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CHAPTER 1

ACCOUNTING IN ACTION

CHAPTER LEARNING OBJECTIVES

1. ***Identify the activities and users associated with accounting.*** Accounting is an information system that identifies, records, and communicates the economic events of an organization to interested users. The major users and uses of accounting are as follows: (a) Management uses accounting information to plan, organize, and run the business. (b) Investors (owners) decide whether to buy, hold, or sell their financial interests on the basis of accounting data. (c) Creditors (suppliers and bankers) evaluate the risks of granting credit or lending money on the basis of accounting information. Other groups that use accounting information are taxing authorities, regulatory agencies, customers, and labor unions.
2. ***Explain the building blocks of accounting: ethics, principles, and assumptions.*** Ethics are the standards of conduct by which actions are judged as right or wrong. Effective financial reporting depends on sound ethical behavior.

   Generally accepted accounting principles are a common set of standards used by accountants. The primary accounting standard-setting body in the United States is the Financial Accounting Standards Board.

3. ***State the accounting equation, and define its components.*** The basic accounting equation is:

   Assets = Liabilities + Owner's Equity

   Assets are resources a business owns. Liabilities are creditorship claims on total assets. Owner's equity is the ownership claim on total assets.

   The expanded accounting equation is:

   Assets = Liabilities + Owner's Capital – Owner's Drawings + Revenues – Expenses

   Investments by owners (assets the owner puts into the business) are recorded in a category called owner's capital. Owner's drawings are the withdrawal of assets by the owner for personal use. Revenues are the gross increase in owner's equity from business activities for the purpose of earning income. Expenses are the costs of assets consumed or services used in the process of earning revenue. Owner's equity is increased by an owner's investments and by revenues from business operations. Owner's equity is decreased by an owner's withdrawals of assets and by expenses.
4. ***Analyze the effects of business transactions on the accounting equation.*** Each business transaction must have a dual effect on the accounting equation. For example, if an individual asset increases, there must be a corresponding (1) decrease in another asset, or (2) increase in a specific liability, or (3) increase in owner's equity.
5. ***Describe the four financial statements and how they are prepared.*** An income statement presents the revenues and expenses, and resulting net income or net loss for a specific period of time. An owner's equity statement summarizes the changes in owner's equity for a specific period of time. A balance sheet reports the assets, liabilities, and owner's equity at a specific date. A statement of cash flows summarizes information about the cash inflows (receipts) and outflows (payments) for a specific period of time.

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[a]6. ***Explain the career opportunities in accounting***. Accounting offers many different jobs in fields such as public and private accounting, governmental, and forensic accounting. Accounting is a popular major because there are many different types of jobs, with unlimited potential for career advancement.

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TRUE-FALSE STATEMENTS

1. Owners of business firms are the only people who need accounting information.

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

2. Transactions that can be measured in dollars and cents are recorded in the financial information system.

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

3. The hiring of a new company president is an economic event recorded by the financial information system.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

4. Management of a business enterprise is the major external user of information.

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

5. Accounting communicates financial information about a business enterprise to both internal and external users.

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

6. Accounting information is used only by external users with a financial interest in a business enterprise.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

7. Financial statements are the major means of communicating accounting information to interested parties.

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

8. Bookkeeping and accounting are one and the same because the bookkeeping function includes the accounting process.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

9. The origins of accounting are attributed to Luca Pacioli, a famous mathematician.

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

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10. The study of accounting is **not** useful for a business career unless your career objective is to become an accountant.

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

11. A working knowledge of accounting is **not** relevant to a lawyer or an architect.

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

12. Identifying is the process of keeping a chronological diary of events measured in dollars and cents.

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

13. Management consulting includes examining the financial statements of companies and expressing an opinion as to the fairness of their presentation.

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

14. A partnership must have more than one owner.

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

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15. The economic entity assumption requires that the activities of an entity be kept separate and distinct from the activities of its owner and all other economic entities.

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

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

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

17. Accountants rely on a fundamental business concept—ethical behavior—in reporting financial information.

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

18. The primary accounting standard-setting body in the United States is the International Accounting Standards Board.

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

19. The Financial Accounting Standards Board is a part of the Securities and Exchange Commission.

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

20. The Securities and Exchange Commission oversees U.S. financial markets and accounting standard-setting bodies.

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

21. The cost and fair market value of an asset are the same at the time of acquisition and in all subsequent periods.

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

22. Even though a partnership is **not** a separate legal entity, for accounting purposes the partnership affairs should be kept separate from the personal activities of the owners.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

23. Accountants do **not** have to worry about issues of ethics.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: Professional Behavior, IMA: Reporting

24. At the time an asset is acquired, cost and fair value should be the same.

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Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

25. The monetary unit assumption requires that all dollar amounts be rounded to the nearest dollar.

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

26. In order to possess future service potential, an asset must have physical substance.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

27. Owners' claims to total business assets take precedence over the claims of creditors because owners invest assets in the business and are liable for losses.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

28. The basic accounting equation states that Assets = Liabilities.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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29. The basic accounting equation is in balance when the creditor and ownership claims against the business equal the assets.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

30. Accountants record both internal and external transactions.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

31. Internal transactions do **not** affect the basic accounting equation because they are economic events that occur entirely within one company.

Ans: F, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

32. The purchase of store equipment for cash reduces assets and owner's equity by an equal amount.

Ans: F, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

33. The purchase of office equipment on credit increases total assets and total liabilities.

Ans: T, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

34. External transactions involve economic events between the company and some other enterprise or party.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

35. The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments of a company during a period.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

36. Net income for the period is determined by subtracting total expenses and drawings from total revenues.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, Reporting, AICPA PC: None, IMA: Reporting

37. In the owner's equity statement, revenues are listed first, followed by expenses, and net income (or net loss).

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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[a]38. The study of accounting will be useful only if a student is interested in working for a profit-oriented business firm.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[a]39. Private accountants are accountants who are **not** employees of business enterprises.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[a]40. Expressing an opinion as to the fairness of the information presented in financial statements is a service performed by CPAs.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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MULTIPLE CHOICE QUESTIONS

41. Accountants refer to an economic event as a
    a. purchase.
    b. sale.
    c. transaction.
    d. change in ownership.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

42. The starting point of the accounting process is
    a. communicating information to users.
    b. identifying economic events.
    c. recording economic events.
    d. None of these answers are correct.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

43. Communication of economic events is the part of the accounting process that involves
    a. identifying economic events.
    b. quantifying transactions into dollars and cents.
    c. preparing accounting reports.
    d. recording and classifying information.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

44. Which of the following events **cannot** be quantified into dollars and cents and recorded as an accounting transaction?
    a. The appointment of a new CPA firm to perform an audit.
    b. The purchase of a new computer.
    c. The sale of store equipment.
    d. Payment of income taxes.

Ans: A, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

45. Interpretation of reported information involves each of the following **except**
    a. limitations of reported data.
    b. meaning of reported data.
    c. uses of reported data.
    d. All of these choices are correct.

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

46. The accounting process involves all of the following **except**
    a. identifying economic transactions that are relevant to the business.
    b. communicating financial information to users by preparing financial reports.
    c. recording nonquantifiable economic events.
    d. analyzing and interpreting financial reports.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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47. The accounting process is correctly sequenced as
    a. identification, communication, recording.
    b. recording, communication, identification.
    c. identification, recording, communication.
    d. communication, recording, identification.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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48. Which of the following techniques are **not** used by accountants to interpret and report financial information?
    a. Graphs.
    b. Special memos for each class of external users.
    c. Charts.
    d. Ratios.

    Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

49. Which of the following would **not** be considered an internal user of accounting data for the LMN Company?
    a. President of the company.
    b. Production manager.
    c. Merchandise inventory clerk.
    d. President of the employees' labor union.

    Ans: D, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

50. Which of the following would **not** be considered an external user of accounting data for the LMN Company?
    a. Internal Revenue Service Agent.
    b. Management.
    c. Creditors.
    d. Customers.

    Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

51. Which of the following would **not** be considered internal users of accounting data for a company?
    a. The president of a company.
    b. The controller of a company.
    c. Creditors of a company.
    d. Salesmen of the company.

    Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

52. Which of the following is an external user of accounting information?
    a. Labor unions.
    b. Finance directors.
    c. Company officers.
    d. Managers.

    Ans: A, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

53. Which one of the following is **not** an external user of accounting information?
    a. Regulatory agencies.
    b. Customers.
    c. Investors.
    d. All of these answer choices are external users.

    Ans: D, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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54. Bookkeeping differs from accounting in that bookkeeping primarily involves which part of the accounting process?
    a. Identification.
    b. Communication.
    c. Recording.
    d. Analysis.

Ans: Ct, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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55. The origins of accounting are generally attributed to the work of
    a. Christopher Columbus.
    b. Abner Doubleday.
    c. Luca Pacioli.
    d. Leonardo da Vinci.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

56. Financial accounting has a primary purpose pf providing economic and financial information for all of the following **except**
    a. creditors.
    b. investors.
    c. managers.
    d. other external users.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

57. Which of the following is **not** part of the accounting process?
    a. Recording
    b. Identifying
    c. Financial decision making
    d. Communicating

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

58. The first part of the accounting process is
    a. communicating.
    b. identifying.
    c. processing.
    d. recording.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

59. Keeping a systematic, chronological diary of events that are measured in dollars and cents is called
    a. communicating.
    b. identifying.
    c. processing.
    d. recording.

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

60. Internal users of accounting information include all of the following **except**
    a. company officers.
    b. investors.
    c. marketing managers.
    d. production supervisors.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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61. The final step in solving an ethical dilemma is to
    a. identify and analyze the principal elements in the situation.
    b. recognize an ethical situation.
    c. identify the alternatives and weigh the impact of each alternative on stakeholders.
    d. recognize the ethical issues involved.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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62. The first step in solving an ethical dilemma is to
    a. identify and analyze the principal elements in the situation.
    b. identify the alternatives.
    c. recognize an ethical situation and the ethical issues involved.
    d. weigh the impact of each alternative on various stakeholders.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: Professional Behavior, IMA: Reporting

63. Ethics are the standards of conduct by which one's actions are judged as
    a. right or wrong.
    b. honest or dishonest.
    c. fair or unfair.
    d. All of these answer choices are correct.

Ans: D, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: Professional Bahavior, IMA: Reporting

64. Generally accepted accounting principles are
    a. income tax regulations of the Internal Revenue Service.
    b. standards that indicate how to report economic events.
    c. theories that are based on physical laws of the universe.
    d. principles that have been proven correct by academic researchers.

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

65. The historical cost principle requires that when assets are acquired, they be recorded at
    a. appraisal value.
    b. cost.
    c. market price.
    d. book value.

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

66. The historical cost of an asset and its fair value are
    a. never the same.
    b. the same when the asset is sold.
    c. irrelevant when the asset is used by the business in its operations.
    d. the same on the date of acquisition.

Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

67. The body of theory underlying accounting is **not** based on
    a. physical laws of nature.
    b. concepts.
    c. principles.
    d. definitions.

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

68. The private sector organization involved in developing accounting principles is the
    a. Feasible Accounting Standards Body.

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b. Financial Accounting Studies Board.
c. Financial Accounting Standards Board.
d. Financial Auditors' Standards Body.

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

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69. The SEC and FASB are two organizations that are primarily responsible for establishing generally accepted accounting principles. It is true that
    a. they are both governmental agencies.
    b. the SEC is a private organization of accountants.
    c. the SEC often mandates guidelines when no accounting principles exist.
    d. the SEC and FASB rarely cooperate in developing accounting standards.

    Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

70. GAAP stands for
    a. Generally Accepted Auditing Procedures.
    b. Generally Accepted Accounting Principles.
    c. Generally Accepted Auditing Principles.
    d. Generally Accepted Accounting Procedures.

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

71. Financial information that is capable of making a difference in a decision is
    a. faithfully representative.
    b. relevant.
    c. convergent.
    d. generally accepted.

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

72. The Dulce Company has five factories nationwide that cost a total of $200 million. The current fair value of the factories is $600 million. The factories will be recorded and reported as assets at
    a. $200 million.
    b. $600 million.
    c. $400 million.
    d. $800 million.

    Ans: A, LO: 2, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

73. The fair value principle is applied for
    a. all assets.
    b. current assets.
    c. buildings.
    d. investment securities.

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

74. The proprietorship form of business organization
    a. must have at least three owners in most states.
    b. represents the largest number of businesses in the United States.
    c. combines the records of the business with the personal records of the owner.
    d. is characterized by a legal distinction between the business as an economic unit and the owner.

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

75. The economic entity assumption requires that the activities
a. of different entities can be combined if all the entities are corporations.
b. must be reported to the Securities and Exchange Commission.
c. of a sole proprietorship cannot be distinguished from the personal economic events of its owners.
d. of an entity be kept separate from the activities of its owner.

