheet category (listed in a through h) it should be reported. You may use each letter more than once or not at all.

Financial Statement Categories

a. Current assets
b. Long-term investments
c. Property, plant, and equipment
d. Intangible assets
e. Current liabilities
f. Long-term liabilities
g. Shareholders' equity
h. Not reported on the balance sheet

_____ 1. Accumulated depreciation
_____ 2. Accounts receivable
_____ 3. Trademarks
_____ 4. Investment in bonds
_____ 5. Retained earnings
_____ 6. Short-term investments
_____ 7. Prepaid insurance

Answer:
1. c
2. a
3. d
4. b
5. g
6. a
7. a

Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 3 min.
Title/Media Ref.: Matching Question 7 / None

Financial Accounting 11th edition Pratt Test Bank

Short Problems

65) Given below are several accounts from Kramer Company's accounting records.

Cash	$12,500
Accumulated depreciation	8,000
Retained earnings, beginning of year	17,000
Contributed capital	14,000
Patents	3,000
Dividends	3,000

Net income for the year was $30,000. How much is total shareholders' equity at the end of the year?

Answer: $14,000 + $17,000 - $3,000 + $30,000 = $58,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Short Problem 1 / None

Financial Accounting 11th edition Pratt Test Bank

66) Below are several amounts from Netcom Company's accounting records. Answer the questions that follow.

Total assets, end of year	$190,000
Total liabilities, end of year	88,000
Contributed capital, end of year	20,000
Retained earnings, beginning of year	65,000
Dividends for the period	15,000
Net income	32,000

A. Calculate the amount of retained earnings at the end of the year.
B. If revenue amounts to $200,000, how much is 'total expenses'?
C. How do you know the company has been generally profitable since it began operations?

Answer:
A. $65,000 + $32,000 - $15,000 = $82,000
B. $200,000 - x = $32,000
Expenses = x = $168,000
C. Retained earnings, which represents the total profits since the company began operations, less all amounts distributed as dividends, has a positive balance.
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Measurement
TOT: 5 min.
Title/Media Ref.: Short Problem 2 / None

Financial Accounting 11th edition Pratt Test Bank

67) Following are several items from Arbor Company's financial statements. Use this information to calculate the amounts for the questions that follow.

Cost of goods sold	$2,400
Sales revenue	8,600
Operating expenses	500
Income taxes	600
Dividends	400
Accounts receivable	800

A. Calculate the dollar amount of net income.
B. How much is inventory expense?
C. Was the company profitable during the current year? How do you know?

Answer:
A. $8,600 - $2,400 - $500 - $600 = $5,100
(Sal. rev. - COGS - Op. exp. - Inc. tax)
B. $2,400. Inventory expense is one way to describe cost of goods sold.
C. Yes. The amount of expenses is less than the amount of revenue.
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Measurement
TOT: 4 min.
Title/Media Ref.: Short Problem 3 / None

Financial Accounting 11th edition Pratt Test Bank

68) At the beginning of 2018, Kristol Company sold stock and began operations. Information from Kristol's accounting records for the year ending December 31, 2018, follows:

Sales	$490,000
Selling expenses	220,000
Cost of goods sold	190,000
Dividends	100,000
General and administrative expenses	50,000
Contributed capital	60,000

A. Circle the names of any accounts above that would **not** be reported on the income statement.
B. Determine the amount of net income.

Answer:
A. Circled accounts should be: Dividends and Contributed Capital
B. $490,000 - $220,000 - $190,000 - $50,000 = $30,000
(Sales - selling exp. - Cogs - General and administrative exp.)
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 4 min.
Title/Media Ref.: Short Problem 4 / None

Financial Accounting 11th edition Pratt Test Bank

69) The following are account balances of Phineas Company on 12/31/21.

Accounts payable	$ 2,000
Accounts receivable	7,000
Buildings and equipment	54,000
Contributed capital	20,000
Bonds payable	15,300
Cash	8,800
Retained earnings	17,000
Accumulated depreciation	(24,000)
Inventory	5,500
Patents	3,000

Prepare a classified balance sheet for Phineas Company on December 31, 2021.

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Answer:

Phineas Company
Classified Balance Sheet
December 31, 2021

Assets		
Current assets:		
Cash	$ 8,800	
Accounts receivable	7,000	
Inventory	5,500	
Total current assets		$21,300
Property, plant, and equipment:		
Buildings and equipment	$54,000	
Less: Accumulated depreciation	24,000	
Total property, plant, and equipment		30,000
Intangible assets:		
Patents		3,000
Total assets		$54,300
Liabilities & Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 2,000	
Total current liabilities		$ 2,000
Long-term liabilities:		
Bonds payable		15,300
Total long-term liabilities		15,300
Shareholders' equity:		
Contributed capital	$20,000	
Retained earnings	17,000	
Total shareholders' equity		37,000
Total liabilities & shareholders' equity		$54,300

Diff: Hard
Learning Objective: 2.4
Bloom's: Application
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 10 min.
Title/Media Ref.: Short Problem 5 / None

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70) The following is the balance sheet of Able Corporation immediately prior to deciding how to finance the purchase of a $300 addition to its building.

Able Corporation
Balance Sheet
December 31, 2021

Assets	
Cash	$ 310
Accounts receivable	260
Building	380
Land	370
Total assets	$1,320
Liabilities and Shareholders' Equity	
Accounts payable	$ 190
Long-term bonds payable	620
Contributed capital	340
Retained earnings	170
Total liabilities & shareholders' equity	$1,320

The bonds payable contract agreement requires current assets to be twice as much as current liabilities. Assume the $300 addition to the building is to be paid in cash without violating the debt covenant and any additional cash necessary for the addition will be financed by issuing more stock. Calculate and explain the maximum cash that Able can pay and still honor its debt agreement.

Answer: Able's current liabilities are $190. Under the bond agreement, its current assets must be at least $380 (2 × $190). Assuming no cash is collected from the outstanding accounts receivable or paid on the accounts payable, if Almond used $190 of its cash balance to purchase the building addition, then it would have the $380 of current assets and meet the requirements of the debt covenant. Therefore, Able can pay $190 of its cash balance and issue stock for the additional $110 necessary to finance the building project.
Diff: Hard
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Measurement, Decision modeling
TOT: 8 min.
Title/Media Ref.: Short Problem 6 / None

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Use the information that follows concerning Ulrich Computer for the year ending December 31, 2021 for the problems below.

Several accounts and amounts from the financial statements of Ulrich Computer appear below for the year ending December 31, 2021.

Cash	$ 11,000
Sales Revenue	140,000
Notes Receivable, 6-month	90,000
Cost of goods sold	60,000
Taxes Payable	31,000
Salaries Expense	8,000
Accounts Receivable	34,000
Dividends	42,000
Equipment	150,000
Accounts Payable	8,000
Contributed Capital	30,000
Retained Earnings	40,000
Rent and Utilities Expense	4,000
Income Tax Expense	20,000
Inventory	21,000

71) What is the total amount owed to Ulrich by its customers at the end of 2021?

Answer: $34,000
Diff: Easy
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 1 min.
Title/Media Ref.: Short Problem 7 / None

72) Calculate total expenses for Ulrich.

Answer: $60,000 + $8,000 + $4,000 + $20,000 = $92,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 3 min.
Title/Media Ref.: Short Problem 8 / None

Financial Accounting 11th edition Pratt Test Bank

73) Calculate Ulrich's total current assets.

Answer: $11,000 + $34,000 + $90,000 + $21,000 = $156,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 3 min.
Title/Media Ref.: Short Problem 9 / None

74) How much must Ulrich pay out during its next accounting period for amounts owed?

Answer: $8,000 + $31,000 = $39,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Short Problem 10 / None

75) Below is all of the account information from Chamber Company's balance sheet, with the exception of Retained Earnings.

