Financial Accounting 17th edition Williams Test Bank

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Chapter 02 Basic Financial Statements

1) The sale of additional shares of capital stock will cause retained earnings to increase.
A) True
B) False

2) A business entity is regarded as separate from the personal activities of its owners whether it is a sole proprietorship, a partnership, or a corporation.
A) True
B) False

3) Assets need not always have physical characteristics as do buildings, machinery, or inventory.
A) True
B) False

4) The going concern principle assumes that the business will continue indefinitely.
A) True
B) False

5) Notes payable and accounts payable both require a company to pay an amount owed by a certain date. Notes payable generally have interest, while accounts payable generally do not.
A) True
B) False

6) Any business event that might affect the future profitability of a business should be reported in its balance sheet.
A) True
B) False

7) The practice of showing assets on the balance sheet at their cost, rather than at their current market value is explained, in part, by the fact that cost is supported by objective evidence that can be verified by independent experts.
A) True
B) False

8) Liabilities are usually listed in order of magnitude, from smallest dollar amount to largest dollar amount.
A) True
B) False

9) The entity principle states that the affairs of the owners are not part of the financial operations of a business entity and should be separated.
A) True
B) False

10) The accounting equation may be stated as "assets minus liabilities equals owners' equity."
A) True
B) False

11) Total assets plus total liabilities must equal total owners' equity.
A) True

B) False

12) A transaction that causes an increase in an asset may also cause a decrease in another asset, an increase in a liability, or an increase in owners' equity.
A) True
B) False

13) The collection of an account receivable will cause total assets to decrease.
A) True
B) False

14) The payment of a liability causes an increase in owners' equity.
A) True
B) False

15) When a business borrows money from a bank, the immediate effect is an increase in total assets and a decrease in liabilities or owners' equity.
A) True
B) False

16) The purchase of an asset, such as office equipment, for cash will cause owners' equity to decrease.
A) True
B) False

17) Total assets must always equal total liabilities plus total owners' equity.
A) True
B) False

18) If a company purchases equipment with cash, its total assets will increase.
A) True
B) False

19) If a company purchases equipment by issuing a note payable, its total assets will not change.
A) True
B) False

20) The balance sheet shows assets, liabilities, and equity, as an extension of the accounting equation.
A) True
B) False

21) A net profit results from having more revenues than liabilities.
A) True
B) False

22) A statement of cash flows reports revenue and expense activities for a specific time period such as one month or one year.
A) True
B) False

23) It is not unusual for an entity to report a significant increase in cash from operating activities, but a decrease in the total amount of cash.

A) True
B) False

24) The statement of cash flows provides a link between two balance sheets by showing how net income (or loss) has changed owners' equity from one balance sheet date to the next.
A) True
B) False

25) Articulation between the financial statements means that they relate closely to each other on the basis of the same underlying transaction information.
A) True
B) False

26) Limited liability means that owners of a business are only liable for the debts of the business up to the amounts they can afford.
A) True
B) False

27) In a business organized as a corporation, it is not necessary to list the equity of each stockholder on the balance sheet.
A) True
B) False

28) The owner of a sole proprietorship is personally liable for the debts of the business, whereas the stockholders of a corporation are not personally liable for the debts of the business.
A) True
B) False

29) Window dressing occurs when management attempts to make a company look financially stronger than it actually is.
A) True
B) False

30) Decision makers outside the organization base their credit decisions on weekly, or even daily, financial statements.
A) True
B) False

31) The major outgrowth from business failures and allegations of fraudulent financial reporting during the 1990s was the passage of the Securities and Exchange Act.
A) True
B) False

32) Which of the following is the primary objective of an income statement?
A) Providing managers with detailed information about where the enterprise stands at a specific date.
B) Providing users outside the business organization with information about the company's operating results for a period of time.
C) Reporting to the Internal Revenue Service the company's taxable income.
D) Indicating to investors in a particular company the current market values of their investments.

33) Which of the following describes the proper form of a balance sheet?

A) Owners' equity is always the first section listed because it is the most important to external users.
B) Cash is always the first asset listed, followed by permanent assets (such as land and buildings), and finally by assets such as receivables and supplies.
C) Liabilities are listed before owners' equity.
D) A subtotal for total assets plus total liabilities is shown.

34) A balance sheet is designed to show:
A) How much a business is worth.
B) The profitability of the business during the current year.
C) The assets, liabilities, and owners' equity of a business as of a particular date.
D) The cost of replacing the assets and of paying off the liabilities at December 31.

35) Blue Wholesale Shirt Co. sold shirts to Pink Retail Shoppe. The owner of Pink Retail said she would pay Blue at a later date, which Blue Wholesale agreed to. Blue Wholesale Shirt Co. is considered to be a:
A) borrower. B) liability. C) creditor. D) debtor.

36) Which of the following *best* defines an asset?
A) Something with physical form that is valued at cost in the accounting records.
B) An economic resource owned by a business and expected to benefit future operations.
C) An economic resource representing cash or the right to receive cash in the near future.
D) Something owned by a business that has a ready market value.