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

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76. A business organized as a corporation
    a. is not a separate legal entity in most states.
    b. requires that stockholders be personally liable for the debts of the business.
    c. is owned by its stockholders.
    d. terminates when one of its original stockholders dies.

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

77. The partnership form of business organization
    a. is a separate legal entity.
    b. is a common form of organization for service-type businesses.
    c. enjoys an unlimited life.
    d. has limited liability.

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

78. Which of the following is **not** an advantage of the corporate form of business organization?
    a. Limited liability of stockholders
    b. Transferability of ownership
    c. Unlimited personal liability for stockholders
    d. Unlimited life

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

79. A small neighborhood barber shop that is operated by its owner would likely be organized as a
    a. joint venture.
    b. partnership.
    c. corporation.
    d. proprietorship.

    Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

80. George and Ringo met at law school and decide to start a small law practice after graduation. They agree to split revenues and expenses evenly. The most common form of business organization for a business such as this would be a
    a. joint venture.
    b. partnership.
    c. corporation.
    d. proprietorship.

    Ans: B, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

81. Which of the following is true regarding the corporate form of business organization?
    a. Corporations are the most prevalent form of business organization.
    b. Corporate businesses are generally smaller in size than partnerships and proprietorships.
    c. The revenues of corporations are greater than the combined revenues of partnerships and proprietorships.
    d. Corporations are separate legal entities organized exclusively under federal law.

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

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82. A basic assumption of accounting that requires that the activities of an entity be kept separate from the activities of its owner is referred to as the
    a. stand alone concept.
    b. monetary unit assumption.
    c. corporate form of ownership.
    d. economic entity assumption.

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

83. Sam Ryo is the proprietor (owner) of Sam's, a retailer of golf apparel. When recording the financial transactions of Sam's, Sam does **not** record an entry for a car he purchased for personal use. Sam took out a personal loan to pay for the car. What accounting concept guides Sam's behavior in this situation?
    a. Pay back concept
    b. Economic entity assumption
    c. Cash basis concept
    d. Monetary unit assumption

Ans: B, LO: 2, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

84. A basic assumption of accounting assumes that the dollar is
    a. unrelated to business transactions.
    b. a poor measure of economic activities.
    c. the common unit of measure for all business transactions.
    d. useless in measuring an economic event.

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

85. The assumption that the unit of measure remains sufficiently constant over time is part of the
    a. economic entity assumption.
    b. cost principle.
    c. historical cost principle.
    d. monetary unit assumption.

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

86. A business whose owners enjoy limited liability is a
    a. proprietorship.
    b. partnership.
    c. corporation.
    d. sole proprietorship.

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

87. A problem with the monetary unit assumption is that
    a. the dollar has not been stable over time.
    b. the dollar has been stable over time.
    c. the dollar is a common medium of exchange.
    d. it is impossible to account for international transactions.

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

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88. A proprietorship is a business
    a. owned by one person.
    b. owned by two or more persons.
    c. organized as a separate legal entity under state corporation law.
    d. owned by a governmental agency.

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

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89. The organization(s) primarily responsible for establishing generally accepted accounting principles is(are) the

	FASB	SEC
a.	no	no
b.	yes	no
c.	no	yes
d.	yes	yes

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

90. The primary accounting standard-setting body in the United States is the
a. Financial Accounting Standards Board.
b. International Accounting Standards Board.
c. Internal Revenue Service.
d. Securities and Exchange Commission.

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

91. The common characteristic possessed by all assets is
a. long life.
b. great monetary value.
c. tangible nature.
d. future economic benefit.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

92. Owner's equity is best depicted by the following:
a. Assets = Liabilities.
b. Liabilities + Assets.
c. Residual equity + Assets.
d. Assets – Liabilities.

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

93. The basic accounting equation may be expressed as
a. Assets = Total Claims on Assets.
b. Assets – Liabilities = Owner's Equity.
c. Assets = Liabilities + Owner's Equity.
d. All of these answer choices are correct..

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

94. Liabilities
a. are future economic benefits.
b. are existing debts and obligations.
c. possess service potential.
d. are things of value used by the business in its operation.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

95. Liabilities of a company would **not** include

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a. notes payable.
b. accounts payable.
c. salaries and wages payable.
d. cash.

Ans: D, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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96. Liabilities of a company are owed to
    a. debtors.
    b. benefactors.
    c. creditors.
    d. underwriters.

    Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

97. Owner's equity can be described as
    a. creditorship claim on total assets.
    b. ownership claim on total assets.
    c. benefactor's claim on total assets.
    d. debtor claim on total assets.

    Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

98. Owner's equity is often referred to as
    a. residual equity.
    b. leftovers.
    c. spoils.
    d. second equity.

    Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

99. When an owner withdraws cash or other assets from a business for personal use, these withdrawals are termed
    a. depletions.
    b. consumptions.
    c. drawings.
    d. a credit line.

    Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

100. Capital is
    a. an owner's permanent investment in the business.
    b. equal to liabilities minus owner's equity.
    c. equal to assets minus owner's equity.
    d. equal to liabilities plus drawings.

    Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

101. Revenues would **not** result from
    a. sale of merchandise.
    b. initial investment of cash by owner.
    c. performance of services.
    d. rental of property.

    Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

102. Sources of increases to owner's equity are

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a. additional investments by owners.
b. purchases of merchandise.
c. withdrawals by the owner.
d. expenses.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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103. The basic accounting equation **cannot** be restated as
   a. Assets – Liabilities = Owner's Equity.
   b. Assets – Owner's Equity = Liabilities.
   c. Owner's Equity + Liabilities = Assets.
   d. Assets + Liabilities = Owner's Equity.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

104. Owner's equity is decreased by all of the following **except**
   a. owner's investments.
   b. owner's withdrawals.
   c. expenses.
   d. owner's drawings.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

105. A net loss will result during a time period when
   a. liabilities exceed assets.
   b. drawings exceed investments.
   c. expenses exceed revenues.
   d. revenues exceed expenses.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

106. If total liabilities decreased by $40,000 and owner's equity increased by $30,000 during a period of time, then total assets must change by what amount and direction during that same period?
   a. $50,000 decrease
   b. $10,000 decrease
   c. $10,000 increase
   d. $50,000 increase

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

Solution: $30,000 – $40,000 = $10,000 decrease
(Incr. in owner's equity + decr. in liabl. = decr. in assets)

107. If total liabilities decreased by $40,000 and owner's equity decreased by $30,000 during a period of time, then total assets must change by what amount and direction during that same period?
   a. $70,000 decrease
   b. $10,000 decrease
   c. $10,000 increase
   d. $70,000 increase

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

Solution: ($40,000) + ($30,000) = ($70,000) decrease
(Decr. in liabl. + Decr. in owner's equity = Decr. in assets)

108. If total liabilities decreased by $60,000 and owner's equity increased by $30,000 during a period of time, then total assets must change by what amount and direction during that same period?
   a. $90,000 decrease

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b. $30,000 decrease
c. $30,000 increase
d. $90,000 increase

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

Solution: ($60,000) + $30,000 = ($30,000) decrease
(Decr. in liabl. + Incr. in owner's equity = Decr. in assets)

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109. If total liabilities decreased by $30,000 and owner's equity decreased by $15,000 during a period of time, then total assets must change by what amount and direction during that same period?
a. $45,000 decrease
b. $15,000 decrease
c. $15,000 increase
d. $45,000 increase

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

Solution: ($30,000) + ($15,000) = ($45,000) decrease
(Decr. in liabl. + Decr. in owner's equity = Decr. in assets)

110. If total liabilities increased by $9,000 during a period of time and owner's equity decreased by $25,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)
a. $34,000 decrease.
b. $16,000 decrease.
c. $16,000 increase.
d. $34,000 increase.

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

Solution: $9,000 – $25,000 = ($16,000) decrease
(Incr. in liabl + Decr. in owner's equity = Decr. in assets)

111. The accounting equation for Cineo Enterprises is as follows:

Assets		Liabilities		Owner's Equity
$120,000	=	$60,000	+	$60,000

If Cineo purchases office equipment on account for $15,000, the accounting equation will change to

	Assets		Liabilities		Owner's Equity
a.	$120,000	=	$60,000	+	$60,000
b.	$135,000	=	$60,000	+	$75,000
c.	$135,000	=	$67,500	+	$67,500
d.	$135,000	=	$75,000	+	$60,000

Ans: D, LO: 3, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: ($120,000 + $15,000) = ($60,000 + $15,000) + $60,000
[(Beg. asset tot. + Purch.) = (Beg. liabl. tot. + Purch.) + Beg. owner's equity tot.]

112. As of June 30, 2020, Little Giantz Company has assets of $100,000 and owner's equity of $60,000. What are the liabilities for Little Giantz Company as of June 30, 2020?
a. $40,000
b. $60,000
c. $100,000
d. $160,000

Ans: a, LO: 3, Bloom: AP, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $100,000 – $60,000 = $40,000
(Asset tot. – Owner's equity tot. = Liabl. tot.)

113. Owner's equity is increased by
a. drawings.

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b. revenues.
c. expenses.
d. liabilities.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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114. Owner's equity is decreased by
   a. assets.
   b. revenues.
   c. expenses.
   d. liabilities.

Ans: C, LO: 3, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

115. Revenues are
   a. the cost of assets consumed during the period.
   b. increases/decreases in assets/liabilities from selling goods or providing services.
   c. the cost of services used during the period.
   d. actual or expected cash outflows.

Ans: B, LO: 3, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

116. A net loss will result during a time period when
   a. assets exceed liabilities.
   b. assets exceed owner's equity.
   c. expenses exceed revenues.
   d. revenues exceed expenses.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

117. If total liabilities increased by $6,000, then
   a. assets must have decreased by $6,000.
   b. owner's equity must have increased by $6,000.
   c. assets must have increased by $6,000, or owner's equity must have decreased by $6,000.
   d. assets and owner's equity each increased by $3,000.

Ans: C, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

118. Collection of a $1,500 Accounts Receivable
   a. increases an asset $1,500; decreases an asset $1,500.
   b. increases an asset $1,500; decreases a liability $1,500.
   c. decreases a liability $1,500; increases owner's equity $1,500.
   d. decreases an asset $1,500; decreases a liability $1,500.

Ans: A, LO: 4, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

119. If an individual asset is increased, then a possibility for the other effect of the transaction is
   a. an equal decrease in a specific liability.
   b. an equal decrease in owner's equity.
   c. an equal decrease in another asset.
   d. All of these answer choices are possible.

Ans: C, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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120. If services are rendered for credit, then
   a. assets will decrease.
   b. liabilities will increase.
   c. owner's equity will increase.
   d. liabilities will decrease.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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121. If expenses are paid in cash, then
a. assets will increase.
b. liabilities will decrease.
c. owner's equity will increase.
d. assets will decrease.

Ans: d, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

122. If an owner makes a withdrawal of cash from a proprietorship, then
a. there has been a violation of accounting principles.
b. owner's equity will increase.
c. owner's equity will decrease.
d. there will be a new liability showing the owner owes money to the business.

Ans: C, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

123. If supplies that have been purchased are used in the course of business, then
a. a liability will increase.
b. an asset will increase.
c. owner's equity will decrease.
d. owner's equity will increase.

Ans: C, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

124. As of December 31, 2020, Cancon Company has assets of $42,000 and owner's equity of $22,000. What are the liabilities for Cancon Company as of December 31, 2020?
a. $22,000.
b. $20,000.
c. $42,000.
d. $64,000.

Ans: B, LO: 4, Bloom: AN, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $42,000 – $22,000 = $20,000
(Asset tot. – Owner's equity tot. = Liabl. tot.)

125. Which of the following events is **not** a business transaction?
a. Investment of cash by the owner.
b. Hired employees.
c. Incurred utility expenses for the month.
d. Earned revenue for services provided.

Ans: B, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

126. Big Bite Diner received a bill of $800 from the Blackstone Wine Advertising Agency. The owner, K. T. Lang, is postponing payment of the bill until a later date. The effect on specific items in the basic accounting equation is
a. a decrease in Cash and an increase in Accounts Payable.
b. a decrease in Cash and an increase in Owner's Capital.
c. an increase in Accounts Payable and a decrease in Owner's Capital.
d. a decrease in Accounts Payable and an increase in Owner's Capital.

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Ans: C, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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127. Mellon Company purchases $1,500 of equipment from Office Equipment Inc. for cash. The effect on the components of the basic accounting equation of Mellon Company is
a. an increase in assets and liabilities.
b. a decrease in assets and liabilities.
c. no change in total assets.
d. an increase in assets and a decrease in liabilities.