Cash	$13,000
Inventory	16,000
Equipment	51,000
Current liabilities	17,000
Long-term liabilities payable	10,000
Contributed capital	30,000

Using this information, please calculate the following:
A. The total amount of retained earnings for Chamber Company.
B. The total amount of shareholders' equity for the company at the end in the year.

Answer:
A. ($13,000 + $16,000 + $51,000) - $17,000 - $10,000 - $30,000 = $23,000
B. $30,000 + $23,000 = $53,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 8 min.
Title/Media Ref.: Short Problem 11 / None

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76) The following information is shown on Morris Company's balance sheet. Answer the questions that follow.

Cash	$12,000
Inventory	15,000
Equipment	80,000
Accounts Payable	15,000
Bonds Payable	45,000
Contributed capital	30,000

A. How much did debt investors provide to Morris Company?
B. What is the amount of direct investment provided by equity investors to Morris Company?
C. How much would be classified as property, plant, and equipment?

Answer:
A. $45,000
B. $30,000
C. $80,000
Diff: Easy
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Short Problem 12 / None

77) Autry Company determined its total sales were $400,000, salaries expense was $110,000, dividends paid were $8,000, rent expense was $14,000, other operating expenses were $20,000, and customers still owed $2,000 at the end of the year. How much is net income for the year?

Answer: $400,000 - $110,000 - $14,000 - $20,000 = $256,000
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Short Problem 13 / None

78) If cash inflows from operating activities were $2,000, cash inflows for financing activities were $2,500, and the net increase in cash was $4,000, how much are cash flows from investing activities?

Answer: $2,500 + $2,000 - $4,000 = $500 Cash Outflow
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Short Problem 14 / None

Financial Accounting 11th edition Pratt Test Bank

79) The following is the balance sheet of Columbus Corporation immediately prior to deciding how to finance the purchase of an additional $210,000 parcel of land. Answer the question that follows.

Columbus Corporation
Balance Sheet
December 31, 2021

Assets	
Cash	$ 180,000
Accounts receivable	60,000
Land	270,000
Total assets	$510,000
Liabilities and Shareholders' Equity	
Accounts payable	$ 90,000
Contributed capital	250,000
Retained earnings	170,000
Total liabilities & shareholders' equity	$510,000

REQUIRED: Columbus plans to finance the $210,000 investment in land by either issuing long-term debt or issuing common stock. Identify the major tradeoffs involved in this decision.

Answer: Issuing debt would increase the company's reliance on debt considerably and lock the company into required cash interest and principal payments in the future. If, however, the investment in land helps the company to increase profits by more than the costs of interest, financing with debt could make sense. Issuing equity to finance the purchase, on the other hand, would avoid the interest costs and the requirement to pay it back, but it would increase the investment in the company provided by the shareholders, who would be expecting a reasonable return on that additional investment in terms of future profits. In both cases, the company is placing itself in a riskier position that puts pressure on the wise use of the additional funds to increase future profits.
Diff: Hard
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic; Communication; Reflective / BB: Critical Thinking; FN: Measurement, Decision modeling
TOT: 8 min.
Title/Media Ref.: Short Problem 15 / None

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80) The following information was taken from the 2019 financial statements of Target, the well-known retail company (dollars in millions).

	2019	2018
Income statement:		
Net income	$ 3,281	$ 2,927
Balance sheet:		
Total assets	42,779	41,290
Total liabilities	30,946	29,993
Shareholders' equity	11,833	11,297
Statement of cash flows:		
Net cash from operating activities	7,117	5,973
Net cash from investing activities	(2,944)	(3,416)
Net cash from financing activities	(3,152)	(3,644)

REQUIRED: Answer the following 5 fundamental questions about Target's financial performance.

1. How profitable has Target been over the past two years?
2. How large an investment in assets was required to make those profits in 2019 and what level of return to the shareholders did Target provide on that investment?
3. How were the assets financed in 2018 and 2019?
4. How much cash did Target generate during 2019 and what did Target management do with it?
5. What happened to the investment made by the shareholders during 2019 and how large a return did Target create for the shareholders on that investment in 2019?

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Answer: (dollars in millions):
1. Target seemed fairly profitable during both 2019 and 2018, earning $3,281 and $2,927 in profits in 2019 and 2018, respectively. Profits also increased from 2018 to 2019.
2. Target required an asset investment of $42,779 and $41,290 in 2019 and 2018, respectively, to generate those profits. The return on assert investment for 2019 was 7.8% = $3,281 / (($42,779 + $41,290)/2).
3. In 2019 the $42,779 ending asset investment was financed by $30,946 (72.3%) from liabilities and $11,833 (27.7%) from equity; and in 2018 the $41,290 ending asset investment was financed by $29,993 (72.6%) from liabilities and $11,297 (27.4%) from equity. Thus, Target's reliance on liabilities to finance its assets increased slightly from 2018 to 2019.
4. In 2019 Target generated $7,117 in cash from operating activities, of that amount $2,944 was invested to help generate future profits, $3,152 was paid to its capital providers (debt and equity investors), and the remainder ($1,021) boosted its 2019 cash balance.
5. The shareholders' investment in Target (shareholders' equity) increased by $536 from $11,297 to $11,833. The return on the shareholders' investment during 2019 was 28.4% = $3,281 / (($11,833 + $11,297)/2).
Diff: Hard
Learning Objective: 2.5
Bloom's: Analysis
AACSB/AICPA: Analytic; Communication; Reflective / BB: Critical Thinking; FN: Measurement, Decision modeling
TOT: 30 min.
Title/Media Ref.: Short Problem 16 / None

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81) The following information was taken from the 2019 financial statements of Amazon, the huge and fast-growing U.S. company that provides a variety of services. (dollars in millions).

	2019	2018
Income statement:		
Net income	$ 11,588	$ 10,073
Balance sheet:		
Total assets	225,248	162,648
Total liabilities	163,188	119,099
Shareholders' equity	62,060	43,549
Statement of cash flows:		
Net cash from operating activities	38,514	30,723
Net cash from investing activities	(24,281)	(12,369)
Net cash from financing activities	(10,066)	(7,686)

REQUIRED: Answer the following 5 fundamental questions about Amazon's financial performance.

1. How profitable has Amazon been over the past two years?
2. How large an investment in assets was required to make those profits in 2019 and what level of return to the shareholders did Amazon provide on that investment?
3. How were the assets financed in 2018 and 2019?
4. How much cash did Amazon generate during 2019 and what did Amazon management do with it?
5. What happened to the investment made by the shareholders during 2019 and how large a return did Amazon create for the shareholders on that investment in 2019?

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Answer: (dollars in millions):
1. Amazon seemed very profitable during both 2019 and 2018, earning $11,588 and $10,073 in profits in 2019 and 2018, respectively. Profits also increased from 2018 to 2019.
2. Amazon required an asset investment of $225,248 and $162,648 in 2019 and 2018, respectively, to generate those profits. The return on asset investment for 2019 was 6.0% = $11,588 / (($225,248 + $162,648)/2).
3. In 2019 the $225,248 ending asset investment was financed by $163,188 (72.4%) from liabilities and $62,060 (27.6%) from equity; and in 2018 the $162,648 ending asset investment was financed by $119,099 (73.2%) from liabilities and $43,549 (26.8%) from equity. Thus, Amazon's reliance on liabilities to finance its assets decreased slightly from 2018 to 2019.
4. In 2019 Amazon generated $38,514 in cash from operating activities, of that amount $24,281 was invested to help generate future profits, $10,066 was paid to its capital providers (debt and equity investors), and the remainder ($4,167) boosted its 2019 cash balance.
5. The shareholders' investment in Amazon (shareholders' equity) increased by $18,511 from $43,549 to $62,060. The return on the shareholders' investment during 2019 was 22.0% = $11,588 / (($62,060 + 43,459)/2).
Diff: Hard
Learning Objective: 2.5
Bloom's: Analysis
AACSB/AICPA: Analytic; Communication; Reflective / BB: Critical Thinking; FN: Measurement, Decision modeling
TOT: 30 min.
Title/Media Ref.: Short Problem 17 / None

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82) The following information was taken from the 2019 financial statements of PepsiCo, the soft drink and snack food company. (dollars in millions).