37) From an accounting viewpoint, when is a business considered as an entity separate from its owner(s)?
A) Only when organized as a sole proprietorship.
B) Only when organized as a partnership.
C) Only when organized as a corporation.
D) A business is always considered as an accounting entity separate from the activities of the owner(s).

38) The accounting principle that assumes that a company will operate in the foreseeable future is:
A) Going concern. B) Objectivity.C) Liquidity. D) Disclosure.

39) The valuation of assets in the balance sheet is based primarily upon:
A) What it would cost to replace the assets.
B) Cost, because cost is usually factual and verifiable.
C) Current fair market value as established by independent appraisers.
D) Cost, because in the event of liquidation, the assets would be sold at an amount equal to their original cost.

40) Which of the following is *not* a generally accepted accounting principle relating to the valuation of assets?
A) The cost principle - in general, assets are valued at cost, rather than at estimated market values.
B) The objectivity principle - accountants prefer to use objective, rather than subjective, information as the basis for accounting information.
C) The safety principle - assets are valued at no more than the value for which they are insured.
D) The going-concern assumption - one reason for valuing assets such as buildings and equipment at cost rather than at their current market values is the assumption that the business will use these assets rather than sell them.

41) Each year, the accountant for Southern Real Estate Company adjusts the recorded value of each asset to its market value. Using these market value figures on the balance sheet violates:
A) The accounting equation. B) The stable-dollar assumption.

C) The business entity concept. D) The cost principle.

42) The owner of Westhampton Fish Eatery purchased a new car for his daughter who is away at college at a cost of $43,000 and reported this amount as Delivery Vehicle in the restaurant's balance sheet. The reporting of this item in this manner violated the:
A) Cost principle. B) Business entity concept.
C) Objectivity principle. D) Going-concern assumption.

43) Eton Corporation purchased land in 1998 for $190,000. In 2018, it purchased a nearly identical parcel of land for $430,000. In its 2018 balance sheet, Eton valued these two parcels of land at a combined value of $860,000. Reporting the land in this manner violated the:
A) Cost principle. B) Principle of the business entity.
C) Objectivity principle. D) Going-concern assumption.

44) Bob Bertolucci, owner of Bob's Bazaar, also owns a personal residence that costs $575,000. The market value of his residence is $725,000. During preparation of the financial statements for Bob's Bazaar, the accounting principle most relevant to the presentation of Bob's home is:
A) The concept of the business entity. B) The cost principle.
C) The going-concern assumption. D) The objectivity principle.

45) Which of the following will *not* cause a change in the owners' equity of a business?
A) Purchase of land with cash. B) Withdrawal of cash by the owner.
C) Sale of land at a profit. D) Losses from unprofitable operations.

46) Which of the following is correct when a corporation uses cash to pay for an expense?
A) Total assets will decrease. B) Retained earnings will increase.
C) Owners' equity will increase. D) Liabilities will increase.

47) Deerpark Corporation recently borrowed $70,000 cash from its bank. Which of the following was *unaffected* by this transaction?
A) Assets. B) Liabilities. C) Owners' equity. D) Cash.

48) Which of the following transactions would cause an increase in both assets and owners' equity?
A) Investment of cash in the business by the owner.
B) Sale of land for a price less than its cost.
C) Borrowing money from a bank.
D) Sale of land for cash at a price equal to its cost.

49) A transaction caused an increase in both assets and owners' equity. This transaction could have been resulted from the:
A) Sale of services to a customer.
B) Sale of land for a price less than its cost.
C) Borrowing money from a bank.
D) Sale of land for cash at a price equal to its cost.

50) The amount of owners' equity in a business is *not* affected by:
A) The percentage of total assets held in cash.
B) The investments made in the business by the owner.
C) The profitability of the business.
D) The amount of dividends paid to stockholders.

51) Decreases in owners' equity are caused by:
A) Purchases of assets and payment of liabilities.
B) Purchases of assets and incurrence of liabilities.
C) Payment of liabilities and unprofitable operations.
D) Distributions of assets to the owners and unprofitable operations.

52) Which of the following transactions would cause a change in owners' equity?
A) Repayment of the principal on a bank loan.
B) Purchase of a delivery truck on credit.
C) Sale of land on credit for a price above cost.
D) Borrowing money from a bank.

53) On the statement of financial position, how are assets and liabilities normally presented?
A) Assets are presented in their order of permanence; liabilities are presented in the order in which they become due.
B) Assets are presented in the order in which they become due; liabilities are presented in their order of permanence.
C) Assets are presented in order of profitability; liabilities are presented in order of liquidity.
D) Assets are presented in order of liquidity; liabilities are presented in order of profitability.

54) Which of the following assets would most likely be listed *last* on a statement of financial position?
A) Land. B) Cash.
C) Accounts receivable. D) Equipment.

55) Which of the following liabilities would most likely be listed *last* on a statement of financial position?
A) Bonds payable, due in 20 years. B) Accounts payable.
C) Note payable, due in 3 years. D) Income taxes payable.

56) If a transaction causes an asset account to decrease, which of the following related effects may occur?
A) An increase of equal amount in an owners' equity account.
B) An increase in a liability account.
C) An increase of equal amount in another asset account.
D) An increase in the combined total of liabilities and owners' equity.