Ans: C, LO: 4, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

128. Net income results when
a. Assets > Liabilities.
b. Revenues = Expenses.
c. Revenues > Expenses.
d. Revenues < Expenses.

Ans: C, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

129. Owner's capital at the end of the period is equal to
a. owner's capital at the beginning of the period plus investments plus net income minus liabilities.
b. owner's capital at the beginning of the period plus investments plus net income minus drawings.
c. net income.
d. assets plus liabilities.

Ans: C, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

130. A balance sheet shows
a. revenues, liabilities, and owner's equity.
b. expenses, drawings, and owner's equity.
c. revenues, expenses, and drawings.
d. assets, liabilities, and owner's equity.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

131. An income statement
a. summarizes the changes in owner's equity for a specific period of time.
b. reports the changes in assets, liabilities, and owner's equity over a period of time.
c. reports the assets, liabilities, and owner's equity at a specific date.
d. presents the revenues and expenses for a specific period of time.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

132. If owner's equity increases from the beginning of the year to the end of the year, then
a. net income is less than owner drawings.
b. a net loss is less than owner drawings.
c. additional owner investments are less than net losses.
d. net income plus investments is greater than owner drawings.

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Ans: D, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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133. Eli's Electronic Repair Shop started the year with total assets of $300,000 and total liabilities of $200,000. During the year, the business recorded $400,000 in electronic repair revenues, $300,000 in expenses, and Eli withdrew $50,000. Eli's Owner's Capital balance at the end of the year was
a. $200,000.
b. $100,000.
c. $150,000.
d. $350,000.

Ans: C, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 3, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $300,000 - $200,000 = $100,000; $100,000 + ($400,000 - $300,000) - $50,000 = $150,000
[(Beg. assets – Beg. liabl. = Beg. owner's cap.); (Beg. owner's cap. + (Repair rev. – Exp.) – Draws. = End. owner's cap.)]

134. Eli's Electronic Repair Shop started the year with total assets of $300,000 and total liabilities of $200,000. During the year, the business recorded $400,000 in electronic repair revenues, $300,000 in expenses, and Eli withdrew $50,000. The net income reported by Eli's Electronic Repair Shop for the year was
a. $100,000.
b. $150,000.
c. $250,000.
d. $300,000.

Ans: A, LO: 5, Bloom: AP, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $400,000 – $300,000 = $100,000
(Repair rev. – exp. = Net inc.)

135. Eli's Electronic Repair Shop started the year with total assets of $300,000 and total liabilities of $200,000. During the year, the business recorded $400,000 in electronic repair revenues, $300,000 in expenses, and Eli withdrew $50,000. Eli's Owner's Capital balance changed by what amount from the beginning of the year to the end of the year?
a. $100,000.
b. $ 50,000.
c. $200,000.
d. $250,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: ($400,000 – $300,000) – $50,000 = $50,000
[(Repair rev. – Exp.) – Draws. = Chg. in owner's cap.]

136. The balance sheet is frequently referred to as
a. an operating statement.
b. the statement of financial position.
c. the statement of cash flows.
d. the statement of owner's equity.

Ans: B, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

137. The primary purpose of the statement of cash flows is to report
a. a company's investing transactions.
b. a company's financing transactions.

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c. information about cash receipts and cash payments of a company.
d. the net increase or decrease in cash.

Ans: C, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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138. All of the financial statements are for a period of time **except** the
a. income statement.
b. owner's equity statement.
c. balance sheet.
d. statement of cash flows.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

139. The ending owner's equity amount is shown on
a. the balance sheet only.
b. the owner's equity statement only.
c. both the income statement and the owner's equity statement.
d. both the balance sheet and the owner's equity statement.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

140. Alicia Keyes Company began the year with owner's equity of $280,000. During the year, the company recorded revenues of $375,000, expenses of $265,000, and had owner drawings of $30,000. What was Alicia Keyes' owner's equity at the end of the year?
a. $280,000.
b. $360,000.
c. $390,000.
d. $420,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $280,000 + ($375,000 – $265,000) – $30,000 = $360,000
[Beg. owner's equity + (Rev. – Exp.) – Draws. = End. owner's equity]

141. Martha Innocenzi Ito began the Innocenzi Company by investing $75,000 of cash in the business. The company recorded revenues of $555,000, expenses of $410,000, and had owner drawings of $30,000. What was Innocenzi's net income for the year?
a. $115,000.
b. $145,000.
c. $175,000.
d. $190,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $555,000 – $410,000 = $145,000
(Rev. – Exp. = Net inc.)

142. El Centro Company began the year with owner's equity of $30,000. During the year, El Centro received additional owner investments of $42,000, recorded expenses of $120,000, and had owner drawings of $12,000. If El Centro's ending owner's equity was $112,000, what was the company's revenue for the year?
a. $164,000.
b. $172,000.
c. $202,000.
d. $214,000.

Ans: B, LO: 5, Bloom: AN, Difficulty: Hard, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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Solution: $30,000 + $42,000 + (X – $120,000) – $12,000 = $112,000; X = $172,000
[Beg. owner's equity tot. + Add'l. invest. + (Rev. – Exp.) – Draws. = End. owner's equity tot.]

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143. Letty Company began the year with owner's equity of $105,000. During the year, Letty received additional owner investments of $147,000, recorded expenses of $420,000, and had owner drawings of $28,000. If Letty's ending owner's equity was $290,000, what was the company's revenue for the year?
a. $458,000.
b. $486,000.
c. $605,000.
d. $633,000.

Ans: B, LO: 5, Bloom: AN, Difficulty: Hard, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $105,000 + $147,000 + (X – $420,000) – $28,000 = $290,000; X = $486,000
[Beg. owner's equity tot. + Add'l. invest. + (Rev. – Exp.) – Draws. = End. owner's equity tot.]

144. Foxes Service Shop started the year with total assets of $320,000 and total liabilities of $240,000. During the year, the business recorded $630,000 in revenues, $450,000 in expenses, and owner drawings of $60,000.
Owner's equity at the end of the year was
a. $80,000.
b. $200,000.
c. $310,000.
d. $370,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: ($320,000 – $240,000) + ($630,000 – $450,000) – $60,000 = $200,000
[(Beg. assets – Beg. liabl. = Beg. owner's equity); (Beg. owner's equity + (Rev. – Exp.) – Draws. = End. owner's equity)]

145. Foxes Service Shop started the year with total assets of $320,000 and total liabilities of $240,000. During the year, the business recorded $630,000 in revenues, $450,000 in expenses, and owner drawings of $60,000.
The net income reported by Foxes Service Shop for the year was
a. $140,000.
b. $180,000.
c. $200,000.
d. $270,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $630,000 – $450,000 = $180,000
(Rev. – Exp. – Net inc.)

146. Mirah Company compiled the following financial information as of December 31, 2020:

Revenues	$340,000
Owner's Capital (1/1/20)	140,000
Equipment	80,000
Expenses	240,000
Cash	90,000
Owner's Drawings	20,000
Supplies	20,000
Accounts payable	40,000
Accounts receivable	70,000

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Mirah's assets on December 31, 2020 are
a. $190,000.
b. $260,000.
c. $360,000.
d $480,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $80,000 + $90,000 + $20,000 + $70,000 = $260,000
(Equip. + Cash + Supp. + Accts. rec. = Tot. assets)

147. Mirah Company compiled the following financial information as of December 31, 2020:

Revenues	$340,000
Owner's Capital (1/1/20)	140,000
Equipment	80,000
Expenses	240,000
Cash	90,000
Owner's Drawings	20,000
Supplies	20,000
Accounts payable	40,000
Accounts receivable	70,000

Mirah's owner's equity on December 31, 2020 is
a. $100,000.
b. $140,000.
c. $220,000.
d. $260,000.

Ans: C, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $140,000 + ($340,000 – $240,000) – $20,000 = $220,000
[Beg. owner's equity + (Rev. – Exp.) – Draws. = End. owner's equity]

148. Teamboo Company's owner's equity at the beginning of August 2020 was $740,000. During the month, the company earned net income of $175,000 and owner's drawings were $80,000. At the end of August 2020, what is the balance in owner's equity?
a. $660,000
b. $740,000
c. $820,000
d. $835,000

Ans: D, LO: 5, Bloom: AP, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $740,000 + $175,000 – $80,000 = $835,000
(Beg. owner's equity + Net inc. – Draws. = End. owner's equity)

149. On January 1, 2020, Utah Utility Company reported owner's equity of $705,000. During the year, the owner withdrew cash of $30,000. At December 31, 2020, the balance in owner's equity was $795,000. What amount of net income or net loss would the company report for 2020?
a. Net loss of $60,000
b. Net income of $90,000
c. Net income of $120,000
d. Net income of $150,000

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Ans: C, LO: 5, Bloom: AN, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $705,000 + X – $30,000 = $795,000; X = $120,000
(End. owner's equity – Beg. owner's equity + Draws. = Net inc.)

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150. Luis Consulting started the year with total assets of $60,000 and total liabilities of $17,000. During the year, the business recorded $48,000 in consulting revenues and $36,000 in expenses. Luis made an additional investment of $8,000 and withdrew cash of $9,000 during the year. The owner's equity at the end of the year was
a. $33,000.
b. $54,000.
c. $57,000.
d. $63,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: ($60,000 – $17,000) + ($48,000 – $36,000) + $8,000 – $9,000 = $54,000
[(Beg. assets – Beg. liabl. = Beg. owner's equity); (Beg. owner's equity + (Rev. – Exp.) + Add'l. invest. – Draws. = End. owner's equity)]

151. Luis Consulting started the year with total assets of $60,000 and total liabilities of $17,000. During the year, the business recorded $48,000 in consulting revenues and $36,000 in expenses. Luis made an additional investment of $8,000 and withdrew cash of $9,000 during the year. The net income reported by Luis Consulting for the year was:
a. $3,000.
b. $12,000.
c. $18,000.
d. $27,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $48,000 – $36,000 = $12,000
(Rev. – Exp. = Net inc.)

152. Luis Consulting started the year with total assets of $60,000 and total liabilities of $17,000. During the year, the business recorded $48,000 in consulting revenues and $36,000 in expenses. Luis made an additional investment of $8,000 and withdrew cash of $9,000 during the year. Owner's equity changed by what amount from the beginning of the year to the end of the year?
a. $3,000.
b. $11,000.
c. $12,000.
d. $45,000.

Ans: B, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: ($48,000 – $36,000) + $8,000 – $9,000 = $11,000
[(Rev. – Exp.) + Add'l. invest. – Draws. = Chg. in owner's equity]

153. During the year 2020, Dallas Company earned revenues of $90,000, had expenses of $62,000, purchased assets with a cost of $10,000 and had owner drawings of $6,000. Net income for the year is
a. $18,000.
b. $22,000.
c. $28,000.
d. $32,000.

Ans: C, LO: 5, Bloom: AP, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $90,000 – $62,000 = $28,000
(Rev. – Exp. = Net inc.)

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154. At October 1, Flambo Company reported owner's equity of $70,000. During October, no additional investments were made and the company earned net income of $18,000. If owner's equity at October 31 totals $80,000, what amount of owner drawings were made during the month?
a. $0
b. $8,000
c. $10,000
d. $26,000

Ans: B, LO: 5, Bloom: AN, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $70,000 + $18,000 – X = $80,000; X = $8,000
[(End. owner's equity – Beg. owner's equity = Chg. in owner's equity); (Chg. in owner's equity – Net inc. = Draws.)]

155. At October 1, Flambo Company reported owner's equity of $76,000. During October, no additional investments were made and the company posted a net loss of $8,000. If owner's equity at October 31 totals $64,000, what amount of owner drawings were made during the month?
a. $0
b. $4,000
c. $8,000
d. $16,000

Ans: B, LO: 5, Bloom: AN, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $76,000 – $8,000 – X = $64,000; X = $4,000
[(End. owner's equity – Beg. owner's equity = Chg. in owner's equity); (Chg. in owner's equity + Net loss = Draws.)]

156. At October 1, Flambo Company reported owner's equity of $70,000. During October, the owner made additional investments of $4,000 and the company earned net income of $14,000. If owner's equity at October 31 totals $78,000, what amount of owner drawings were made during the month?
a. $0
b. $4,000
c. $8,000
d. $10,000

Ans: D, LO: 5, Bloom: AN, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $70,000 + $4,000 + $14,000 – X = $78,000; X = $10,000
[(End. owner's equity – Beg. owner's equity = Chg. in owner's equity); (Chg. in owner's equity – Add'l. invest. – Net inc. = Draws.)]