	2019	2018
Income statement:		
Net income	$7,353	$12,599
Balance sheet:		
Total assets	78,547	77,648
Total liabilities	63,679	63,046
Shareholders' equity	14,868	14,602
Statement of cash flows:		
Net cash from operating activities	9,949	9,415
Net cash from investing activities	(6,437)	4,564
Net cash from financing activities	(8,489)	(13,769)

REQUIRED: Answer the following 5 fundamental questions about PepsiCo's financial performance.

1. How profitable has PepsiCo been over the past two years?
2. How large an investment in assets was required to make those profits in 2019 and what level of return to the shareholders did PepsiCo provide on that investment?
3. How were the assets financed in 2018 and 2019?
4. How much cash did PepsiCo generate during 2018 and what did Amazon management do with it?
5. What happened to the investment made by the shareholders during 2019 and how large a return did PepsiCo create for the shareholders on that investment in 2019?

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Answer: (dollars in millions):
1. PepsiCo seemed profitable during both 2019 and 2018, earning $7,353 and $12,599 in profits in 2019 and 2018, respectively. However, profits decreased from 2018 to 2019 by quite a large amount.
2. PepsiCo required an asset investment of $78,547 and $77,648 in 2019 and 2018, respectively, to generate those profits. The return on asset investment for 2019 was 9.4% = $7,353 / (($78,547 + $77,648)/2).
3. In 2019 the $78,547 ending asset investment was financed by $63,679 (81.1%) from liabilities and $14,868 (18.9%) from equity; and in 2018 the $77,648 ending asset investment was financed by $63,046 (81.2%) from liabilities and $14,602 (18.8%) from equity. Thus, PepsiCo's reliance on liabilities to finance its assets increased slightly from 2018 to 2019.
4. In 2018 PepsiCo generated $9,415 in cash from operating activities, but also generated another $4,564 in cash from selling off investments — for a total of $13,769 in additional cash. Incidentally, selling off investments generates cash in the short-term, but could depress profits in the future, and PepsiCo's profits did decrease significantly from 2018 to 2019. The $13,769 in cash generated by PepsiCo was used primarily to pay $13,769 to its capital providers (debt and equity investors), and the remainder ($210) boosted its 2018 cash balance.
5. The shareholders' investment in PepsiCo (shareholders' equity) increased by $266 from $14,602 to $14,868. The return on the shareholders' investment during 2019 was 49.9% = $7,353 / (($14,868 + 14,602)/2).
Diff: Hard
Learning Objective: 2.5
Bloom's: Analysis
AACSB/AICPA: Analytic; Communication; Reflective / BB: Critical Thinking; FN: Measurement, Decision modeling
TOT: 30 min.
Title/Media Ref.: Short Problem 18 / None

Short Essay Questions

83) Describe operating activities.

Answer: Operating activities involve the sale of goods and services and the related cost of providing the goods and services. These activities produce additional capital that can be reinvested in producing assets, used to pay debt, or distributed to the owners in the form of dividends.
Diff: Easy
Learning Objective: 2.3
Bloom's: Knowledge
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Short Essay Question 1 / None

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84) For a start-up company, normally in what order are the three business activities (operating, investing and financing) conducted and why?

Answer: Financing activities typically occur first in a start-up business because a start-up business must acquire cash or other operating capital before any investments can be made, which in turn provide the resources necessary for the operating activities.
Diff: Easy
Learning Objective: 2.3
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Short Essay Question 2 / None

85) Is the income statement generally a measure of operating activity, investing activity, or financing activity?

Answer: The income statement is a measure of operating activity during a period of time.
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Measurement
TOT: 1 min.
Title/Media Ref.: Short Essay Question 3 / None

86) Which asset is more liquid, inventory or accounts receivable? Why?

Answer: Since amounts in the Accounts Receivable account represent inventory that is already sold, this account will generate cash more quickly than inventory that has not yet been sold. Therefore, accounts receivable is generally considered more liquid than inventory.
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Short Essay Question 4 / None

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87) What business activity (operations, investing or financing) does the statement of shareholders' equity measure?

Answer: The statement of shareholders' equity measures changes in 1) the contributed capital accounts, representing the value of owners' direct investments in the business, and in 2) the retained earnings account, which measures the extent to which the business reinvests its earnings. In total, it represents the financing provided by the owners, some of which, however, is created through the company's operations (net income).
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Short Essay Question 5 / None

Use the information provided from Haloid Company's accounting records to answer the questions below.

For the Years Ended December 31, 2021, and 2020

Assets	2021	2020
Cash	$ 80	$ 60
Accounts receivable	40	40
Short-term investment in property	40	60
Property, plant, and equipment	350	310
Total assets	$510	$470
Liabilities and Shareholders' Equity		
Accounts payable	$ 85	$ 90
Contributed capital	310	300
Retained earnings	115	80
Total liabilities & shareholders' equity	$510	$470

Income Statement:	
Sales revenue	$850
Expenses	800
Net Income	$ 50

88) How is it possible that Haloid reports "property" in two different places on its balance sheet?

Answer: 'Short-term investment in property' is property that Haloid owns and intends to sell in the near future. Property in 'property, plant, and equipment' is the real estate and equipment on which the activities of Haloid's business are being conducted.
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication; Reflective / BB: Critical Thinking; FN: Reporting
TOT: 5 min.
Title/Media Ref.: Short Essay Question 6 / None

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89) Comment on the following statement: "On December 31, 2021, Haloid's accounts payable exceeds its cash by $5. If Haloid needs additional money to pay its accounts payable, it can use the $115 stashed in its retained earnings".

Answer: The amount in the retained earnings account does not represent stashes of money or other tangible items. This amount simply communicates that Haloid earned and retained $115 of income in its business since it began operations. The difference between assets and liabilities is total shareholders' equity. Retained earnings is part of shareholders' equity. It represents a measure of the amount of the company's assets financed by past profits not paid out in the form of dividends. It is not cash.
Diff: Hard
Learning Objective: 2.4
Bloom's: Evaluation
AACSB/AICPA: Analytic; Communication; Reflective / BB: Critical Thinking; FN: Decision modeling
TOT: 8 min.
Title/Media Ref.: Short Essay Question 7 / None

90) Explain the concept of liquidity.

Answer: Liquidity is a representation of how close an asset is to cash. Liquid assets are expected to be converted to cash quicker than less liquid assets. Assets are listed in order of liquidity on the balance sheet, with the most liquid assets first. Since cash is the most liquid asset, it is presented as the first item in the asset section of the balance sheet.
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Measurement
TOT: 2 min.
Title/Media Ref.: Short Essay Question 8 / None

91) Give an example of a prepaid expense. Why would a company use this account?

Answer: Prepaid expenses include items such as prepaid rent, prepaid insurance, and other amounts where payment is made up front before a service is received, a right is used or a benefit from the assets is experienced.
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Short Essay Question 9 / None

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92) What type of assets are included in short-term investments?

Answer: Short-term investments include stock, bonds, and similar investments. Generally these securities are readily marketable and are intended by management to be sold within a short period of time, usually less than one year.
Diff: Medium
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Short Essay Question 10 / None

93) What is unique about the way plant and equipment appear on the balance sheet?