57) A payment of a business debt not including interest:
A) Decreases total assets.
B) Increases total liabilities.
C) Increases the owners' equity in the business.
D) Decreases the owners' equity in the business.

58) If total assets equal $270,000 and total liabilities equal $202,500, the total owners' equity must equal:
A) $472,500.
B) $67,500.
C) $270,000.
D) Cannot be determined from the information given.

59) If total assets equal $345,000 and total owners' equity equal $120,000, then total liabilities must equal:
A) $465,000.
B) $225,000.
C) $120,000.
D) Cannot be determined from the information given.

60) Owners' equity in a business increases as a result of which of the following?
A) Payments of cash to the owners.
B) Losses from unprofitable operation of the business.
C) Earnings from profitable operation of the business.
D) Borrowing from a commercial bank.

61) Owners' equity in a business decreases as a result of which of the following?
A) Investments of cash by the owners.
B) Profits from operating the business.
C) Losses from unprofitable operation of the business.
D) Repaying a loan to a commercial bank.

62) To appear in a balance sheet of a business entity, an asset need *not*:
A) Be an economic resource. B) Have a ready market value.
C) Be expected to benefit future operations. D) Be owned by the business.

63) A balance sheet:
A) Provides owners, investors, and other interested parties with all the financial information they need to evaluate the financial strength, profitability, and future prospects of a given business entity.
B) Shows the current market value of the owners' equity in the business at the balance sheet date.
C) Assists creditors in evaluating the debt-paying ability of a business by showing the assets and liabilities of the business, plus the assets and liabilities of its owner (or owners).
D) Shows the assets, liabilities, and owners' equity of a business entity, valued in conformity with generally accepted accounting principles.

64) Which of the following is correct if a company purchases equipment for $70,000 cash?
A) Total assets will increase by $70,000. B) Total assets will decrease by $70,000.
C) Total assets will remain the same. D) Total owners' equity will decrease.

65) If a company purchases equipment for $65,000 by issuing a note payable:
A) Total assets will increase by $65,000. B) Total assets will decrease by $65,000.
C) Total assets will remain the same. D) Total owners' equity will decrease.

66) If a company has a profit:
A) Assets will be equal to liabilities plus owners' equity.
B) Assets will be less than liabilities plus owners' equity.
C) Assets will be greater than liabilities plus owners' equity.
D) Owners' equity will be greater than its assets.

67) Capital stock represents:
A) The amount invested in the business by stockholders when shares of stock were initially issued by a corporation.
B) The owners' equity for a business organized as a corporation.
C) The owners' equity accumulated through profitable operations that have not been paid out as dividends.
D) The price paid by the current owners to acquire shares of stock in the corporation, regardless of whether they bought the shares directly from the corporation or from another stockholder.

68) The balance sheet item that represents the portion of owners' equity resulting from profitable operations of the business is:
A) Accounts receivable. B) Cash.

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C) Capital stock. D) Retained earnings.

69) Retained earnings appears on:
A) The income statement. B) The balance sheet.
C) The statement of cash flows. D) All three of the financial statements.

At December 31, 2018, the accounting records of Braun Corporation contain the following items:

Accounts Payable	$ 16,000	Accounts Receivable	$ 40,000
Land	$ 240,000	Cash	?
Capital Stock	?	Equipment	$ 120,000
Building	$ 180,000	Notes Payable	$ 190,000
Retained Earnings	$ 160,000		

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70) If Capital Stock is $260,000, what is the December 31, 2018 cash balance?
A) $86,000. B) $94,000. C) $46,000. D) $686,000.

71) If Capital Stock is $320,000, total assets of Braun Corporation at December 31, 2018, amounts to:
A) $686,000. B) $926,000. C) $726,000. D) $106,000.

72) If Cash at December 31, 2018, is $86,000, Capital Stock is:
A) $260,000. B) $300,000. C) $620,000. D) $168,000.

73) If Cash at December 31, 2018, is $26,000, total owners' equity is:
A) $160,000. B) $366,000. C) $606,000. D) $400,000.

74) If Cash at December 31, 2018, is $66,000, total assets amounts to:
A) $606,000. B) $806,000. C) $662,000. D) $646,000.

At December 31, 2018, the accounting records of Hercules Manufacturing, Inc. contain the following items:

Accounts Payable	$ 12,000	Accounts Receivable	$ 30,000
Land	$ 90,000	Cash	7,000
Building	250,000	Equipment	$?
Notes Payable	$ 135,000	Capital Stock	188,000
Retained Earnings	?		

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75) If total assets of Hercules Manufacturing, Inc. are $556,000, Equipment is carried in Hercules Manufacturing accounting records at:
A) $377,000. B) $179,000. C) $150,000. D) $ 90,000.

76) If total assets of Hercules Manufacturing, Inc. are $556,000, Retained Earnings at December 31, 2018, must be:
A) $811,000. B) $180,000. C) $221,000. D) $335,000.

77) If Retained Earnings at December 31, 2018, is $140,000, total assets amounts to:
A) $ 98,000. B) $377,000. C) $475,000. D) $188,000.