157. At October 1, Flambo Company reported owner's equity of $68,000. During October, the owner made additional investments of $10,000 and the company posted a net loss of $4,000. If owner's equity at October 31 totals $70,000, what amount of owner drawings were made during the month?
a. $0
b. $4,000
c. $6,000
d. $10,000

Ans: B, LO: 5, Bloom: AN, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution: $68,000 + $10,000 – $4,000 – X = $70,000; X = $4,000
[(End. owner's equity – Beg. owner's equity = Chg. in owner's equity); (Chg. in owner's equity – Add'l. invest. + Net loss = Draws.)]

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158. Juggernaut Company buys a $29,000 van on credit. The transaction will affect the
a. income statement only.
b. balance sheet only.
c. income statement and owner's equity statement only.
d. income statement, owner's equity statement, and balance sheet.

Ans: B, LO: 5, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[a]159. All of the following are services offered by public accountants **except**
a. budgeting.
b. auditing.
c. tax planning.
d. consulting.

Ans: A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[a]160. Which list below best describes the major services performed by public accountants?
a. Bookkeeping, mergers, budgets.
b. Employee training, auditing, bookkeeping.
c. Auditing, taxation, management consulting.
d. Cost accounting, production scheduling, recruiting.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[a]161. Preparing tax returns and engaging in tax planning is performed by
a. public accountants only.
b. private accountants only.
c. both public and private accountants.
d. IRS accountants only.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[a]162. A private accountant can perform many activities in a business organization but would **not** work in
a. budgeting.
b. accounting information systems.
c. external auditing.
d. tax accounting.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

163. Auditing is
a. the examination of financial statements by a CPA in order to express an opinion on their fairness.
b. a part of accounting that involves only recording of economic events.
c. an area of accounting that involves such activities as cost accounting, budgeting, and accounting information systems.
d. conducted by the Securities and Exchange Commission to ensure that registered financial statements are presented fairly.

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Ans: A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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164. Which of the following is **not** a reason one set of international accounting standards are needed?
   a. Multinational corporations.
   b. Mergers and acquisitions.
   c. Information technology.
   d. All of these answer choices are reasons one set of international accounting standards are needed.

IFRS:
Ans: d, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

165. Which of the following is **not** a reason one set of international accounting standards are needed?
   a. Multinational corporations.
   b. Financial markets.
   c. Information technology.
   d. All of these answer choices are correct.

IFRS Ans: d, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

166. International accounting standards are referred to as
   a. IFRS.
   b. GAAP.
   c. IASB.
   d. FASB.

IFRS
Ans: a, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

167. U.S. accounting standards are referred to as
   a. IFRS.
   b. GAAP.
   c. IASB.
   d. FASB.

IFRS
Ans: b, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

168. International accounting standards are developed by the
   a. IFRS.
   b. GAAP.
   c. IASB.
   d. FASB.

IFRS
Ans: c, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

169. U.S. accounting standards are developed primarily by the
   a. IFRS.
   b. GAAP.
   c. IASB.
   d. FASB.

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IFRS
Ans: d, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

170. The United States and the international standard-setting environment are primarily driven by meeting the needs of
a. investors and creditors.
b. tax authorities.
c. central government planners.
d. academic researchers.

IFRS
Ans: a, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

171. The internal control standards applicable to Sarbanes-Oxley apply to
a. all U.S. and international companies.
b. U.S. and international companies listed on U.S. exchanges.
c. International companies listed on U.S. exchanges.
d. U.S. companies listed on U.S. exchanges.

IFRS
Ans: d, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

172. Sarbanes-Oxley standards center on
a. internal control standards of U.S. publicly traded companies.
b. internal control standards enforced by the IASB.
c. international tax regulations.
d. U.S. tax regulations.

IFRS
Ans: 1, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

173. The basic accounting equation is valid
a. neither in the U.S. nor internationally.
b. in the U.S. but not internationally.
c. internationally but not in the U.S.
d. in the U.S. and internationally.

IFRS
Ans: d, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

174. IFRS, compared to GAAP, tends to be more
a. detailed.
b. rules-based.
c. principles-based.
d. full of disclosure requirements.

IFRS
Ans: C, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

175. GAAP, compared to IFRS, tends to be more
a. simple in accounting requirements.
b. rules-based.

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c. principles-based.
d. simple in disclosure requirements.

IFRS

Ans: B, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

176. Proprietorships, partnerships, and corporations
a. are the three most common forms of business organizations in the U.S.
b. are the three most common forms of business organizations internationally.
c. are used in different proportions in different countries.
d. all of these answer choices are correct.

IFRS

Ans: D, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

177. International Financial Accounting Standards
a. apply to international companies, but not U.S. companies.
b. apply to international and U.S. companies.
c. are developed by the FASB.
d. are developed by the FASB, and apply to international and U.S. companies.

Ans: a, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Global and Industry Perspectives, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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BRIEF EXERCISES

BE 178

Match the following external users of financial accounting information with the type of decision that users will make with the information.

a. Creditor
b. Investor
c. Regulatory Agency
d Internal Revenue Service

_____ (1) Is the company operating within prescribed guidelines?

_____ (2) Is the company complying with tax laws?

_____ (3) Is the company able to pay its debts?

_____ (4) Is the company a good investment?

Solution 178

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

Ans: N/A, LO: 1, Bloom: C, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

BE 179

Match the following terms and definitions.

a. Accounts receivable
b. Creditor
c. Accounts payable
d. Notes payable

_____ (1) Amounts due from customers

_____ (2) Amounts owed to suppliers for goods and services purchased

_____ (3) Amounts owed to bank

_____ (4) Party to whom money is owed

Solution 179

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

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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BE 180

Indicate which of these items is an asset (A), liability (L) or owner's equity (OE) account.

_____ (1) Supplies

_____ (2) Owner's Drawings

_____ (3) Buildings

_____ (4) Notes Payable

_____ (5) Salaries and Wages Payable

Solution 180

1. Asset (A)
2. Owner's equity (OE)
3. Asset (A)
4. Liability (L)
5. Liability (L)

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Goverrnance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

BE 181

Use the accounting equation to answer the following questions.

1. Penny Sales Co. has total assets of $140,000 and total liabilities of $54,000. What is owner's equity?
2. The Virtual Sun Center has total assets of $252,000 and owner's equity of $100,000. What are total liabilities?
3. Columbia River Restaurant has total liabilities of $50,000 and owner's equity of $80,000. What are total assets?

Solution 181

1. $140,000 – $54,000 = $86,000 owner's equity
2. $252,000 – $100,000 = $152,000 total liabilities
3. $50,000 + $80,000 = $130,000 total assets

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Goverrnance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[1: (Tot. assets – Tot. liabl. = Tot. owner's equity); 2: (Tot. assets – Tot. owner's equity = Tot. liabl.); 3: (Tot. liabl. + Tot. owner's equity = Tot. assets)]

BE 182

Determine the missing items.

Assets	=	Liabilities	+	Owner's Equity
$85,000		$52,000		(a)
(b)		$28,000		$34,000
$84,000		(c)		$50,000

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Solution 182

a. $33,000
b. $62,000
c. $34,000

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[(a): (Assets – Liabl. = Owner's equity); (b): (Liabl. + Owner's equity = Assets); (c): (Assets – Owner's equity = Liabl.)]

BE 183

Classify each of these items as an asset (A), liability (L), or owner's equity (OE).

_____ 1. Accounts receivable
_____ 2. Accounts payable
_____ 3. Owner's Capital
_____ 4. Supplies
_____ 5. Utilities expense
_____ 6. Cash
_____ 7. Notes payable
_____ 8. Equipment

Solution 183 (5 min.)

1. A
2. L
3. OE
4. A
5. OE
6. A
7. L
8. A

Ans: N/A, LO: 3, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

BE 184

Identify the impact on the accounting equation of each of the following transactions.
1. Purchase office supplies on account.
2. Paid secretary weekly salary.
3. Purchased office furniture for cash.
4. Received monthly utility bill to be paid at later time.

Solution 184 (5 min.)

1. Increase assets and increase liabilities.
2. Decrease assets and decrease owner's equity.
3. Increase assets and decrease assets.
4. Increase liabilities and decrease owner's equity.

Ans: N/A, LO: 4, Bloom: C, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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BE 185

Balance sheet amounts as of December 31, 2020 for K-12 Tutoring Service are listed below. Prepare a balance sheet in good form.

Accounts Payable	$ 300
Accounts Receivable	1,000
Cash	500
Owner's Capital	?

Solution 185 (5 min.)

K-12 TUTORING SERVICE
Balance Sheet
December 31, 2020

Assets		Liabilities and Owner's Equity	
Cash	$ 500	Accounts Payable	$ 300
Accounts Receivable	1,000	Owner's, Capital	1,200
Total assets	$1,500	Total liabilities and owner's equity	$1,500

LO5 BT: AP Difficulty: Medium TOT: 5 min. AACSB: Analytic AICPA FC: Reporting
Owner's Capital = (Cash + Accts. rec.) – Accts. pay.

BE 186

Identify whether the following items would be reported on the income statement (IS) or balance sheet (BS).

1. Cash
2. Service Revenue
3. Notes Payable
4. Interest Expense
5. Accounts Receivable

Solution 186

1. Balance Sheet (BS)
2. Income Statement (IS)
3. Balance Sheet (BS)
4. Income Statement (IS)
5. Balance Sheet (BS)

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

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BE 187

Use the following information to calculate for the year ended December 31, 2020 (a) net income, (b) ending owner's equity, and (c) total assets.

Supplies	$ 3,000	Revenues	$25,000
Operating expenses	11,000	Cash	15,000
Accounts payable	9,000	Drawings	1,000
Accounts receivable	3,000	Notes payable	2,000
Beginning Capital	5,000	Equipment	8,000

Solution 187

(a) $14,000 (b) $18,000 (c) $29,000

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

[(a) (Rev. – Oper. exp. = Net inc.); (b) (Beg. cap. + (Rev. – Oper. exp.) – Draws. = End. owner's equity); (c): (Supp. + Accts. rec. + Cash + Equip. = Tot. assets)]

BE 188

Listed below in alphabetical order are the balance sheet items of Middleton Company at December 31, 2020. Prepare a balance sheet and include a complete heading.

Accounts payable	$ 21,000
Accounts receivable	15,000
Buildings	91,000
Cash	6,000
Equipment	17,000
Owner's Capital	108,000

Solution 188

MIDDLETON COMPANY
Balance Sheet
December 31, 2020

ASSETS

Cash	$ 6,000
Accounts receivable	15,000
Equipment	17,000
Buildings	91,000
Total assets	$129,000

LIABILITIES AND OWNER'S EQUITY

Liabilities	
Accounts payable	$ 21,000
Owner's equity	
Owner's capital	108,000
Total liabilities and owner's equity	$129,000

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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[(Cash + Accts. rec. + Equip. + Bldgs.) = (Accts. pay. + Owner's cap.)]

EXERCISES

Ex. 189

Below is a list of important abbreviations widely used in business. For each abbreviation give the full designation.

1. CPA _____
2. IRS _____
3. FBI _____
4. FASB _____
5. GAAP _____
6. SEC _____

Solution 189

1. Certified Public Accountant
2. Internal Revenue Service
3. Federal Bureau of Investigation
4. Financial Accounting Standards Board
5. Generally Accepted Accounting Principles
6. Securities and Exchange Commission

Ans: N/A, LO: 1,4, Bloom: K, Difficulty: Moderate, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Ex. 190

Determine the missing amount for each of the following.

	Assets	=	Liabilities	+	Owner's Equity
1.	(a)		$55,000		$95,000
2.	$125,000		(b)		$85,000
3.	$160,000		$65,000		(c)

Solution 190

1. (a) = $150,000 ($55,000 + $95,000)
2. (b) = $40,000 ($125,000 - $85,000)
3. (c) = $95,000 ($160,000 - $65,000)

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

[(a): (Liabl. + Owner's equity = Assets); (b): (Assets – Owner's equity = Liabl.); (c): (Assets – Liabl. = Owner's equity)]

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Ex. 191

For the items listed below, fill in the appropriate code letter to indicate whether the item is an asset, liability, or owner's equity item.

	Code
Asset	A
Liability	L
Owner's Equity	OE

_____ 1. Rent Expense

_____ 2. Equipment

_____ 3. Accounts Payable

_____ 4. Owner’s Capital

_____ 5. Insurance Expense

____ 6. Cash

____ 7. Accounts Receivable

____ 8. Owner’s Drawings

____ 9. Service Revenue

____ 10. Notes Payable

Solution 191

1. OE
2. A
3. L
4. OE
5. OE
6. A
7. A
8. OE
9. OE
10. L

Ans: N/A, LO: 3, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Ex. 192

At the beginning of the year, Shaolin Company had total assets of $520,000 and total liabilities of $210,000. Answer the following questions viewing each situation as being independent of the others.

(1) If total assets increased $200,000 during the year, and total liabilities decreased $75,000, what is the amount of owner's equity at the end of the year?