Answer: Plant and equipment includes the actual costs of acquiring assets such as warehouses, office buildings, equipment, machinery, vehicles, etc. In the balance sheet, total accumulated depreciation is shown as a deduction from the cost of the plant and equipment. The balance in the accumulated depreciation account represents the total cost of the plant and equipment that has been transferred to the income statement (expensed) as it represented an allocation of the cost used up that related to past accounting periods.
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 4 min.
Title/Media Ref.: Short Essay Question 11 / None

94) Explain the difference between net income and cash flow from operations.

Answer: Net income, reported on the income statement, consists of revenues less expenses that are recognized when a service is performed or an obligation is created, not necessarily when cash is received or paid. Thus, revenues and expenses relate to the creation of assets (e.g., accounts receivable) or liabilities (payables) often before or after the cash is exchanged. Cash flows from operations, reported on the statement of cash flows, include only the cash inflows and outflows.
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 4 min.
Title/Media Ref.: Short Essay Question 12 / None

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95) Why would a company use a notes receivable account?

Answer: A notes receivable account arises because companies accept notes in exchange for a sale with extended credit terms. Notes represent amounts that customers or employees have agreed to repay. Notes typically have an interest component.
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Short Essay Question 13 / None

96) What is the account, Accounts Payable, used for?

Answer: Accounts payable represents the amount of money a company expects to pay its vendors. The payables arise from the purchase of supplies from vendors/suppliers.
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Short Essay Question 14 / None

97) Describe how the amount of net income relates to the balance sheet.

Answer: The balance sheet reports an item called retained earnings that represents an accumulation of all the profits earned by the company since operations began, less all the dividends paid out to shareholders. Net income for the current period is added and dividends declared are subtracted from the beginning retained earnings amount to determine the ending balance of retained earnings, which in turn is reported on the balance sheet.
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 4 min.
Title/Media Ref.: Short Essay Question 15 / None

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98) Where in a company's financial statements would you locate the 'book value' of the company?

Answer: The dollar amount reported as total shareholders' equity represents the net book value of the company. Shareholders' equity is found on the balance sheet. To calculate the book value, subtract total liabilities from total assets.
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 3 min.
Title/Media Ref.: Short Essay Question 16 / None

99) Which group of financial statement users would be most concerned with the amount of a company's total current assets and current liabilities?

Answer: Creditors, such as bankers and other lenders, are very interested in the liquidity of a company's assets and its general solvency position. Comparing the amount of current assets with current liabilities is a common analysis tool used by those interested in solvency, the ability of a company to pay its rents as they come due. Current assets in general measure resources that at a particular point in time are expected to be used to pay the obligations listed in the current liability section. Thus, comparing the two provides some indication of the company's solvency position.
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication; Reflective / BB: Critical Thinking; FN: Measurement
TOT: 3 min.
Title/Media Ref.: Short Essay Question 17 / None

100) Which assets on a company's balance sheet have no physical substance? Explain.

Answer: Intangible assets such as patents, trademarks, and goodwill have no physical substance. They are reported as long-term assets on the balance sheet and represent the right to benefit from the sale of certain products or services. Like other assets, they represent a potential future benefit for the company.
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Short Essay Question 18 / None

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101) A company sold 10 widgets. How will the amounts the company reports as 'Sales' differ from amounts reported as 'Cost of Goods Sold'?

Answer: The amount reported as sales represents the dollar amount for which the widgets were sold to the customers (e.g., $10). Cost of goods sold represents the original cost paid by the company to acquire the inventory item (e.g., $4). The difference between the dollar amount of sales and the dollar amount of cost of goods sold (e.g., $6 = $10 - $4) represents gross profit for the company.
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 3 min.
Title/Media Ref.: Short Essay Question 19 / None

102) What concerns might you have if you examined a company's balance sheet and found a negative amount in retained earnings?

Answer: A negative amount in retained earnings is common for young companies because it often takes several years to become profitable. Retained earnings may also decline and produce a negative balance (if allowed under the respective state laws) if a company pays large dividends. If the dollar amount in retained earnings is negative because of continual losses, there should be a cause for concern.
Diff: Hard
Learning Objective: 2.4
Bloom's: Evaluation
AACSB/AICPA: Analytic; Communication; Reflective / BB: Critical Thinking; FN: Decision modeling
TOT: 7 min.
Title/Media Ref.: Short Essay Question 20 / None

103) Distinguish between the amounts reported on the income statement compared to the amounts reported on the statement of cash flows.

Answer: Amounts reported on the income statement are revenues and expenses, which are recognized in the financial statements when a service is provided or an obligation is created, which may or may not be when cash is received or paid. These amounts reflect changes in assets (e.g., accounts receivable) and liability (e.g., wages payable) accounts, not necessarily changes in asset accounts. The amounts reported on the statement of cash flows include only the cash received and the cash paid out.
Diff: Medium
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 3 min.
Title/Media Ref.: Short Essay Question 21 / None

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104) Describe how the equity sections of balance sheets differ for each of the three types of business entities.

Answer: The shareholders' equity section of the balance sheet for corporations consists of two components–contributed capital and retained earnings. Partnerships have one capital account for each owner in the owners' equity section of the balance sheet. A proprietorship has only one capital account. Neither a partnership nor a proprietorship has a retained earnings account.
Diff: Medium
Learning Objective: 2.6
Bloom's: Comprehension
AACSB/AICPA: Analytic; Communication / BB: Critical Thinking; FN: Reporting
TOT: 5 min.
Title/Media Ref.: Short Essay Question 22 / None

Data Analytic Questions

Important Note to Instructor: All of the real world data included in the data analytic test bank questions was taken from the company information data base used for the data analytic concept practice exercises in the text located at **www.wiley.com/go/pratt/financialaccounting11e**. These questions can be used in at least two different ways to test two levels of data analytic skills. To test only the basic analysis required simply provide the student with the financial information followed by the questions just as they are illustrated in the test bank. Alternatively, to test both their ability to access and navigate the data base as well as their analysis skills, you can provide for the students only the questions and require them to access and navigate the data base, organize the data, and perform the analysis.

105) Financial statements and other information for Target, the discount retailer, for the years 2016 - 2019 are provided below. Using this information, answer the five questions below.

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Target (in Millions)

	2019	2018	2017	2016
Sales	$75,356	$72,714	$69,495	$73,785
Cost of sales	53,299	51,125	49,145	52,241
Operating expenses	17,947	17,365	15,381	16,014
Interest expense	461	653	1,004	607
Income tax expense	746	722	1,296	1,602
Unusual Gains	-	-	-	(404)
Unusual Losses	-	118	415	-
Net income before Tax	3,676	3,630	3,965	4,923
Net Income after Tax	2,937	2,914	2,737	3,363
Cash and equivalents	$ 1,556	$ 2,643	$ 2,512	$ 1,038
Short-term investments	-	-	-	3,008
Accounts receivable	-	-	-	-
Inventory	9,497	8,597	8,309	8,601
Current assets	12,519	12,540	11,990	14,130
Non-current assets	28,771	27,763	25,441	26,132
Total assets	41,290	40,303	37,431	40,262
Accounts payable	$ 9,761	$ 8,677	$ 7,252	$ 7,418
Other Current Liabilities	5,253	4,375	5,455	5,204
Current liabilities	15,014	13,052	12,707	12,622
Non-current liabilities	14,979	15,600	13,771	14,683
Total Liabilities	29,993	28,652	26,478	27,305
Shareholders Equity	11,297	11,651	10,953	12,957
Effective income tax rate (%)	25%	25%	47%	48%
Stock Price at year end	$ 71.17	$ 72.95	$ 63.70	$ 72.42
# of Outstanding Shares at year end	521.83	543.57	561.70	616.05
MV of Firm at year end	$37,139	$39,654	$35,780	$44,614
Treasury Stock Purchased	-	-	-	-
Total Treasury Stock	-	-	-	-
Dividends Declared	$(1,335)	$(1,338)	$(1,348)	$(1,362)
Retained Earnings	6,017	6,495	5,884	8,188
Cash Flows from Operating Activities	$ 5,973	$ 6,935	$ 5,436	$ 5,958
Cash Flows from Investing Activities	(3,416)	(3,075)	(1,473)	508
Cash Flows from Financing Activities	(3,644)	(3,729)	(5,497)	(4,630)
Net Increase (decrease) in Cash	(1,087)	131	(1,534)	1,836

1. How profitable was Target during 2019?
2. How large an investment in assets was required to make those profits?
3. Where did the assets come from, or how were they financed?
4. How much cash did Target generate during 2019, and what did Target do with it?
5. What happened to the investments made by the shareholders, and how large a return was generated for the shareholders on that investment?