78) If Retained Earnings at December 31, 2018, is $100,000, Equipment is carried in Hercules

Manufacturing, Inc. accounting records at:
A) $ 42,000. B) $ 58,000. C) $ 43,500. D) $345,000.

79) Assume that the Equipment shown above was acquired by the business five years ago and has a book value of $156,000, but has a current appraised value of $200,000. Hercules Manufacturing's Retained Earnings at December 31, 2018, amounts to:
A) $533,000. B) $345,000. C) $198,000. D) $356,000.

At December 31, 2018 the accounting records of Gordon, Inc. contain the following items:

Accounts Payable	$ 2,500	Accounts Receivable	$ 18,750
Land	$ 30,000	Cash	?
Building	$ 31,250	Equipment	$ 40,000
Notes Payable	?	Capital Stock	$ 12,500
Retained Earnings	$ 125,000		

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80) If the Notes Payable is $10,000, the December 31, 2018 cash balance is:
A) $ 60,000. B) $160,000. C) $ 30,000. D) $ 20,000.

81) If the Notes Payable balance is $25,000, then the total assets of Gordon, Inc. at December 31, 2018 amount to:
A) $ 27,500. B) $152,500. C) $120,000. D) $165,000.

82) If the Cash balance at December 31, 2018 is $67,500, the Notes Payable balance is:
A) $118,750. B) $ 47,500. C) $137,500. D) $140,000.

83) Refer to the information above. If the Cash balance at December 31, 2018 is $62,500 then Total Liabilities amounts to:
A) $ 42,500. B) $140,000. C) $ 45,000. D) $182,500.

84) Which of the following is correct if at the end of Crystal Imports' first year of operations, Assets are $800,000 and Owners' Equity is $720,000?
A) The owner(s) must have invested $800,000 to start the business.
B) The business must be operating profitably.
C) Liabilities are $80,000.
D) Liabilities are $1,520,000.

85) During the current year, the assets of Wheatley's increased by $362,000, and the liabilities increased by $260,000. The owners' equity in the business must have:
A) Decreased by $102,000. B) Decreased by $622,000.
C) Increased by $102,000. D) Increased by $622,000.

86) The total liabilities of Hogan's Company on the balance sheet are $270,000; this amount is equal to three-fourths of the total assets. What is the amount of owners' equity?
A) $202,500. B) $ 90,000. C) $360,000. D) $630,000.

87) Thirty percent of the total assets of Shanahan Corporation have been financed through borrowing. The total liabilities of the company are $600,000. What is the amount of owners' equity?
A) $ 180,000. B) $2,000,000. C) $1,400,000. D) $2,600,000.

88) A transaction caused a $60,000 increase in both total assets and total liabilities. This transaction could have been which of the following?
A) Purchase for office equipment for $60,000 cash.
B) Purchase of office equipment for $120,000, paying $60,000 cash and issuing a note payable for the balance.
C) Repayment of a $60,000 bank loan.
D) Investment of $60,000 cash in the business by the owner.

89) If $9,600 cash and a $31,000 note payable are given in exchange for some office machines to be used in a business:
A) Total assets are increased. B) Total liabilities are decreased.
C) Total assets are decreased. D) The owners' equity is increased.

90) If during the current year, liabilities of Corbett's Store increased by $220,000 and owners' equity increased by $160,000, then:
A) Assets at the end of the year total $380,000.
B) Assets at the end of the year total $60,000.
C) Assets increased during the year by $380,000.
D) Assets decreased during the year by $60,000.

91) If during the current year, liabilities of Hayden Travel decreased by $50,000 and owners' equity increased by $75,000, then:
A) Assets at the end of the year total $125,000.
B) Assets at the end of the year total $25,000.
C) Assets increased during the year by $25,000.
D) Assets decreased during the year by $125,000.

92) At the end of the current year, the owners' equity in Barclay Bakery is $246,000. During the year, the assets of the business had increased by $120,000 and the liabilities had increased by $72,000. Owners' equity at the beginning of the year must have been:
A) $198,000. B) $174,000. C) $284,000. D) $438,000.

93) At the end of the current year, the owners' equity in Durante Co. is $360,000. During the year, the assets of the business had increased by $68,000 and the liabilities had increased by $118,000. Owners' equity at the beginning of the year must have been:
A) $410,000. B) $310,000. C) $546,000. D) $174,000.

94) During the current year, the assets of Quality Stairs increased by $175,000 and the liabilities decreased by $15,000. If the owners' equity in the business is $475,000 at the end of the year, the owners' equity at the beginning of the year must have been:
A) $335,000. B) $285,000. C) $665,000. D) $615,000.

95) An expense is best defined as:
A) Any payment of cash for the benefit of the company.
B) Past, present, or future payments of cash required to generate revenues.
C) Past payments of cash required to generate revenues.
D) Future payments of cash required to generate revenues.

96) A revenue transaction may result in all of the following *except*:
A) An increase in assets.
B) An increase in owners' equity.

C) A positive cash flow in either the past, present, or future.
D) An increase in liabilities.