(2) During the year, total liabilities increased $230,000 and owner's equity decreased $90,000. What is the amount of total assets at the end of the year?

(3) If total assets decreased $40,000 and owner's equity increased $130,000 during the year, what is the amount of total liabilities at the end of the year?

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Solution 192

	Total Assets		Total Liabilities		Owner's Equity
Beginning	$520,000		$210,000		
Change	200,000		(75,000)		
Ending	$720,000	–	$135,000	=	$585,000 (1)

	Total Assets		Total Liabilities		Owner's Equity
Beginning	$520,000		$210,000		$310,000
Change			230,000		(90,000)
Ending	$660,000 (2)	=	$440,000	+	$220,000

	Total Assets		Total Liabilities		Owner's Equity
Beginning	$520,000		$210,000		$310,000
Change	(40,000)				130,000
Ending	$480,000	=	$ 40,000 (3)	+	$440,000

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[(1): ((Beg. assets + Incr.) – (Beg. liabl. – Decr.) = End. owner's equity); (2): (Beg. assets – Beg. liabl. = Beg. owner's equity); (Beg. liabl. + Incr.) + (Beg. owner's equity – Decr. = End. assets); (3): (Beg. assets – Beg. liabl. = Beg. owner's equity); (Beg. assets – Decr.) – (Beg. owner's equity + Incr.) = End. liabl.)]

Ex. 193

Tesla Car Cleaning has the following accounts:

Accounts Receivable	Notes Payable
Accounts Payable	Owner's Capital
Cash	Owner's Drawing
Supplies	Equipment

Identify which items are
(1) Assets
(2) Liabilities
(3) Owner's Equity

Solution 193

(1) Assets—Equipment, Cash, Supplies, Accounts Receivable
(2) Liabilities—Accounts Payable, Notes Payable
(3) Owner's Equity— Owner's Capital, Owner's Drawing

Ans: N/A, LO: 3, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Ex. 194

On June 1, 2020, Secretly Canadian Company prepared a balance sheet that shows the following:

Assets (no cash)	$100,000
Liabilities	45,000
Owner's Equity	55,000

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Ex. 194 (cont.)

Shortly thereafter, all of the assets were sold for cash. How would the balance sheet appear immediately after the sale of the assets for cash for each of the following cases?

	Cash Received for the Assets	Balances Immediately After Sale				
		Assets	–	Liabilities	=	Owner's Equity
Cash A	$110,000	$_____		$_____		$_____
Cash B	100,000	_____		_____		_____
Cash C	90,000	_____		_____		_____

Solution 194

	Cash Received for the Assets	Balances Immediately After Sale				
		Assets	–	Liabilities	=	Owner's Equity
Cash A	$110,000	$110,000		$45,000		$65,000
Cash B	100,000	100,000		45,000		55,000
Cash C	90,000	90,000		45,000		45,000

Ans: N/A, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[(Cash A: Assets = Cash rec'd; Liabl. = Amt. given; Owner's equity = Assets – Liabl.); (Cash B: Assets = Cash rec'd; Liabl. = Amt. given; Owner's equity = Assets – Liabl.); (Cash C: Assets = Cash rec'd; Liabl. = Amt. given; Owner's equity = Assets – Liabl.)]

Ex. 195

At the beginning of 2020, Stand First Company had total assets of $520,000 and total liabilities of $270,000. Answer each of the following questions.

1. If total assets increased $60,000 and owner's equity decreased $90,000 during the year, determine the amount of total liabilities at the end of the year.
2. During the year, total liabilities decreased $73,000 and owner's equity increased $50,000. Compute the amount of total assets at the end of the year.
3. If total assets decreased $105,000 and total liabilities increased $55,000 during the year, determine the amount of owner's equity at the end of the year.

Solution 195

1. Ending Total Liabilities = ($520,000 + $60,000) – ($520,000 – $270,000 - $90,000)
   = $580,000 – $160,000 = $420,000
2. Ending Total Assets = ($270,000 – $73,000) + ($520,000 – $270,000 + $50,000)
   = $197,000 + $300,000 = $497,000
3. Ending Owner's Equity = ($520,000 – $105,000) – ($270,000 + $55,000)
   = $415,000 – $325,000 = $90,000

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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[(1): ((Beg. assets + Incr.) – ((Beg. assets – Beg. liabl.) – Decr. in owner's equity) = End. liabl.); (2): ((Beg. liabl. – Decr.) + ((Beg. assets – Beg. liabl.) + Incr. in owner's equity) = End. assets); (3): ((Beg. assets – Decr.) – (Beg. liabl. + Incr.) = End. owner's equity)]

Ex. 196

Compute the missing amount in each category of the accounting equation.

	Assets	Liabilities	Owner's Equity
(a)	$319,000	$?	$143,000
(b)	$223,000	$ 79,000	$?
(c)	$?	$233,000	$325,000

Solution 196

(a) $176,000 ($319,000 – $143,000 = $176,000).
(b) $144,000 ($223,000 – $79,000 = $144,000).
(c) $558,000 ($233,000 + $325,000 = $558,000).

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[(a): Assets – Owner's equity = Liabl.); (b): (Assets – Liabl. = Owner's equity); (c): (Liabl. + Owner's equity = Assets)]

Ex. 197

From the following list of selected accounts taken from the records of Lori's Landscaping Center, identify those that would appear on the balance sheet.

a. Owner's Capital
b. Service Revenue
c. Land
d. Salaries and Wages Expense
e. Notes Payable
f. Accounts Payable
g. Cash
h. Rent Expense
i. Supplies
j. Utilities Expense

Solution 197

a, c, e, f, g, i

Ans: N/A, LO: 3, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Ex. 198

Selected transactions for Mountain Goats Tree Service are listed below.
1. Made cash investment to start business.
2. Paid for monthly advertising.
3. Purchased supplies on account.
4. Billed customers for services performed.
5. Withdrew cash for owner's personal use.
6. Received cash from customers billed in (4).
7. Incurred utilities expense on account.
8. Purchased additional supplies for cash.
9. Received cash from customers when service was performed.

Instructions

List the numbers of the above transactions and describe the effect of each transaction on assets,

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liabilities, and owner's equity. For example, the first answer is: (1) Increase in assets and increase in owner's equity.

Ex. 198 (Continued)

Solution 198

1. Increase in assets and increase in owner's equity.
2. Decrease in assets and decrease in owner's equity.
3. Increase in assets and increase in liabilities.
4. Increase in assets and increase in owner's equity.
5. Decrease in assets and decrease in owner's equity.
6. Increase in assets and decrease in assets.
7. Increase in liabilities and decrease in owner's equity.
8. Increase in assets and decrease in assets.
9. Increase in assets and increase in owner's equity.

Ans: N/A, LO: 3,4, Bloom: C, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Ex. 199

Loya Company entered into the following transactions during March 2020.
1. Purchased office equipment for $25,000 from Office Equipment, Inc. on account.
2. Paid $3,000 cash for March rent on office furniture.
3. Received $18,000 cash from customers for services billed in February.
4. Provided legal services to Miguel Construction Company for $3,500 cash.
5. Paid Western States Power Co. $2,500 cash for electric usage in March.
6. F. Loya invested an additional $32,000 in the business.
7. Paid Office Equipment, Inc. for the office equipment purchased in (1) above.
8. Incurred advertising expense for March of $1,600 on account.

Instructions
Indicate with the appropriate letter whether each of the transactions above results in:
(a) an increase in assets and a decrease in assets.
(b) an increase in assets and an increase in owner's equity.
(c) an increase in assets and an increase in liabilities.
(d) a decrease in assets and a decrease in owner's equity.
(e) a decrease in assets and a decrease in liabilities.
(f) an increase in liabilities and a decrease in owner's equity.
(g) an increase in owner's equity and a decrease in liabilities.

Solution 199

1.	(c)	5.	(d)
2.	(d)	6.	(b)
3.	(a)	7.	(e)
4.	(b)	8.	(f)

Ans: N/A, LO: 3,4, Bloom: C, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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Ex. 200

Two items are omitted from each of the following summaries of balance sheet and income statement data for two proprietorships for the year 2020, Holly Enterprises and Cat Stevens.

	Holly Enterprises	Cat Stevens
Beginning of year:		
Total assets	$ 98,000	$129,000
Total liabilities	60,000	(c)
Total owner's equity	(a)	85,000
End of year:		
Total assets	160,000	180,000
Total liabilities	100,000	50,000
Total owner's equity	60,000	130,000
Changes during year in owner's equity:		
Additional investment	(b)	25,000
Drawings	25,000	(d)
Total revenues	215,000	100,000
Total expenses	185,000	65,000

Instructions
Determine the missing amounts.

Solution 200

(a)

Total assets (beginning of year)	$98,000
Total liabilities (beginning of year)	(60,000)
Total owner's equity (beginning of year)	$38,000

(b)

Total owner's equity (end of year)		$60,000
Total owner's equity (beginning of year)		(38,000)
Increase in owner's equity		$22,000
Total revenues		$215,000
Total expenses		185,000
Net income		$ 30,000
Increase in owner's equity		$22,000
Less: Net income	$(30,000)	
Add: Drawings	25,000	(5,000)
Additional investment		$17,000

(c)

Total assets (beginning of year)	$129,000
Total owner's equity (beginning of year)	(85,000)
Total liabilities (beginning of year)	$ 44,000

(d)

Total owner's equity (end of year)	$130,000
Total owner's equity (beginning of year)	(85,000)
Increase in owner's equity	$ 45,000

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Solution 200 (cont.)

Total revenues		$100,000
Total expenses		(65,000)
Net income		$ 35,000
Increase in owner's equity		$45,000
Less: Net income	$ 35,000	
Additional investment	25,000	(60,000)
Drawings		$(15,000)

Ans: N/A, LO: 3,4, Bloom: AP, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[(a): (Beg. tot. assets – Beg. tot. liabl. = Beg. tot. owner's equity); (b): ((End. owner's equity – Beg. owner's equity) – (Tot. rev. – Tot. exp.) + Draws = Add'l. invest.); (c): (Beg. tot. assets – Beg. tot. owner's equity = Beg. liabl.); (d): ((End. owner's equity – Beg. owner's equity) – (Tot. rev. – Tot. exp.) – Add'l. invest. = Draws.)]

Ex. 201

An analysis of the transactions made by R&H Blacke Co., a tax firm, for the month of July is shown below. Each increase and decrease in owner's equity is explained.

	Cash +	Accounts Receivable +	Supplies +	Equipment =	Accounts Payable +	Owner's Equity Owner's Capital
1.	+$13,000					+$13,000 Investment
2.	- 2,000			+$5,000	+$3,000	
3.	- 950		+$950			
4.	+ 2,500	+$7,000				+ 9,500 Service Revenue
5.	- 1,500				- 1,500	
6.	- 2,500					- 2,500 Drawings
7.	- 750					- 750 Rent Expense
8.	+ 580	- 580				
9.	- 4,200					- 4,200 Salaries Expense
10.					+ 500	- 500 Utilities Expense

Instructions
(a) Determine how much owner's equity increased for the month.
(b) Compute the amount of net income for the month.

Solution 201

(a)	Investment	$13,000
	Service revenue	9,500
	Drawings	(2,500)
	Rent expense	(750)
	Salaries expense	(4,200)
	Utilities expense	(500)
	Increase in capital	$14,550

Solution 201 (cont.)

(b)	Service revenue	$9,500
	Rent expense	(750)
	Salaries expense	(4,200)
	Utilities expense	(500)
	Net income	$4,050

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[(a): (Invest. + Serv. rev. – Draws. – Rent exp. – Sal. exp. – Util. exp. = Incr. in cap.); (b): (Serv. rev. – Rent exp. – Sal. exp. – Util. exp. = Net inc.)]

Ex. 202

The Constantine Company had the following assets and liabilities on the dates indicated.

December 31	Total Assets	Total Liabilities
2019	$480,000	$250,000
2020	$460,000	$220,000
2021	$590,000	$300,000

Constantine began business on January 1, 2019, with an investment of $100,000.

Instructions

From an analysis of the change in owner's equity during the year, compute the net income (or loss) for:
(a) 2019, assuming Constantine's drawings were $45,000 for the year.
(b) 2020, assuming Constantine made an additional investment of $50,000 and had no drawings in 2020.
(c) 2021, assuming Constantine made an additional investment of $15,000 and had drawings of $40,000 in 2021.