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Answer:
1. Target reported net income of $2.937 billion for 2019, consisting of sales of $75.356 billion less expenses of $72.419 billion.
2. At the beginning of 2019 Target reported total assets of $40.303 billion, and at the end of 2019 Target reported total assets of $41.290 billion. As a result, Target had access to an average of $40.80 billion assets ([$40.303 + $41.290] ÷ 2) during the year. Management used this asset investment to create profits of $2.937 billion, which provided a return on that asset investment of 7.2% ($2.937 ÷ $40.80).
3. Target's 2019 balance of $41.290 billion in assets was financed with $29.993 billion (73%) from total liabilities and $11.297 billion (23%) from shareholders equity or the shareholders' investment.
4. Target generated $5.973 billion in cash from its operating activities. Of that amount of cash, a net of $3.416 billion was invested in additional assets to generate future revenues, a net of $3.644 billion was paid to capital providers (creditors and shareholders), and because Target paid more cash for investments and to capital providers than it generated from operating activities, it reduced its cash balance for the year by $1.087 billion.
5. The shareholders' investment decreased from $11.651 billion at the beginning of 2019 to $11.297 at the end of 2019, a decrease of $0.354 billion. This reduction occurred because during the year Target paid more to the shareholders than the amount of profits generated during the year. At the beginning of 2019 Target management had access to $11.651 billion in shareholder investment and at the end of the 2019 had access to only $11.297 billion, which means that during 2019 Target management had access to an average of $11.474 billion ([$11.651 billion + $11.297 billion] ÷ 2) during the year. Management created $2.937 in profits with that investment, so it provided a return to the shareholders of $25.6% ($2.937 ÷ $11.474). This return is called return on equity.
Diff: Hard
Learning Objective: 2.6
Bloom's: Application
AACSB/AICPA: Analytic / BB: None; FC: Measurement
TOT: 20 min.
Title/Media Ref.: Data Analytic Question 1 / None

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Video Questions

106) Which one of the following descriptions best describes the balance sheet?
A) This financial statement includes measures of the revenues earned by a company and the expenses incurred to generate those revenues, leading to the net profit or net income — a measure of the performance of the company during a specific period of time.
B) This financial statement provides a summary of the cash collected and paid during a specific period of time, classified into three categories: operating activities, investing activities and financing activities.
C) This financial statement explains the changes in the investments made by the owners from the beginning to the end of a specific period of time and includes changes in both the direct investments made by the owners and the profits allowed to remain in the company.
D) This financial statement is structured as assets equals liabilities plus owners' equity, and it measures the financial condition of a company at a specific point in time.

Answer: D
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: What are financial statements Video: Question 1 / Video: What are financial statements. www.wiley.com/go/pratt/financialaccounting11e

107) Which one of the following descriptions best describes the income statement?
A) This financial statement includes measures of the revenues earned by a company and the expenses incurred to generate those revenues, leading to the net profit or net income — a measure of the performance of the company during a specific period of time.
B) This financial statement provides a summary of the cash collected and paid during a specific period of time, classified into three categories: operating activities, investing activities and financing activities.
C) This financial statement explains the changes in the investments made by the owners from the beginning to the end of a specific period of time and includes changes in both the direct investments made by the owners and the profits allowed to remain in the company.
D) This financial statement is structured as assets equals liabilities plus owners' equity, and it measures the financial condition of a company at a specific point in time.

Answer: A
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: What are financial statements Video: Question 2 / Video: What are financial statements. www.wiley.com/go/pratt/financialaccounting11e

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108) Which one of the following descriptions best describes the statement of cash flows?
A) This financial statement includes measures of the revenues earned by a company and the expenses incurred to generate those revenues, leading to the net profit or net income — a measure of the performance of the company during a specific period of time.
B) This financial statement provides a summary of the cash collected and paid during a specific period of time, classified into three categories: operating activities, investing activities and financing activities.
C) This financial statement explains the changes in the investments made by the owners from the beginning to the end of a specific period of time and includes changes in both the direct investments made by the owners and the profits allowed to remain in the company.
D) This financial statement is structured as assets equals liabilities plus owners' equity, and it measures the financial condition of a company at a specific point in time.

Answer: B
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: What are financial statements Video: Question 3 / Video: What are financial statements. www.wiley.com/go/pratt/financialaccounting11e

109) Which one of the following descriptions best describes the statement of owners' equity?
A) This financial statement includes measures of the revenues earned by a company and the expenses incurred to generate those revenues, leading to the net profit or net income — a measure of the performance of the company during a specific period of time.
B) This financial statement provides a summary of the cash collected and paid during a specific period of time, classified into three categories: operating activities, investing activities and financing activities.
C) This financial statement explains the changes in the investments made by the owners from the beginning to the end of a specific period of time and includes changes in both the direct investments made by the owners and the profits allowed to remain in the company.
D) This financial statement is structured as assets equals liabilities plus owners' equity, and it measures the financial condition of a company at a specific point in time.

Answer: C
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: What are financial statements Video: Question 4 / Video: What are financial statements. www.wiley.com/go/pratt/financialaccounting11e

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110) Which statement below about using the financial statements is most accurate?
A) The balance sheet is more important than the other statements and should be the statement most heavily relied upon when analyzing the performance of a company.
B) The balance sheet and the statement of cash flows, together, are best used to assess the past operating performance of the company.
C) The financial statements each provide unique and useful information not provided by the others, which means that the financial statements are best used as a package when assessing the financial performance and condition of a company.
D) The financial statements are independent and are not interconnected.

Answer: C
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: What are financial statements Video: Question 5 / Video: What are financial statements. www.wiley.com/go/pratt/financialaccounting11e

111) On which one of the financial statements would one find information about the financial obligations of a company?
A) Balance sheet
B) Income statement
C) Statement of cash flows
D) Statement of owners' equity

Answer: A
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: What are financial statements Video: Question 6 / Video: What are financial statements. www.wiley.com/go/pratt/financialaccounting11e

112) In which category of the statement of cash flows would one find information about a company's dividend payments?
A) Operating activities
B) Investing activities
C) Financing activities
D) More than one of the categories above.

Answer: C
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: What are financial statements Video: Question 7 / Video: What are financial statements. www.wiley.com/go/pratt/financialaccounting11e

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113) In which of the financial statements would one **not** find any information about investments made by owners in the company?
A) Balance sheet
B) Income statement
C) Statement of cash flows
D) Statement of shareholders' equity

Answer: B
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: What are financial statements Video: Question 8 / Video: What are financial statements. www.wiley.com/go/pratt/financialaccounting11e

114) Which of the following best describes retained earnings?
A) A phrase used to describe an asset listed on the balance that can be used to generate future revenues.
B) A phrase used to describe a measure of the past profits earned by the company that have not been withdrawn by the owners in the form of a dividend.
C) A phrase used to describe a financing activity listed on the statement of cash flows.
D) A phrase used to describe an obligation listed on the balance sheet.