[The following information applies to the questions displayed below.]

Astoria Co. had the following transactions during the month of August 2018:

(1) Cash received from bank loans was $20,000.
(2) Dividends of $9,500 were paid to stockholders in cash.
(3) Revenues earned and received in cash amounted to $33,500.
(4) Expenses incurred and paid were $26,000.

97) What amount of net income will be reported on an income statement for the month of August?
A) $20,000. B) $7,500. C) $0. D) $33,500.

98) At the beginning of August, 2018, owners' equity in Astoria was $160,000. Given the transactions of August, what will be the owners' equity be at the end of the month?
A) $167,500. B) $150,500. C) $193,500. D) $158,000.

99) For the month of August, net cash flows from operating activities for Astoria were:
A) $33,500. B) $7,500. C) $20,000. D) $26,000.

[*The following information applies to the questions displayed below.*]

Waldorf Co. had the following transactions during the month of October 2018:

(1) Cash received from bank loans was $60,000.
(2) Dividends of $18,500 were paid to stockholders in cash.
(3) Revenues earned and received in cash amounted to $100,500.
(4) Expenses incurred and paid were $78,000.

100) What amount of net income will be reported on an income statement for the month of October?
A) $ 18,500. B) $ 22,500. C) $ 78,000. D) $100,500.

101) At the beginning of October, owners' equity in Waldorf was $480,000. Given the transactions in October 2018, what will be the owners' equity at the end of the month?
A) $480,000. B) $484,000. C) $502,500. D) $580,500.

102) Refer to the information above. For the month of October, net cash flows from operating activities for Waldorf were:
A) $ 18,500. B) $ 22,500. C) $ 78,000. D) $100,500.

103) Which of the following activities is *not* a category into which cash flows are classified?
A) Marketing activities. B) Operating activities.
C) Financing activities. D) Investing activities.

104) A strong statement of cash flows indicates that significant cash is being generated by:
A) Operating activities. B) Financing activities.
C) Investing activities. D) Effective tax planning.

105) During the month of May, Henderson Company had the following transactions:

(1) Revenues of $60,000 were earned and received in cash.
(2) Bank loans of $9,000 were paid off.
(3) Equipment of $20,000 was purchased.
(4) Expenses of $36,800 were paid.
(5) Stockholders purchased additional shares for $22,000 cash.

A statement of cash flows for May would report net cash flows from operating activities of:
A) $60,000. B) $16,200. C) $23,200. D) $20,000.

[The following information applies to the questions displayed below.]

During the month of August, Boyce Company had the following transactions:

(1)Revenues of $120,000 were earned and received in cash.
(2)Bank loans of $18,000 were paid off.
(3)Equipment of $40,000 was purchased with cash.
(4)Expenses of $73,600 were paid.
(5)Stockholders purchased additional shares for $44,000 cash.

106) A statement of cash flows for August would report net cash flows from operating activities of:
A) $26,000. B) $32,400. C) $40,000. D) $46,400.

107) A statement of cash flows for August would report net cash flows from financing activities of:
A) $40,000. B) $26,000. C) $46,400. D) $32,400.

108) A statement of cash flows for August would report net cash flows from investing activities of:
A) ($26,000). B) $32,400. C) ($40,000). D) $46,400.

109) A statement of cash flows for August would report an increase in cash of:
A) $26,000. B) $32,400. C) $40,000. D) $46,400.

[*The following information applies to the questions displayed below.*]

During the month of February, Fadness Company had the following transactions:

(1) Revenues of $225,000 were earned and received in cash.
(2) Bank loans of $18,000 were paid off.
(3) New bank loans of $15,000 were incurred.
(4) Equipment of $40,000 was purchased with cash.
(5) Equipment was sold for its book value of $36,000. Cash was received.
(6) Expenses of $171,400 were paid.
(7) Stockholders purchased additional shares for $50,000 cash.

110) A statement of cash flows for February would report net cash flows from operating activities of:
A) $ 4,000. B) $35,600. C) $53,600. D) $96,600.

111) A statement of cash flows for February would report net cash flows from financing activities of:
A) $4,000. B) $47,000. C) $83,000. D) $96,600.

112) A statement of cash flows for February would report net cash flows from investing activities of:
A) ($ 4,000). B) $47,000. C) $53,600. D) $76,000.

113) A statement of cash flows for February would report an increase in cash of:
A) ($ 4,000). B) $47,000. C) $53,600. D) $96,600.

114) If cash flows from operating activities is a positive amount, then:
A) The amount will be shown on the statement of cash flows in parentheses.
B) The company must have had a net profit for the year.
C) The company must have paid off more debts than it earned during the year.
D) The company may still have a decrease in the total amount of cash for the period.

115) The change in owners' equity due to only revenue and expense transactions is explained by the:
A) Statement of cash flows. B) Statement of financial position.
C) Income statement. D) Tax return.

116) Which one of the following is *not* considered as one of the three primary financial statements?
A) Balance sheet. B) Income statement.
C) Statement of cash flows. D) Statement of budgeting activities.

117) The way in which financial statements relate is known as:
A) Solvency. B) Objectivity.C) Articulation. D) Entity.