Solution 202

(a)	Owner's equity—12/31/19 ($480,000 – $250,000)	$230,000
	Owner's equity—1/1/19	(100,000)
	Increase in owner's equity	130,000
	Add: Drawings	45,000
	Net income for 2019	$175,000
(b)	Owner's equity—12/31/20 ($460,000 – $220,000)	$240,000
	Owner's equity—1/1/20—see (a)	(230,000)
	Increase in owner's equity	10,000
	Less: Additional investment	50,000
	Net loss for 2020	$ (40,000)
(c)	Owner's equity—12/31/21 ($590,000 – $300,000)	$290,000
	Owner's equity—1/1/21—see (b)	(240,000)
	Increase in owner's equity	50,000
	Less: Additional investment	(15,000)
		35,000
	Add: Drawings	40,000
	Net income for 2021	$ 75,000

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Ans: N/A, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Solution 202 (cont.)

[(a): (((End. assets – End. liabl.) – Beg. owner's equity) + Draws. = Net inc.); (b): (((End. assets – End. liabl.) – Beg. owner's equity) – Add'l. invest. = Net loss); (c): (((End. assets – End. liabl.) – Beg. owner's equity) – Add'l. invest. + Draws. = Net inc.)]

Ex. 203

For each of the following, indicate whether the transaction affects revenue (R), expense (E), owner's drawing (D), owner's investment (I), or no effect on owner's equity (NOE).

1. Made an investment to start the business.
2. Billed customers for services performed.
3. Purchased equipment on account.
4. Paid monthly rent.
5. Withdrew cash for personal use.

Solution 203

1. Investment (I)
2. Revenue (R)
3. No effect (NOE)
4. Expense (E)
5. Drawing (D)

Ans: N/A, LO: 4, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Ex. 204

Presented below is a balance sheet for Mark Bledsoe Yard Service at December 31, 2020.

MARK BLEDSOE YARD SERVICE
Balance Sheet
December 31, 2020

Assets		Liabilities and Owner's Equity	
Cash	$13,000	Liabilities	
Accounts receivable	6,000	Accounts payable	$ 8,000
Supplies	9,000	Notes payable	15,000
Equipment	11,000	Owner's equity	
		Owner's capital	16,000
Total assets	$39,000	Total liabilities & owner's equity	$39,000

The following additional data are available for the year which began on January 1: All expenses (excluding supplies expense) total $6,000. Supplies on January 1, were $11,000 and $7,000 of supplies were purchased during the year. Net income for the year was $8,000 and drawings were $9,000.

Instructions
Determine the following: (Show all computations.)

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1. Supplies used during the year.
2. Total expenses for the year.
3. Service revenues for the year.
4. Owner's capital balance on January 1.

Solution 204

1. Computation of Supplies Used:

Beginning Supplies, Jan. 1	$11,000
Add: Purchases	7,000
Less: Ending Supplies, Dec. 31	(9,000)
Equals: Supplies Used	$ 9,000

2. Computation of Total Expenses:

All Expenses (excluding supplies expense)	$ 6,000
Plus: Supplies Used	9,000
Total Expenses	$15,000

3. Computation of Revenues:

Net Income	$ 8,000
Plus: Total Expenses	15,000
Total Revenues	$23,000

4. Computation of Owner's Capital on January 1:

Capital, December 31	$16,000
Plus: Drawings	9,000
Less: Net Income	(8,000)
Capital, January 1	$17,000

Ans: N/A, LO: 4, Bloom: AN, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

[(1): (Beg. supp. + Purch. – End. sup. = Supp. used); (2): (All exp. except sup. exp + Supp. used = Tot. exp.); (3): (Net inc. + Tot. exp. = Tot. rev.); (4): (End. cap. + Draws. – Net inc. = Beg. cap.)]

Ex. 205

Analyze the transactions of a business organized as a proprietorship described below and indicate their effect on the basic accounting equation. Use a plus sign (+) to indicate an increase and a minus sign (–) to indicate a decrease.

	Assets	=	Liabilities	+	Owner's Equity
1. Received cash for services rendered.	_____		_____		_____
2. Purchased office equipment on credit.	_____		_____		_____
3. Paid employees' salaries.	_____		_____		_____
4. Received cash from customer in payment on account.	_____		_____		_____
5. Paid telephone bill for the month.	_____		_____		_____
6. Paid for office equipment purchased in transaction 2.	_____		_____		_____
7. Purchased office supplies on credit.	_____		_____		_____

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8. Owner withdrew cash for personal expenses.	_____	_____	_____
9. Obtained a loan from the bank.	_____	_____	_____
10. Billed customers for services rendered.	_____	_____	_____

Solution 205

	Assets	=	Liabilities	+	Owner's Equity
1. Received cash for services rendered.	+				+
2. Purchased office equipment on credit.	+		+		
3. Paid employees' salaries.	–				–
4. Received cash from customer in payment on account.	+,–				
5. Paid telephone bill for the month.	–				–
6. Paid for office equipment purchased in transaction 2.	–		–		
7. Purchased office supplies on credit.	+		+		
8. Owner withdrew cash for personal expenses.	–				–
9. Obtained a loan from the bank.	+		+		
10. Billed customers for services rendered.	+				+

Ans: N/A, LO: 4, Bloom: C, Difficulty: Moderate, Min: 10, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Ex. 206

For each of the following, indicate whether the transaction increased (+), decreased (-), or had no effect (NE) on assets, liabilities, and owner's equity using the following format.

Assets = Liabilities + Owner's Equity

1. Made an investment to start the business.
2. Billed customers for services performed.
3. Purchased equipment on account.
4. Withdrew cash for personal use.
5. Paid for equipment purchased in 3. above.

Solution 206

	Assets	=	Liabilities	+	Owner's Equity
1.	+		NE		+
2.	+		NE		+
3.	+		+		NE
4.	–		NE		–

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5. – – NE

Ans: N/A, LO: 4, Bloom: C, Difficulty: Easy, Min: 10, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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Ex. 207

Maria Martinez decides to open a cleaning and laundry service near the local college campus that will operate as a sole proprietorship. Analyze the following transactions for the month of June in terms of their effect on the basic accounting equation. Record each transaction by increasing (+) or decreasing (–) the dollar amount of each item affected. Indicate the new balance of each item after a transaction is recorded. It is not necessary to identify the cause of changes in owner's equity.

Transactions

(1) Maria Martinez invests $25,000 in cash to start a cleaning and laundry business on June 1.
(2) Purchased equipment for $5,000 paying $3,500 in cash and the remainder due in 30 days.
(3) Purchased supplies for $1,200 cash.
(4) Received a bill from College Clarion for $200 for advertising in the campus newspaper.
(5) Cash receipts from customers for cleaning and laundry amounted to $2,600.
(6) Paid salaries of $600 to student workers.
(7) Billed the Tiger Tennis Team $480 for cleaning and laundry services.
(8) Paid $200 to College Clarion for advertising that was previously billed in Transaction 4.
(9) Maria Martinez withdrew $1,300 from the business for living expenses.
(10) Incurred utility expenses for month on account, $500.

Trans-action	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Owner's Capital
(1)											
Balance											
(2)											
Balance											
(3)											
Balance											
(4)											
Balance											
(5)											
Balance											
(6)											
Balance											
(7)											
Balance											
(8)											
Balance											
(9)											

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Ex. 207 (Cont'd)

Balance (10)							
Totals							

Solution 207

Trans-action	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Owner's Capital
(1)	+$25,000										+$25,000
Balance (2)	$25,000 – 3,500						+$5,000		+$1,500		$25,000
Balance (3)	$21,500 – 1,200				+$1,200		$5,000		$1,500		$25,000
Balance (4)	$20,300				$1,200		$5,000		$1,500 + 200		$25,000 – 200
Balance (5)	$20,300 + 2,600				$1,200		$5,000		$1,700		$24,800 + 2,600
Balance (6)	$22,900 – 600				$1,200		$5,000		$1,700		$27,400 – 600
Balance (7)	$22,300		+$480		$1,200		$5,000		$1,700		$26,800 + 480
Balance (8)	$22,300 – 200		$480		$1,200		$5,000		$1,700 – 200		$27,280
Balance (9)	$22,100 – 1,300		$480		$1,200		$5,000		$1,500		$27,280 – 1,300
Balance (10)	$20,800		$480		$1,200		$5,000		$1,500 + 500		$25,980 – 500
Totals	$20,800		$480		$1,200		$5,000		$2,000		$25,480

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Moderate, Min: 20, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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Ex. 208

For each of the following, describe a transaction that will have the stated effect on the elements of the accounting equation.

(a) Increase one asset and decrease another asset.
(b) Increase an asset and increase a liability.
(c) Decrease an asset and decrease a liability.
(d) Increase an asset and increase owner's equity.
(e) Increase one asset, decrease one asset, and increase a liability.

Solution 208

(a) Receive cash from customers on account.
Purchase supplies for cash.

(b) Purchase supplies on account.
Purchase equipment and signed a note payable.

(c) Pay cash to reduce accounts payable.
Pay cash to reduce a note payable.

(d) Initial contribution by an owner.
Additional contributions by an owner.
Render services on account (or for cash).

(e) Buy equipment with a cash down payment and the remainder financed by a note payable.

Ans: N/A, LO: 4, Bloom: C, Difficulty: Moderate, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Ex. 209

The following transactions represent part of the activities of Tea Party Company for the first month of its existence. Indicate the effect of each transaction upon the total assets of the business by one of the following phrases: increased total assets, decreased total assets, or no change in total assets.

(a) The owner invested cash to start the business.
(b) Purchased a computer for cash.
(c) Purchased office equipment using a note payable.
(d) Paid the first month's utility bill.
(e) Collected an accounts receivable.
(f) Owner withdrew cash from the business.

Solution 209

(a) Increased total assets.
(b) No change in total assets.
(c) Increased total assets.
(d) Decreased total assets.
(e) No change in total assets.
(f) Decreased total assets.

Ans: N/A, LO: 4, Bloom: C, Difficulty: Moderate, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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Ex. 210

Selected transactions for Parton Company are listed below. List the number of the transaction and then describe the effect of each transaction on assets, liabilities, and owner's equity.

Sample: Made initial cash investment in the business.
The answer would be—Increase in assets and increase in owner's equity.

1. Paid monthly utility bill.
2. Purchased new display case for cash.
3. Paid cash for repair work on security system.
4. Billed customers for services performed.
5. Received cash from customers billed in 4.
6. Withdrew cash for owner's personal use.
7. Incurred advertising expenses on account.
8. Paid monthly rent.
9. Received cash from customers when service was rendered.

Solution 210

1. Decrease in assets and decrease in owner's equity.
2. No net change in assets.
3. Decrease in assets and decrease in owner's equity.
4. Increase in assets and increase in owner's equity.
5. No net change in assets.
6. Decrease in assets and decrease in owner's equity.
7. Increase in liabilities and decrease in owner's equity.
8. Decrease in assets and decrease in owner's equity.
9. Increase in assets and increase in owner's equity.

Ans: N/A, LO: 4, Bloom: C, Difficulty: Moderate, Min: 5, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Ex. 211

A service proprietorship shows five transactions summarized below. The effect of each transaction on the accounting equation is shown, and also the new balance of each item in the equation. For each transaction (a) to (e) write an explanation of the nature of the transaction.

	Cash	+	Accounts Rec.	+	Equip-ment	+	Land	+	Building	=	Accounts Payable	+	Owner's Capital
	$5,000		$6,500		$10,000		$7,500		$50,000		$3,000		$76,000
a)	–2,000												–2,000
	3,000		6,500		10,000		7,500		50,000		3,000		74,000
b)	+1,500		– 1,500										
	4,500		5,000		10,000		7,500		50,000		3,000		74,000
c)					+ 6,000						+6,000		
	4,500		5,000		16,000		7,500		50,000		9,000		74,000
d)	+2,500												+ 2,500
	7,000		5,000		16,000		7,500		50,000		9,000		76,500
e)			+4,000										+ 4,000
	$7,000		$9,000		$16,000		$7,500		$50,000		$9,000		$80,500

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Solution 211

(a) Withdrew cash from business, or paid for an expense.
(b) Received cash from customers on account.
(c) Bought equipment on account.
(d) Additional investment by owner or services rendered to customers for cash.
(e) Services rendered on account.

Ans: N/A, LO: 4, Bloom: AN, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

Ex. 212

There are ten transactions listed below. Match the transactions that have the identical effect on the accounting equation. You should end up with 5 matches.

a. Receive cash from customers on account.
b. Initial cash contribution by an owner.
c. Pay cash to reduce an accounts payable.
d. Purchase supplies for cash.
e. Pay cash to reduce a notes payable.
f. Purchase supplies on account.
g. Additional cash contribution by an owner.
h. Purchase equipment with a note payable.
i. Pay utilities with cash.
j. Owner withdraws money from the business for personal use.

Solution 212

Match #1 = a, d
#2 = c, e
#3 = f, h
#4 = b, g
#5 = i, j

Ans: N/A, LO: 4, Bloom: C, Difficulty: Moderate, Min: 10, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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Ex. 213

An analysis of the transactions made by Dewey, Cheatem & Co., a law firm, for the month of July is shown below. Each increase and decrease in owner's equity is explained.