Answer: B
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: What are financial statements Video: Question 9 / Video: What are financial statements. www.wiley.com/go/pratt/financialaccounting11e

115) Which of the following statements is **not** true?
A) Revenue is a word used to describe the cash collected from the sale of a company's goods and services and it appears on the income statement.
B) The purchase of an asset with cash would be reflected on both the balance sheet and the statement of cash flows.
C) If a company's expenses exceeded its revenues, the company would report a net loss for the period.
D) Owners' equity on the balance sheet is equal to total assets minus total liabilities.

Answer: A
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: What are financial statements Video: Question 10 / Video: What are financial statements. www.wiley.com/go/pratt/financialaccounting11e

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116) Which of the following accurately describes the statement of cash flows?
A) It connects the balance sheet at the beginning of a period to the balance sheet at the end of that period by explaining the change in the revenues during the period.
B) It connects the balance sheet at the beginning of a period to the balance sheet at the end of that period by explaining the change in the owner's investments in a company.
C) It connects the balance sheet at the beginning of a period to the balance sheet at the end of that period by explaining the change in the cash balances listed on the two balance sheets.
D) It does not connect the balance sheet at the beginning of a period to the balance sheet at the end of that period in any way.

Answer: C
Diff: Easy
Learning Objective: 2.5
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements Video: Question 1 / Video: How to read and analyze financial statements. www.wiley.com/go/pratt/financialaccounting11e

117) Which of the following accurately describes the income statement?
A) It links directly to the financing section of the statement of cash flows
B) It provides the net income number that appears on the statement of owners' equity where the change in earned capital is explained.
C) It provides the net income number that appears on the statement of owner's equity where the change in contributed capital is explained.
D) It does not provide any numbers that appear on any of the other financial statements.

Answer: B
Diff: Easy
Learning Objective: 2.5
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements Video: Question 2 / Video: How to read and analyze financial statements. www.wiley.com/go/pratt/financialaccounting11e

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118) The video suggests that 5 questions should be addressed when analyzing a set of financial statements in a specific order. Which of the sequences below best summarizes the questions and the recommended order?
A) Net income, liabilities, cash flows, assets, equity investments
B) Equity investments, cash flows, liabilities, net income, assets
C) Net income, assets, liabilities, cash flows, equity investments
D) Net income, assets, equity investments, liabilities and cash flows

Answer: C
Diff: Easy
Learning Objective: 2.5
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements Video: Question 3 / Video: How to read and analyze financial statements. www.wiley.com/go/pratt/financialaccounting11e

119) If one were to answer the 5 questions in the recommended order, which financial statement would be reviewed first?
A) Income statement
B) Balance sheet
C) Statement of cash flows
D) Statement of shareholders' equity

Answer: A
Diff: Easy
Learning Objective: 2.5
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements Video: Question 4 / Video: How to read and analyze financial statements. www.wiley.com/go/pratt/financialaccounting11e

120) One of the 5 questions requires an analysis of the company's capital structure. Which financial statement would be reviewed to find the answer to that question?
A) Balance sheet
B) Income statement
C) Statement of cash flows
D) Statement of owners' equity

Answer: A
Diff: Easy
Learning Objective: 2.5
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements Video: Question 5 / Video: How to read and analyze financial statements. www.wiley.com/go/pratt/financialaccounting11e

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121) One of the 5 questions requires an analysis of the company's ability to meet existing obligations as they come due. Which financial statement was recommended to answer that question?
A) Balance sheet
B) Income statement
C) Statement of cash flows
D) Statement of owner's equity

Answer: C
Diff: Easy
Learning Objective: 2.5
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements Video: Question 6 / Video: How to read and analyze financial statements. www.wiley.com/go/pratt/financialaccounting11e

122) The answer to one of the questions suggested that a financial ratio called return on assets (ROA) be computed. Which financial statement (or statements) contains the information needed to compute this ratio?
A) The balance sheet only
B) The income statement and the statement of cash flows
C) The income statement only
D) The income statement and the balance sheet

Answer: D
Diff: Easy
Learning Objective: 2.5
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements Video: Question 7 / Video: How to read and analyze financial statements. www.wiley.com/go/pratt/financialaccounting11e

123) Why is ROA a useful financial ratio?
A) ROA measures the ability of a company's management to generate a return for the owners given the amount of resources available to management.
B) ROA measures the ability of a company to pay its debt obligations as they come due.
C) ROA measures the relative importance of debt vs. equity in a company's capital structure.
D) ROA reflects the return to the owners on the investment made by the owners.

Answer: A
Diff: Easy
Learning Objective: 2.5
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements Video: Question 8 / Video: How to read and analyze financial statements. www.wiley.com/go/pratt/financialaccounting11e

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124) Which of the following is **not** true about dividends?
A) Dividends are normally paid to the owners in cash and are based on the amount of net income earned by the company.
B) Dividends represent a choice by the owners to withdraw cash from the company, which in turn reduces the resources available to management to generate future net income.
C) Dividends are an expense that reduce net income on the income statement.
D) Increasing dividends reduces retained earnings on the balance sheet and the statement of owners' equity.

Answer: C
Diff: Easy
Learning Objective: 2.5
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements Video: Question 9 / Video: How to read and analyze financial statements. www.wiley.com/go/pratt/financialaccounting11e

125) Why is return on equity (ROE) a useful financial ratio?
A) ROE measures the ability of a company's management to generate a return for the owners given the amount of resources available to management.
B) ROE measures the ability of a company to pay its debt obligations as they come due.
C) ROE measures the relative importance of debt vs. equity in a company's capital structure.
D) ROE reflects the return to the owners on the investment made by the owners.

Answer: D
Diff: Easy
Learning Objective: 2.5
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements Video: Question 10 / Video: How to read and analyze financial statements. www.wiley.com/go/pratt/financialaccounting11e

126) Which of the following dollars amounts is equal to the dollar value of total expenses if during the year net income equaled $2,000 and total revenues equaled $7,000?
A) $9,000
B) $4,500
C) $5,000
D) Unable to determine from dollar values given.

Answer: C
Diff: Medium
Learning Objective: 2.5
Bloom's: Analysis
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements — PepsiCo Video: Question 1 / Video: How to read and analyze financial statements--PepsiCo. www.wiley.com/go/pratt/financialaccounting11e

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127) Which of the following dollar amounts is equal to net income if the change in the retained earnings balance during the year was +$12,000 and dividends during the year were $3,000?
A) $9,000 profit
B) $15,000 profit
C) $9,000 loss
D) Unable to determine from dollar values given.

Answer: B
Diff: Medium
Learning Objective: 2.5
Bloom's: Analysis
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements — PepsiCo Video: Question 2 / Video: How to read and analyze financial statements--PepsiCo.
www.wiley.com/go/pratt/financialaccounting11e

128) If for the year net cash from operating activities was +$22,000, the overall cash balance decreased by $7,000, and net cash from financing activities was a minus $4,000, what was net cash from investing activities?
A) $26,000 decrease
B) $11,000 increase
C) $25,000 decrease
D) Unable to determine from dollar values given

Answer: C
Diff: Medium
Learning Objective: 2.5
Bloom's: Analysis
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements — PepsiCo Video: Question 3 / Video: How to read and analyze financial statements--PepsiCo.
www.wiley.com/go/pratt/financialaccounting11e

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129) As of the end of a company's first year of operations, it reported total assets of $15,000, total liabilities of $10,000, contributed capital of $2,000, and net income of $6,000. Compute the dollar value of its dividends during the year.
A) $4,000
B) $3,000
C) $0
D) Unable to determine from dollar values given.

Answer: B
Diff: Medium
Learning Objective: 2.5
Bloom's: Analysis
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements — PepsiCo Video: Question 4 / Video: How to read and analyze financial statements--PepsiCo.
www.wiley.com/go/pratt/financialaccounting11e

130) If a company's total assets increased by $10,000 during the year and its total liabilities decreased by $4,000, what happened to the balance of the company's shareholders' equity?
A) Decreased by $6,000.
B) Increased by $6,000.
C) Increased by $14,000.
D) Unable to determine from dollar values given.