118) Which business organization is recognized as a separate legal entity under the law?
A) Corporation.
B) Sole proprietorship.
C) Partnership.
D) All business organizations are separate legal entities.

119) Retained earnings is:
A) The positive cash flows of a company.
B) The net worth of a company.
C) The owners' equity that has accumulated as a result of profitable operations.
D) Equal to the total assets of a company.

120) Which of the following best describes liquidity?
A) The ability to increase the value of retained earnings.
B) The ability to pay the debts of the company as they become due.
C) Being able to buy everything the company requires for cash.
D) Purchasing everything the company requires on credit.

121) Profitability may be defined as:
A) The ability to pay the debts of the company as they become due.
B) The ability to increase retained earnings.
C) Distributing dividends out of retained earnings.
D) Having excess cash.

122) The principle of adequate disclosure means that a company should disclose:
A) Only the important monetary information.
B) All confidential information regarding the company.
C) Any financial facts that a reasonably informed person would consider necessary for the proper interpretation of the financial statements.
D) Only subsequent events.

123) Which of the following statements regarding liquidity and profitability is *not* true?
A) If a business is unable to pay its debts as they come due, it is operating unprofitably.
B) A business may be liquid, yet operate unprofitably for several years.
C) A business may operate profitably, yet be unable to meet its obligations.
D) In order to survive in the long run, a business must both remain liquid and operate profitably.

124) The concept of adequate disclosure means that:
A) The accounting department of a business must inform management of the accounting principles used in preparing the financial statements.
B) The company must inform users of any significant facts necessary for proper interpretation of the financial statements, including events occurring after the financial statement date.
C) The independent auditors must disclose in the financial statements any and all errors detected in the company's accounting records.
D) The financial statements should include a comprehensive list of each transaction that occurred during the year.

125) According to the Sarbanes-Oxley Act, CEOs and CFOs must certify to the accuracy of their company's financial statements:
A) Monthly and Quarterly.
B) Quarterly and Annually.
C) Monthly and Annually.
D) CEOs and CFOs are not required to certify to the company's financial statement; only CPAs do.

126) A strong statement of financial position shows:
A) Large amounts of liquid assets relative to the liabilities due in the near future.
B) Large amounts of debt relative to stockholders' equity.
C) That cash is being generated by operations.
D) That profits are being generated by operations.

127) Financial statements
A set of financial statements includes three related accounting reports, or statements. In the space provided, list the names of three primary statements, and give a brief description of the accounting information contained in each.

128) Development of generally accepted accounting principles
(A.) What is meant by the phrase "generally accepted accounting principles"?
(B.) Explain the concept of the business entity and how it relates to generally accepted accounting principles.

129) Valuation of assets under generally accepted accounting principles
Under generally accepted accounting principles, the assets owned by a business are reported in the balance sheet at their historical cost. Identify and briefly explain two accounting principles other than the cost principle that support the valuation of assets at cost in the balance sheet.

130) Accounting terminology
Listed below are nine technical accounting terms introduced in this chapter:

Assets	*Accounting equation*	*Inflation*
Balance Sheet	*Liabilities*	*Going concern assumption*
Cost principle	*Owners' equity*	*Liquidity*

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Each of the following statements may (or may not) describe one of these technical terms. In the space provided below each statement, indicate the accounting term described, or answer "None" if the statement does not correctly describe any of the terms. Do not use a term more than once.
(A.) Having the financial ability to pay debts as they become due.
(B.) An assumption that a business will operate in the foreseeable future.
(C.) Economic resources owned by businesses that are expected to benefit future operations.
(D.) The debts or obligations of a business organization.
(E.) Assets = Liabilities + Owners' Equity
(F.) The principle which states that assets are valued in the balance sheet at their historical cost.
(G.) A residual amount equal to assets minus liabilities.

131) Accounting equation
(A.) During the current year, the assets of Duffy Stationery increased by $650,000 and the liabilities decreased by $340,000. What was the change in owners' equity during the year?
(B.) The owners' equity of Graham Interiors appears on the balance sheet as $720,000 and is equal to one-fourth of total assets. Compute the amount of total liabilities.
(C.) At the end of the year, the owners' equity in Scott Mfg. amounted to $845,000. During 2018, the assets of the business increased by $515,000 and the liabilities increased by $205,000. The owners' equity at the beginning of 2018 was how much?

132) Effects of transactions on elements of the accounting equation
Some of the transactions carried out by Tudor Wholesale during the first month of the company's operations are listed below. Determine the effect of each transaction on the total assets, the total liabilities, and the owners' equity. Prepare your answer in columnar form, identifying each transaction by letter and using the symbols (+) for increase, (—) for decrease, and (NC) for no change. An answer is provided for the first transaction to serve as an example.

Transactions	Total Assets	Total Liabilities	Owners' Equity
A. Issued capital stock in exchange for cash	+	NC	+
B. Bought land and a building at a total price of $165,000. Made a down payment of $65,000 cash and signed a note payable for the balance.			
C. Bought adjoining lot for use as parking lot; paid cash in full			
D. Sold a portion of the land on credit at a price equal to its cost.			
E. Obtained a loan from a bank.			
F. Purchased office equipment on credit.			
G. Paid a liability.			
H. Collected part of amount owned to the business from purchaser of land.			
I. Sold another portion of the land for cash at a price in excess of cost.			