	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Owner's Capital	
1.	+$15,000										+$15,000	Investment
2.	- 2,500						+$6,000		+$3,500			
3.	- 750				+$750							
4.	+ 2,400		+$7,600								+ 10,000	Service Revenue
5.	- 1,500								- 1,500			
6.	- 2,300										- 2,300	Drawings
7.	- 750										- 750	Rent Expense
8.	+ 850		- 850									
9.	- 4,500										- 4,500	Salaries Expense
10.									+ 400		- 400	Utilities Expense

Instructions

(a) Prepare an income statement for the month ending July 31, 2020.
(b) Prepare an owner's equity statement for the month ending July 31, 2020.

Solution 213

(a)

DEWEY, CHEATEM & CO.
Income Statement
For the Month Ended July 31, 2020

Revenues		
Service revenue		$10,000
Expenses		
Salaries and wages expense	$4,500	
Rent expense	750	
Utilities expense	400	
Total expenses		5,650
Net income		$ 4,350

[Serv. rev. – (Sal. & wages exp. + Rent exp. + Util. exp.) = Net inc.]

(b)

DEWEY, CHEATEM & CO.
Owner's Equity Statement
For the Month Ended July 31, 2020

Owner's Capital, July 1		0
Add: Investments	$15,000	
Net income	4,350	19,350
		19,350
Less: Drawings		2,300
Owner's Capital, July 31		$17,050

[Beg. owner's cap. + (Invest. + Net inc.) – Draws. = End. owner's cap.]

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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Ex. 214

An analysis of the transactions made by Dewey, Cheatem & Co., a law firm, for the month of July is shown below. Each increase and decrease in owner's equity is explained.

	Cash +	Accounts Receivable +	Supplies +	Equipment =	Accounts Payable +	Owner's Capital
1.	+$15,000					+$15,000 Investment
2.	- 2,500			+$6,000	+$3,500	
3.	- 750		+$750			
4.	+ 2,400	+$7,600				+ 10,000 Service Revenue
5.	- 1,500				- 1,500	
6.	- 2,300					- 2,300 Drawings
7.	- 750					- 750 Rent Expense
8.	+ 850	- 850				
9.	- 4,500					- 4,500 Salaries Expense
10.					+ 400	- 400 Utilities Expense

Instructions
Prepare a balance sheet at July 31, 2020.

Solution 214

DEWEY, CHEATEM & CO.
Balance Sheet
July 31, 2020

Assets	
Cash	$ 5,950
Accounts receivable	6,750
Supplies	750
Equipment	6,000
Total assets	$19,450
Liabilities and Owner's Equity	
Liabilities	
Accounts payable	$ 2,400
Owner's equity	
Owner's capital	17,050
Total liabilities and owner's equity	$19,450

[(Cash + Accts. rec. + Supp. + Equip.) = (Accts. pay. + Owner's cap.)]

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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Ex. 215

The following information relates to Molly Mae Co. for the year 2020.

Owner's Capital, January 1, 2020	$ 64,000	Advertising expense	$6,500
Drawings during 2020	5,700	Rent expense	8,500
Service revenue	58,500	Utilities expense	1,500
Salaries and wages expense	29,000		

Instructions
After analyzing the data, prepare an income statement and an owner's equity statement for the year ending December 31, 2020

Solution 215

MOLLY MAE CO.
Income Statement
For the Year Ended December 31, 2020

Revenues		
Service revenue		$58,500
Expenses		
Salaries and wages expense	$29,000	
Rent expense	8,500	
Advertising expense	6,500	
Utilities expense	1,500	
Total expenses		45,500
Net income		$13,000

[Serv. rev. – (Sal. & wages exp. + Rent exp. + Advert. exp. + Util. exp.) = Net inc.]

MOLLY MAE CO.
Owner's Equity Statement
For the Year Ended December 31, 2020

Owner's Capital, January 1	$64,000
Add: Net income	13,000
	77,000
Less: Drawings	5,700
Owner's Capital, December 31	$71,300

(Beg. owner's cap. + Net inc. – Draws. = End. owner's cap.)

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Easy, Min: 7, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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Ex. 216

Van Occupanther is the bookkeeper for Roscoe Company. Van has been trying to get the balance sheet of Roscoe Company to balance. Roscoe 's balance sheet is as follows.

ROSCOE COMPANY
Balance Sheet
December 31, 2020

Assets		Liabilities	
Cash	$ 9,400	Accounts payable	$25,000
Supplies	7,100	Accounts receivable	(19,500)
Equipment	45,000	Owner's capital	65,200
Owner's drawings	9,200	Total liabilities and	
Total assets	$70,700	owner's equity	$70,700

Instructions
Prepare a correct balance sheet.

Solution 216

ROSCOE COMPANY
Balance Sheet
December 31, 2020

Assets	
Cash	$ 9,400
Accounts receivable	19,500
Supplies	7,100
Equipment	45,000
Total assets	$81,000

Liabilities and Owner's Equity	
Liabilities	
Accounts payable	$25,000
Owner's equity	
Owner's capital ($65,200 – $9,200)	56,000
Total liabilities and owner's equity	$81,000

[(Cash + Accts. rec. + Supp. + Equip.) = (Accts. pay. + (Owner's cap. – Owner's draws.))]

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Ex. 217

Presented below is information related to the sole proprietorship of Bill Gaits, consultant.

Service revenue—2020	$320,000
Total expenses—2020	235,000
Assets, January 1, 2020	83,000
Liabilities, January 1, 2020	64,000
Assets, December 31, 2020	158,000
Liabilities, December 31, 2020	90,000
Drawings—2020	?

Instructions
Prepare the 2020 owner's equity statement for Bill Gaits' consulting company.

Solution 217

BILL GAITS, CONSULTANT
Owner's Equity Statement
For the Year Ended December 31, 2020

Owner's Capital, January 1	$ 19,000	(a)
Add: Net income	85,000	(b)
	104,000	
Less: Drawings	36,000	
Owner's Capital, December 31	$ 68,000	(c)

Supporting Computations

(a)	Assets, January 1, 2020	$83,000
	Liabilities, January 1, 2020	(64,000)
	Capital, January 1, 2020	$19,000
(b)	Service Revenue	$320,000
	Total expenses	(235,000)
	Net income	$ 85,000
(c)	Assets, December 31, 2020	$158,000
	Liabilities, December 31, 2020	(90,000)
	Capital, December 31, 2020	$ 68,000

[(a): (Beg. assets – Beg. liabl. = Beg. cap.); (b): (Serv. rev. – Tot. exp. = Net inc.); (c): (End. assets – End. liabl. = End. cap.)]

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 7, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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Ex. 218

Prepare an income statement, an owner's equity statement, and a balance sheet for the acupuncture practice of Golda Bear, from the items listed below for the month of September, 2020.

Owner's Capital, September 1	$47,000
Accounts payable	7,000
Equipment	35,000
Service revenue	28,000
Owner's Drawings	6,000
Insurance expense	4,500
Cash	3,000
Utilities expense	700
Supplies	4,800
Salaries and wages expense	9,000
Accounts receivable	14,000
Rent expense	5,000

GOLDA BEAR, ACUPUNCTURIST
Income Statement
For the Month Ended September 30, 2020

Revenues		$
Expenses	$	
Total expenses		
Net income		$

GOLDA BEAR, ACUPUNCTURIST
Owner's Equity Statement
For the Month Ended September 30, 2020

Owner's Capital, September 1	$
Add:	
	$
Less:	
	$

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Ex. 218 (cont.)

GOLDA BEAR, ACUPUNCTURIST
Balance Sheet
September 30, 2020

Assets	
	$
Total assets	$
Liabilities and Owner's Equity	
Liabilities	$
Owner's Equity	
Total liabilities and owner's equity	$

Solution 218

GOLDA BEAR, ACUPUNCTURIST
Income Statement
For the Month Ended September 30, 2020

Revenues		
Service revenue		$28,000
Expenses		
Salaries and wages expense	$9,000	
Rent expense	5,000	
Insurance expense	4,500	
Utilities expense	700	
Total expenses		19,200
Net income		$8,800

[Serv. rev. – (Sal. & wages exp. + Rent exp. + Ins. exp. + Util. exp.) = Net inc.]

GOLDA BEAR, ACUPUNCTURIST
Owner's Equity Statement
For the Month Ended September 30, 2020

Owner's Capital, September 1	$47,000
Add: Net income	8,800
	55,800
Less: Drawings	6,000
Owner's Capital, September 30	$49,800

(Beg. owner's cap. + Net inc. – Draws. = End. owner's cap.)

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Solution 218 (cont.)

GOLDA BEAR, ACUPUNCTURIST
Balance Sheet
September 30, 2020

Assets	
Cash	$ 3,000
Accounts receivable	14,000
Supplies	4,800
Equipment	35,000
Total assets	$56,800
Liabilities and Owner's Equity	
Liabilities	
Accounts payable	$ 7,000
Owner's Equity	
Owner's capital	49,800
Total liabilities and owner's equity	$56,800

[(Cash + Accts. rec. + Supp. + Equip.) = (Accts. pay. + Owner's cap.)]

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Hard, Min: 15, AACSB: Reflective Thinking, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Ex. 219

Indicate whether the following items would appear on the balance sheet (BS), income statement (IS), or owner's equity statement (OE).

1. Utilities expense
2. Accounts receivable
3. Owner's drawings
4. Service revenue
5. Salaries and wages payable
6. Equipment

Solution 219 (5 min.)

1. Income statement (IS)
2. Balance sheet (BS)
3. Owner's equity statement (OE)
4. Income statement (IS)
5. Balance sheet (BS)
6. Balance sheet (BS)

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

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Ex. 220

Listed below in alphabetical order are the balance sheet items of City Plaza Company at December 31, 2020. Prepare a balance sheet and include a complete heading.

Accounts Payable	$ 24,000
Accounts Receivable	15,000
Buildings	51,000
Cash	7,000
Owner's Capital	102,000
Land	42,000
Equipment	11,000

Solution 220 (5 min.)

CITY PLAZA COMPANY
Balance Sheet
December 31, 2020

ASSETS	
Cash	$ 7,000
Accounts receivable	15,000
Land	42,000
Buildings	51,000
Equipment	11,000
Total assets	$126,000
LIABILITIES	
Accounts payable	$ 24,000
OWNER'S EQUITY	
Owner's capital	102,000
Total liabilities and owner's equity	$126,000

[(Cash + Accts. rec. + Land + Bldgs. + Equip.) = (Accts. pay. + Owner's cap.)]

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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Ex. 221

One item is omitted in each of the following summaries of balance sheet and income statement data for three different sole proprietorships, X, Y, and Z. Determine the amounts of the missing items, identifying each proprietorship by letter.

	Proprietorship		
	X	Y	Z
Beginning of the Year:			
Assets	$390,000	$150,000	$215,000
Liabilities	240,000	105,000	168,000
End of the Year:			
Assets	450,000	175,000	195,000
Liabilities	275,000	90,000	170,000
During the Year:			
Additional Investment by the owner	?	74,000	80,000
Withdrawals by the owner	95,000	83,000	?
Revenue	195,000	?	185,000
Expenses	160,000	113,000	175,000

Solution 221

Proprietorship X ($85,000)

Beginning Capital balance ($390,000 – $240,000)	$150,000
Additional investments ($270,000 – $150,000 – $35,000)	85,000
Net income for year ($195,000 – $160,000)	35,000
	270,000
Less withdrawals	95,000
Ending Capital balance ($450,000 – $275,000)	$175,000

[(End. assets – End. liabl.) + Draws. – (Rev. – Exp.) – (Beg. assets – Beg. liabl.) = Add'l. invest.]

Proprietorship Y ($162,000)

Beginning Capital balance ($150,000 – $105,000)	$ 45,000
Additional investments	74,000
Net income for year	49,000
[Revenues = $162,000 ($113,000 + $49,000)]	168,000
Less withdrawals	83,000
Ending Capital balance ($175,000 – $90,000)	$ 85,000

[(End. assets – End. liabl.) + Draws. – Add'l. invest. – (Beg. assets – Beg. liabl.) = Net inc.); (Net inc. + Exp. = Rev.)]

Proprietorship Z ($112,000)

Beginning Capital balance ($215,000 – $168,000)	$ 47,000
Additional investments	80,000
Net income for year ($185,000 – $175,000)	10,000
	137,000
Less withdrawals ($137,000 – $25,000)	112,000
Ending Capital balance ($195,000 – $170,000)	$ 25,000

[(Beg. assets – Beg. liabl.) + Add'l. invest. + (Rev. – Exp.) – (End. assets – End. liabl.) = Draws.]