Answer: C
Diff: Medium
Learning Objective: 2.5
Bloom's: Analysis
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements — PepsiCo Video: Question 5 / Video: How to read and analyze financial statements--PepsiCo.
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131) Which of the following could **not** be true if a company's return on assets (ROA) increased during the year?
A) Reported net income increased as a percent of total assets.
B) Expenses decreased while revenues increased.
C) Total assets increased while net income increased.
D) Total assets increased while revenues less expenses decreased.

Answer: D
Diff: Medium
Learning Objective: 2.5
Bloom's: Analysis
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements — PepsiCo Video: Question 6 / Video: How to read and analyze financial statements--PepsiCo.
www.wiley.com/go/pratt/financialaccounting11e

132) If during the year total liabilities increase as a percent of total assets,
A) Total assets must have decreased.
B) Total liabilities must have increased.
C) Shareholders' equity as a percent of total assets must have decreased.
D) Total assets less total liabilities must have increased.

Answer: C
Diff: Medium
Learning Objective: 2.5
Bloom's: Analysis
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements — PepsiCo Video: Question 7 / Video: How to read and analyze financial statements--PepsiCo.
www.wiley.com/go/pratt/financialaccounting11e

133) A large negative dollar value of net cash from financing activities means:
A) the company must have invested a large amount in long-term assets.
B) the company could not have borrowed money during the year.
C) the company sent more cash to its capital providers during the year than it collected.
D) the operating performance of the company must have been lower during the year than during the prior year.

Answer: C
Diff: Medium
Learning Objective: 2.5
Bloom's: Analysis
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements — PepsiCo Video: Question 8 / Video: How to read and analyze financial statements--PepsiCo.
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134) If a company's return to the shareholders (ROE) during the year was lower than for the prior year:
A) net cash from operating activities must have been lower.
B) the company's reliance on debt financing must have increased.
C) total assets must have risen faster than net income during the year.
D) net income must have decreased relative to the shareholders' investment in the company.

Answer: D
Diff: Medium
Learning Objective: 2.5
Bloom's: Analysis
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements — PepsiCo Video: Question 9 / Video: How to read and analyze financial statements--PepsiCo.
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135) If a company's net income for the year exceeded the increase in the company's retained earnings balance during the same year:
A) the company must have declared dividends.
B) total assets must have increased by a larger amount than the net income.
C) net cash from financing activities must have been a negative number.
D) the company's reliance on equity financing must have decreased.

Answer: A
Diff: Medium
Learning Objective: 2.5
Bloom's: Analysis
AACSB/AICPA: Knowledge / None
Title/Media Ref.: How to read and analyze financial statements — PepsiCo Video: Question 10 / Video: How to read and analyze financial statements--PepsiCo.
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136) What does it mean in the Gone Fishin' scenario that the entrepreneur needed capital?
A) The entrepreneur needed boats.
B) The entrepreneur needed money to finance the business.
C) The entrepreneur needed land.
D) The entrepreneur needed a shop and a dock.

Answer: B
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of running a business - Gone Fishin' Video: Question 1 / Video: Key areas of running a business–Gone Fishin '. www.wiley.com/go/pratt/financialaccounting11e

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137) Which of the following best describes a business plan?
A) A business plan is a document designed to convince potential investors that a business idea will provide a reasonable return without bearing too much risk.
B) A business plan is a document designed to provide estimates necessary for tax reporting purposes.
C) A business plan is a detailed list that a manager should follow when running the business.
D) A business plan is a description of the do's and don'ts of running a successful business.

Answer: A
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of running a business - Gone Fishin' Video: Question 2 / Video: Key areas of running a business–Gone Fishin '. www.wiley.com/go/pratt/financialaccounting11e

138) The video identified two kinds of investors. They are:
A) risky investors and conservative investors.
B) experienced investors and inexperienced investors.
C) capital investors and asset investors.
D) equity investors and debt investors.

Answer: D
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of running a business - Gone Fishin' Video: Question 3 / Video: Key areas of running a business–Gone Fishin '. www.wiley.com/go/pratt/financialaccounting11e

139) Which of the following is a characteristic of equity?
A) Periodic interest payments
B) A right to profits
C) Contractual rights
D) A fixed life

Answer: B
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of running a business - Gone Fishin' Video: Question 4 / Video: Key areas of running a business–Gone Fishin '. www.wiley.com/go/pratt/financialaccounting11e

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140) Which of the following is a characteristic of debt?
A) A right to management oversight
B) A right to dividends
C) A right over the equity holders to the company's assets in case the company liquidates
D) A right to future profits

Answer: C
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of running a business - Gone Fishin' Video: Question 5 / Video: Key areas of running a business–Gone Fishin '. www.wiley.com/go/pratt/financialaccounting11e

141) A company's capital structure refers to:
A) the nature of the company's assets.
B) the potential the company has for generating revenues in the future.
C) the balance between a company's producing assets and its operating assets.
D) a company's reliance on debt vs equity in the financing of the company's assets.

Answer: D
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of running a business - Gone Fishin' Video: Question 6 / Video: Key areas of running a business–Gone Fishin '. www.wiley.com/go/pratt/financialaccounting11e

142) The difference between producing assets and operating assets is:
A) producing assets include inventories that can be sold, while operating assets do not.
B) operating assets tend to used up and replaced more often and more quickly than producing assets.
C) a large boat is an example of an operating asset, but not a producing asset.
D) operating assets are used up in the operations of the business, while producing assets are not used up in the operations of the business.

Answer: B
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of running a business - Gone Fishin' Video: Question 7 / Video: Key areas of running a business–Gone Fishin '. www.wiley.com/go/pratt/financialaccounting11e

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143) Which of the following is true about revenues and/or expenses?
A) Revenues less expenses provide a measure of the company's operating performance during a period of time.
B) Revenues and expenses reflect the cash inflows and outflows associated with the company's operations.
C) Revenues are recorded when they are earned and expenses include dividends.
D) Borrowing cash from a bank is quick way to increase revenues.

Answer: A
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of running a business - Gone Fishin' Video: Question 8 / Video: Key areas of running a business–Gone Fishin '. www.wiley.com/go/pratt/financialaccounting11e

144) Which of the following is true about net income?
A) Net income represents cash that is distributed to the owners at the end of the year.
B) Net income is one of the most important assets on a company's balance sheet.
C) Net income is increased when equity investors make direct investments into a company.
D) Net income is owned by the equity investors who have the right to choose whether to withdraw company assets up to that amount.

Answer: D
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of running a business - Gone Fishin' Video: Question 9 / Video: Key areas of running a business–Gone Fishin '. www.wiley.com/go/pratt/financialaccounting11e

145) Which of the following best describes retained earnings?
A) Retained earnings is a measure of the performance of company during a specific period of time.
B) Retained earnings is assets that have accumulated from past profits.
C) Retained earnings is a measure of the past profits earned by a company that have remained in the business and not paid to the owners in the form of dividends.
D) An increase in retained earnings means that dividends during the current year must have been lower than during the prior year.