133) Effects of transactions on elements of the accounting equation
Some of the transactions carried out by Tsang Company during the first month of the company's operations

are listed below. Determine the dollar effect of each transaction on the total assets, the total liabilities, and the owners' equity of Tsang Company. Use the symbols (+) for increase, (—) for decrease, and (NC) for no change. An answer is provided for the first transaction to serve as an example.

Transaction	Total Assets	Total Liabilities	Owners' Equity
A. Issued capital stock to Don Tsang in exchange for his investment of $200,000 in the business.	+$200,000	NC	+200,000
B. Purchased a computer for the business for $5,500 cash.			
C. Borrowed $20,000 from the bank.			
D. Purchased office furnishings at a total price of $4,200, terms $600 cash and balance payable in two installments.			
E. Paid $1,800 of the balance due on the office furnishings.			
F. Sold an extra monitor that had cost $250 for $300 on credit.			
G. Collected $150 of accounts receivable from purchaser of the monitor.			
H. Bought a small truck to be used in the business for $29,000; paid cash in full.			

134) List the following accounts in the order that they would appear in a balance sheet.
Capital Stock
Equipment
Accounts Receivable
Retained Earnings
Revenue
Accounts Payable
Cash
Rent Expense

135) Computation of assets, liabilities, and owners' equity after a series of transactions
On April 30, 2018, the balance sheet of China Collectibles showed total assets of $700,000, total liabilities of $400,000, and owners' equity of $300,000. The following transactions occurred in May of 2018:
(1) Capital stock was issued in exchange for $165,000 cash.
(2) The business purchased equipment for $360,000, paying $160,000 cash and issuing a note payable for $200,000.
(3) The business paid $70,000 of its accounts payable.
(4) The business collected $54,000 of its accounts receivable.
Compute the following as of May 31, 2018:
(A.) Total assets
(B.) Total liabilities
(C.) Owners' equity

136) Computation of assets, liabilities, and owners' equity after a series of transactions
The December 31, 2017 balance sheet of Charles Realty reported total assets of $900,000, total liabilities of

$350,000, and owners' equity of $550,000. The following transactions occurred in January of 2018:
(1) The business purchased land for $250,000, paying $100,000 cash and issuing a note payable for the balance.
(2) The business collected accounts receivable totaling $45,000.
(3) The business sold land costing $50,000 for $60,000 cash.
(4) The business paid $50,000 of the note payable.
Compute the following at January 31, 2018:
(A.) Total assets
(B.) Total liabilities
(C.) Owners' equity

137) Preparation of balance sheet
Prepare the balance sheet as of December 31, 2018, for Gamma Company, from the following list of items, arranged in random order. You must compute the amount for accounts payable to complete the balance sheet.

			$260,00
Accounts payable	$?	Land	0
Office equipment	$41,600	Notes payable	$377,000
Buildings	$533,000	Accounts receivable	$97,500
Capital stock	$494,000	Cash	$19,760

138) Preparation of balance sheet after a series of transactions
The balance sheet was as follows for Custom Ceramics on February 1, 2018:

Custom Ceramics Balance Sheet February 1, 2018					
Assets			Liabilities & Owners' Equity		
Cash	$7,000		Liabilities:		
Accounts receivable	5,200		Notes payable		$ 40,000
Office Equipment	30,000		Accounts payable		6,000
Buildings	50,000		Total liabilities		$ 46,000
Land	80,000		Owners' equity:		
	_____		Capital stock	$100,000	
			Retained earnings	26,200	$126,200
			Total liabilities		
Total assets	$172,200		Owners' equity		$172,200

During the first week of February, the following transactions occurred:
(1) The business used cash to pay off $5,000 of its accounts payable. (No payment was made on the notes payable.)
(2) Additional capital stock was issued to Joan Custom for $15,000 cash.
(3) Equipment was purchased on credit for $1,800
(4) The business collected $4,000 cash from accounts receivable.

Complete the balance sheet for Custom Ceramics as of February 8, 2018.

Custom Ceramics Balance Sheet February 8, 2018

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Assets			Liabilities & Owners' Equity		
Cash	$		Liabilities:		
Accounts receivable			Notes payable		$
Office Equipment			Accounts payable		
Buildings			Total liabilities		$
Land			Owners' equity:		
	_____		Capital stock		
			Retained earnings		$
			Total liabilities		
Total assets	$		Owners' equity		$

139) Completion of balance sheet
Use the following information to complete the balance sheet of Adelphi Construction as of December 31, 2018.
(1) The company was organized on January 1, 2018 and has operated for the full year 2018.
(2) Earnings were $275,000 and dividends of $70,000 were paid to stockholders.
(3) Cash and accounts receivable together amount to one and one-half times as much as notes payable.