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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Ex. 222

Indicate in the space provided by each item whether it would appear on the Income Statement (IS), Balance Sheet (BS), or Owner's Equity Statement (OE):

a. _____ Service Revenue
b. _____ Utilities Expense
c. _____ Cash
d. _____ Accounts Payable
e. _____ Supplies
f. _____ Salaries and Wages Expense
g. ____ Accounts Receivable
h. ____ Owner's Capital (ending)
i. ____ Equipment
j. _____ Advertising Expense
k. ____ Owner's Drawing
l. ____ Notes Payable

Solution 222

a. IS
b. IS
c. BS
d. BS
e. BS
f. IS
g. BS
h. OE, BS
i. BS
j. IS
k. OE
l. BS

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

Ex. 223

Gail Stocken was reviewing her business activities at the end of the year (2020) and decided to prepare an Owner's Equity Statement. At the beginning of the year assets were $485,000 and liabilities were $210,000. At the end of the year the assets had grown to $750,000 but liabilities had also increased to $380,000. The net income for the year was $220,000. Gail had withdrawn $125,000 during the year for her personal use.

Prepare an owner's equity statement in good form.

Solution 223

GAIL STOCKEN
Owner's Equity Statement
For the Year Ended 2020

Owner's Beginning Capital	$275,000
Add: Net Income	220,000
	495,000
Less: Drawings	125,000
Owner's Ending Capital	$370,000

(Owner's beg. cap. + Net inc. – Draws. = End. owner's cap.)

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Ans: N/A, LO: 5, Bloom: AP, Difficulty: Moderate, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Ex. 224

At September 1, the balance sheet accounts for Stanley's Restaurant were as follows:

Accounts Payable	$ 3,800	Land	$33,000
Accounts Receivable	9,600	Owner's Capital	?
Buildings	68,000	Notes Payable	48,000
Cash	10,000	Supplies	6,600
Equipment	18,700		

The following transactions occurred during the next two days:

Stanley invested an additional $22,000 cash in the business. The accounts payable were paid in full. (No payment was made on the notes payable.)

Instructions
Prepare a balance sheet at September 3, 2020.

Solution 224

STANLEY'S RESTAURANT
Balance Sheet
September 3, 2020

ASSETS

Cash	$ 28,200
Accounts receivable	9,600
Supplies	6,600
Land	33,000
Buildings	68,000
Equipment	18,700
Total assets	$164,100

LIABILITIES

Accounts payable	$ -0-
Notes payable	48,000

OWNER'S EQUITY

Owner's capital	116,100
Total liabilities and owner's equity	$164,100

Cash ($10,000 + $22,000 – $3,800) = $28,200
Accounts Payable ($3,800 – $3,800) = $0

Owner's Capital:	Beginning balance ($145,900 – $51,800)	$ 94,100
	Additional investment	22,000
	Ending balance	$116,100

[((Beg. cash bal. + Add'l. invest. – Accts. pay. pmt.) + Accts. rec. + Supp. + Land + Bldgs. + Equip.) = (Notes pay. + (Beg. assets – Beg. liabl.) + Add'l. invest))]

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Ans: N/A, LO: 5, Bloom: AP, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: Decision Making, IMA: Reporting

Ex. 225

Presented below are balance sheet items for Blue Lagoon Company at December 31, 2020.

Accounts payable	$37,000
Accounts receivable	39,000
Cash	17,000
Equipment	78,000
Owner's capital	47,000
Notes payable	50,000

Compute each of the following:
1. Total assets.
2. Total liabilities.

Solution 225

1. Total assets = $134,000 ($39,000 + $17,000 + $78,000)
2. Total liabilities = $87,000 ($37,000 + $50,000)

(Accts. rec. + Cash + Equip. = Tot. assets)
(Accts. pay. + Notes pay. = Tot. liabl.)

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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COMPLETION STATEMENTS

226. Accounting is an information system that identifies, _____, and _____ the economic events of an organization.

227. The mere recording of economic events is called _____, and is just one part of the _____ process.

228. The three major services rendered by a certified public accountant are _____, _____, and management _____.

229. Accountants who are employees of business enterprises are referred to as _____ accountants.

230. A common set of standards that provides guidelines to accountants and indicates how to report economic events is called _____.

231. The _____ principle states that assets should be recorded at the value exchanged at the time the asset is acquired.

232. The _____ assumption requires that the activities of an entity be kept separate from the activities of its owner.

233. The residual claim on total assets of a business is known as _____ and is equal to total assets minus total liabilities.

234. Drawings _____ owner's equity but are not expenses.

235. The _____ reports the assets, liabilities, and owner's equity of a business enterprise at a specific date.

Answers to Completion Statements

226. records, communicates
227. bookkeeping, accounting
228. auditing, taxation, consulting
229. private (or managerial)
230. generally accepted accounting principles
231. historical cost
232. economic entity
233. owner's equity
234. reduce
235. balance sheet

Ans: N/A, LO: 1,2,3,4,5, Bloom: K, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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MATCHING

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

A. CPA	F. Corporation
B. Budgeting	G. Assets
C. SEC	H. Equities
D. Proprietorship	I. Expenses
E. Economic Entity Assumption	J. Transactions

____ 1. Activities of an entity must be kept separate from its owner's activities.

____ 2. Consumption of assets or services.

____ 3. Ownership is limited to one person.

____ 4. Offers expert accounting service to the general public.

____ 5. Creditor and ownership claims against the assets of the business.

____ 6. A separate legal entity under state laws.

____ 7. Government agency that can mandate accounting rules.

____ 8. Quantifying goals and objectives.

____ 9. Future economic benefits.

____ 10. Economic events recorded by accountants.

Answers to Matching

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

Ans: N/A, LO: 1,2,3,4,5, Bloom: K, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Governance Perspective, AICPA FC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting

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SHORT-ANSWER ESSAY QUESTIONS

S-A E 237

The accounting profession provides many career opportunities for individuals. Identify the major fields that exist in accounting and comment on the major functions performed by individuals in each of these areas.

Solution 237

The major fields that exist in accounting are in the areas of (1) public accounting, (2) private accounting, (3) governmental accounting, and (4) forensic accounting. In public accounting, an accountant may practice as: (1) an auditor who examines the financial statements of companies and expresses an opinion as to the fairness of presentation; (2) a tax specialist who gives tax advice, prepares tax returns, and represents clients before governmental agencies; and (3) a management consultant who engages in the development of accounting and computer systems and the design of organizational systems.

Private (managerial) accountants and governmental accountants perform many different activities within a company or organization. Private accountants may be involved in: cost accounting, budgeting, general financial accounting, accounting information systems, and tax accounting. Forensic accounting uses accounting, auditing, and investigation techniques to conduct investigations into theft and fraud.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Moderate, Min: 5, AACSB: Communicaiton, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

S-A E 238

The framework used to record and summarize the economic activities of a business enterprise is referred to as the accounting equation. State the basic accounting equation and define its major components. How are business transactions and financial statements related to the accounting equation?

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Solution 238

The basic accounting equation is expressed as follows:

Assets = Liabilities + Owner's Equity

Assets are defined as resources owned by the business. Liabilities are creditorship claims against the assets of the business; or simply put, liabilities are existing debts and obligations. Owner's equity is the ownership claim on the total assets of the business; it is equal to total assets minus total liabilities.

Business transactions are economic events and activities that affect the elements of the basic accounting equation; that is, transactions cause increases or decreases in the assets, liabilities, and owner's equity. The financial statements report the results and effects of transactions on the business' assets, liabilities, and owner's equity. The balance sheet is a summary expression of the basic accounting equation.

Ans: N/A, LO: 3, Bloom: C, Difficulty: Moderate, Min: 4, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

S-A E 239

Your friend, Linda, made this comment:

> My major is biology and I plan to research for cures for major illnesses. Thus, I have no need to study accounting.

What is your response to Linda?

Solution 239

Linda, you are entering a dynamic profession and you have the opportunity to make important contributions to society. While science will be your profession and major concern, you will not be able to escape the need to understand accounting. Accounting staff and professionals will always be available to assist you. Here are some areas that will directly affect you:

As a manager, you will need to review accounting information (both internal and external) and make decisions. Budgets will be an important part of your research activities. As an employee, you will be concerned about the financial information of your employer. Thus, you will need to be able to read the company’s financial statements. Also, as an investor, you will be interested in the financial statements of other companies.

You will probably not be a preparer of the financial statements, but you do need an understanding of how they are prepared. You also need a good understanding of how to interpret the information on the financial statements.

Ans: N/A, LO: 1, Bloom: S, Difficulty: Hard, Min: 5, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

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S-A E 240

The information needs of a specific user of financial accounting information depends upon the kinds of decisions that user makes. Identify the major users of accounting information and discuss what questions financial accounting information answers for each group of users.

Solution 240

The major users of accounting information are internal users and external users. Internal users are those who manage the business. External users are those outside the business who have either a present or potential financial interest.

Financial accounting information may answer the following questions for internal users:
1. Is cash sufficient to pay our debts?
2. Can we afford to give employee pay raises this year?
3. What is the cost of manufacturing each unit of product?
4. Which product line is the most profitable?

Questions answered by financial accounting information for external users include:
1. Is the company earning satisfactory income?
2. How does the company compare in size and profitability with competitors?
3. Will the company be able to pay its debts as they come due?

Ans: N/A, LO: 1, Bloom: C, Difficulty: Moderate, Min: 5, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

S-A E 241 (Ethics)

Jill Bolan owns and operates Jill's Bagels, a small bakery, located at the edge of City College campus in San Diego, California. After several very profitable years, Jill's Bagels began to have problems. Most of the problems were related to Jill's expansion of the eating area in the restaurant without corresponding increases in the food preparation area. Jill does not have the cash or financial backing to expand further. She has therefore decided to sell her business.

Bonnie Meadows is interested in purchasing the business. However, she is located in another city and is unfamiliar with San Diego. She has asked Jill why she is selling Jill's Bagels. Jill replies that her elderly mother requires extra care, and that her brother needs help in his manufacturing business. Both are true, but neither is her primary reason for selling. Jill reasons that Bonnie should not have asked her anyway, since profitable businesses don't come up for sale.

Required:
1. Identify the stakeholders in this situation.
2. Did Jill act ethically in not revealing fully her reasons for selling the business? Why or why not?

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Solution 241

1. The stakeholders include
   Jill Bolan
   Bonnie Meadows
   San Diego, California
   students of City College
   City College
   persons financing the purchase of Jill's Bagels

2. Jill did not act ethically in not revealing fully her reasons for selling the business. Students might be of the opinion that a purchaser should investigate a business before purchasing it, rather than relying entirely on the seller's assertions. However, students should realize that Jill should have said something about her problems. She might ethically be allowed to put these in the best possible light, perhaps, but failure to disclose them at all is certainly unethical. This is especially true, since family concerns might well cause someone to sell a business that is otherwise doing well. Jill has shown an intent to deceive that is unethical, and might be actionable in court as well.

Ans: N/A, LO: 2, Bloom: E, Difficulty: Moderate, Min: 5, AACSB: Ethics, Communication, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: Professional Behavior, Communication, IMA: Reporting

S-A E 242 (Communication)

Rachel Bells Havens is a friend of yours from high school. She decided to become a beautician after leaving high school, rather than to attend college. She recently opened her own shop, and has contracted her services to a local hospital. She is paid a monthly fee for her services, and receives a small gratuity from each of the patients.

She has just received her first set of financial statements from her accountant. She is quite upset. The statements show a cash balance of $3,600 at the end of the month, but a net income of only $500. She has written you a letter, asking you whether such a situation is possible, or whether she should find another accountant.

Required:
Write a short letter to your friend. Use proper form. Answer her question completely, but briefly.

Solution 242

Answers will vary. The instructor's requirements concerning proper form should be followed. The letter may be either business or personal. As a minimum, the letter should be in a recognizable form, and proper grammar and spelling should be used. Neat erasures and corrections might be allowed. A suggested personal letter follows:

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1245 Lily Lane
Buena Vista, AR 77661
(Date)

Dear Rachel,

Congratulations on opening your business! I am sure you will do well, combining your creative genius with your talent for serving others.

You asked about your financial statements. Of course, you realize that I am just an accounting student, but I do know that it is possible to have a large cash balance and little net income. You may have had expenses that were not paid in cash yet. These expenses reduce your income, but not your cash.

I think that you should discuss the statements with the accountant who prepared them. He or she will be in the best position to explain the results.

Thanks for the question. It really made me think.

Sincerely,
(signature)

Ans: N/A, LO: 5, Bloom: C, Difficulty: Moderate, Min: 5, AACSB: Communication, AICPA BB: Governance Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

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