Answer: C
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of running a business - Gone Fishin' Video: Question 10 / Video: Key areas of running a business–Gone Fishin '. www.wiley.com/go/pratt/financialaccounting11e

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146) Which of the four financial statements lists a company's assets and their financing sources?
A) Balance sheet
B) Income statement
C) Statement of cash flows
D) Statement of shareholders' equity

Answer: A
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3; 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of business linked to financial statements Video: Question 1 / Video: Key areas of business linked to financial statements.
www.wiley.com/go/pratt/financialaccounting11e

147) Which of the financial statements includes a reconciliation of retained earnings?
A) Balance sheet
B) Income statement
C) Statement of cash flows
D) Statement of shareholders' equity

Answer: D
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3; 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of business linked to financial statements Video: Question 2 / Video: Key areas of business linked to financial statements.
www.wiley.com/go/pratt/financialaccounting11e

148) Which of the financial statements is a statement of the company's operating performance during a period of time?
A) Balance sheet
B) Income statement
C) Statement of cash flows
D) Statement of shareholders' equity

Answer: B
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3; 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of business linked to financial statements Video: Question 3 / Video: Key areas of business linked to financial statements.
www.wiley.com/go/pratt/financialaccounting11e

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149) Which of the financial statements describes the changes during a period of time of the company's contributed capital?
A) Balance sheet
B) Income statement
C) Statement of cash flows
D) Statement of shareholders' equity

Answer: D
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3; 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of business linked to financial statements Video: Question 4 / Video: Key areas of business linked to financial statements.
www.wiley.com/go/pratt/financialaccounting11e

150) Which of the financial statements lists the payments to a company's capital providers during a period of time?
A) Balance sheet
B) Income statement
C) Statement of cash flows
D) Statement of shareholders' equity

Answer: C
Diff: Easy
Learning Objective: 2.1; 2.2; 2.3; 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of business linked to financial statements Video: Question 5 / Video: Key areas of business linked to financial statements.
www.wiley.com/go/pratt/financialaccounting11e

151) Which of the financial statements contains the cost of goods sold account?
A) Balance sheet
B) Income statement
C) Statement of cash flows
D) Statement of shareholders' equity

Answer: B
Diff: Medium
Learning Objective: 2.1; 2.2; 2.3; 2.4
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of business linked to financial statements Video: Question 6 / Video: Key areas of business linked to financial statements.
www.wiley.com/go/pratt/financialaccounting11e

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152) Which financial statements are immediately affected when a company completes a service for a customer and at that time receives cash payment?
A) The income statement only
B) The balance sheet only
C) The income statement, balance sheet and statement of cash flows
D) All four financial statements

Answer: D
Diff: Medium
Learning Objective: 2.1; 2.2; 2.3; 2.4
Bloom's: Application
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of business linked to financial statements Video: Question 7 / Video: Key areas of business linked to financial statements.
www.wiley.com/go/pratt/financialaccounting11e

153) Which financial statements are immediately affected when a company pays off a loan to the bank?
A) The income statement and the balance sheet
B) The income statement, balance sheet and statement of cash flows
C) The balance sheet and the statement of cash flows
D) All four financial statements

Answer: C
Diff: Medium
Learning Objective: 2.1; 2.2; 2.3; 2.4
Bloom's: Application
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of business linked to financial statements Video: Question 8 / Video: Key areas of business linked to financial statements.
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154) Which financial statements are immediately affected when a company issues stock and receives cash from the shareholders?
A) The income statement and the balance sheet
B) The income statement, balance sheet and statement of cash flows
C) The balance sheet and the statement of cash flows
D) All four financial statements

Answer: C
Diff: Medium
Learning Objective: 2.1; 2.2; 2.3; 2.4
Bloom's: Application
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of business linked to financial statements Video: Question 9 / Video: Key areas of business linked to financial statements.
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155) Which financial statements are immediately affected when a company purchases a producing asset and in payment signs a promissory note payable?
A) The balance sheet only
B) The income statement, balance sheet and statement of cash flows
C) The balance sheet and the statement of cash flows
D) All four financial statements

Answer: A
Diff: Medium
Learning Objective: 2.1; 2.2; 2.3; 2.4
Bloom's: Application
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Key areas of business linked to financial statements Video: Question 10 / Video: A complete balance sheet. www.wiley.com/go/pratt/financialaccounting11e

156) Which of the following statements best describes the balance sheet?
A) This statement provides a measure of the operating performance of a company during the year.
B) This statement provides a measure of the financial condition of a company at a given point in time.
C) This statement summarizes the effects of the operating, investing and financing activities of a company during a year.
D) This statement tracks the investments made by the shareholders' during a year.

Answer: B
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: A complete balance sheet Video: Question 1 / Video: A complete balance sheet. www.wiley.com/go/pratt/financialaccounting11e

157) Which of the following statements would describe the book value of a company at a specific point in time?
A) Total assets less total shareholders' equity
B) Total assets less current liabilities
C) Total assets less current liabilities less long-term liabilities
D) Total current assets plus total non-current assets

Answer: C
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: A complete balance sheet Video: Question 2 / Video: A complete balance sheet. www.wiley.com/go/pratt/financialaccounting11e

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158) Which of the following is not a standard classification used in the balance sheet?
A) Current liabilities
B) Financing assets
C) Long-term assets
D) Shareholders' equity

Answer: B
Diff: Easy
Learning Objective: 2.4
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: A complete balance sheet Video: Question 3 / Video: A complete balance sheet. www.wiley.com/go/pratt/financialaccounting11e

159) In which section of the balance sheet would one find the balance in the accounts payable account?
A) Long-term investments
B) Current assets
C) Shareholders' equity
D) Current liabilities

Answer: D
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: None / FC: Disclosure Question
Title/Media Ref.: A complete balance sheet Video: Question 4 / Video: A complete balance sheet. www.wiley.com/go/pratt/financialaccounting11e

160) In which section of the balance sheet would one find the balance in the prepaid expense account?
A) Intangible assets
B) Current assets
C) Current liabilities
D) Long-term liabilities

Answer: B
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: None / FC: Disclosure Question
Title/Media Ref.: A complete balance sheet Video: Question 5 / Video: A complete balance sheet. www.wiley.com/go/pratt/financialaccounting11e

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161) In which section of the balance sheet would one find the balance in the bonds payable account?
A) Long-term investments
B) Current liabilities
C) Long-term liabilities
D) Shareholders' equity

Answer: C
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: None / FC: Disclosure Question
Title/Media Ref.: A complete balance sheet Video: Question 6 / Video: A complete balance sheet. www.wiley.com/go/pratt/financialaccounting11e

162) What do these three accounts — accounts receivable, property, plant & equipment and intangible assets — all have in common?
A) They all involve contra accounts that adjust their balance sheet values.
B) They all can be found in the non-current asset section of the balance.
C) They are all subject to either depreciation or amortization.
D) They are all often referred to as operating assets.

Answer: A
Diff: Easy
Learning Objective: 2.4
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: A complete balance sheet Video: Question 7 / Video: A complete balance sheet. www.wiley.com/go/pratt/financialaccounting11e

163) Which account on the balance sheet arises when a company buys another company and pays an amount greater than the fair market value of the purchased company's individual assets less its individual liabilities?
A) Unearned revenue
B) Contributed capital
C) Prepaid expense
D) Goodwill

Answer: D
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / None
Title/Media Ref.: A complete balance sheet Video: Question 8 / Video: A complete balance sheet. www.wiley.com/go/pratt/financialaccounting11e

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164) Where on the balance sheet would one find the current portion due on a long-term liability being paid off in installments?
A) Long-term liability section
B) Shareholders' equity
C) Current liability section
D) Current assets section

Answer: C
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / None
Title/Media Ref.: A complete balance sheet Video: Question 9 / Video: A complete balance sheet. www.wiley.com/go/pratt/financialaccounting11e

165) When a company receives cash in advance for a service to be performed next month, which sections of the balance sheet will be affected?
A) Current assets and long-term liabilities
B) Current assets and current liabilities
C) Current assets and non-current assets
D) Current assets and shareholders' equity

Answer: B
Diff: Medium
Learning Objective: 2.4
Bloom's: Analysis
AACSB/AICPA: Analytic / None
Title/Media Ref.: A complete balance sheet Video: Question 10 / Video: A complete balance sheet. www.wiley.com/go/pratt/financialaccounting11e

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