Adelphi Construction Balance Sheet December 31, 2018					
Assets			Liabilities & Owners' Equity		
Cash	$		Liabilities:		
Accounts receivable	85,000		Notes payable		$
Equipment	96,000		Accounts payable		
Building	250,000		Income taxes payable		$ 40,000
Land	184,000		Total liabilities		$215,000
			Owners' equity:		
	_____		Capital stock	$	
			Retained earnings		$
			Total liabilities and		
Total assets	$		owners' equity		$620,000

140) Completion of balance sheet
Use the following information to complete the December 31, 2018 balance sheet of Copper Supplies Company.
(1) Owners' equity as of January 1, 2018, totaled $175,000, which included capital stock of $150,000.
(2) Additional capital stock was issued during 2018 in exchange for $40,000 cash.
(3) Net income for 2018 amounted to $200,000; no dividends were paid during 2018.
(4) Cash and accounts receivable together amount to 3 times as much as accounts payable.

Copper Supplies Company					
Balance Sheet					
December 31, 2018					
Assets			Liabilities & Owners' Equity		
Cash	$ 30,000		Liabilities:		
Accounts receivable	?		Accounts payable		$ 40,000
Equipment	?		Notes payable		?
Building	300,000		Total liabilities		$?
Land	215,000		Owners' equity:		
			Capital stock	$	
			Retained earnings		$?
			Total liabilities and		
Total assets	$835,000		owners' equity		$?

141) Effects of transactions on balance sheet items

Show the effect of each of the seven listed transactions on the balance sheet items of Distinctive Draperies. Indicate the new balances after the transaction of May 2 and each subsequent transaction. The effects of the May 1 transaction are already filled in to provide you with an example.

May	1	Issued capital stock for $75,000.
	2	Purchased a small office building at a price of $58,000 for the land and $65,000 for the building. Paid $43,000 cash and signed a note payable for the balance.
	8	Borrowed $15,000 from the bank. Signed a 60-day note payable for this amount.
	16	Purchased copying machines, computers, and other office equipment for $19,000. Paid $9,000 cash and signed a note payable for the balance.
	28	Sold an item of office equipment (computer) to a stockholder at its cost of $2,800. The stockholder paid $800 cash and promised to pay the balance within 30 days.
	30	Paid $5,000 on the liability for the office equipment.
	31	Collected $500 from the stockholder who had bought the computer.

	Assets									=	Liabilities	+	Owners' Equity
	Cash	+	Accounts Receivable	+	Land	+	Buildings	+	Office Equipment	=	Notes Payable	+	Capital Stock
May 1	+$75,000												+$75,000
2													
Balance													
8													
Balance													
16													
Balance													
28													
Balance													
30													
Balance													
31													
Balance													

142) Effects of transactions on balance sheet items

Show the effect of each of the six listed transactions on the balance sheet items of Renaissance Investment Services, Inc. Indicate the new balances after the transaction of November 2 and each subsequent transaction. The effects of the November 1 transaction are already filled in to provide you with an example.

Nov.	1	Issued capital stock for $200,000.
	2	Purchased a small office building at a price of $86,000 for the land and $74,000 for the building. Made a cash payment of 20% of the total price and signed a note payable for the balance.
	7	Purchased telephones, computers, and other office equipment for $58,000. Paid $23,000 cash and signed a note payable for the balance.
	12	Sold one of the computers to a stockholder at its cost of $3,500. The stockholder paid $500 cash and agreed to pay the balance within 10 days.
	22	Received $3,000 due from the stockholder who had purchased the computer.
	30	Paid $17,500 on the note payable for the office equipment.

	Assets									=	Liabilities	+	Owners' Equity
	Cash	+	Accounts Receivable	+	Land	+	Buildings	+	Office Equipment	=	Notes Payable	+	Capital Stock
Nov 1	+$200,000												+$200,000
2													
Balance													
7													
Balance													
12													
Balance													
22													
Balance													
30													
Balance													

143) An inexperienced accounting intern at Tasso Company prepared the following income statement for the month of July 2018:

Tasso Company Month of July 2018		
Revenues:		
Services provided to customers	$25,000	
Capital stock	12,500	
Loan from bank	37,500	$75,000
Expenses:		
Payments to long-term creditors	$20,000	
Expenses required to provide services to		
customers	18,750	
Purchase of equipment	10,000	48,750
Net income		$ 26,250

Instructions: Prepare a revised income statement in accordance with generally accepted accounting principles.

144) From the following accounts and amounts prepare a balance sheet for the Swell Company for December 31, 2018. You must compute the amount for retained earnings to complete the balance sheet.

Accounts Payable	$61,250
Accounts Receivable	$70,500
Building	$50,000
Capital Stock	$50,000
Cash	$64,000
Equipment	$30,000
Insurance Expense	$5,000
Land	$125,000
Notes Payable	$175,000
Sales Revenue	$25,000
Salaries Expense	$20,000

145) Forms of Business Organization
State and describe the three most common forms of business organizations in the United States.

Chapter 02 Basic Financial Statements

1) The sale of additional shares of capital stock will cause retained earnings to increase.
A) True
B) False
Answer: B
Explanation:
Diff: 2
Topic: Introduction to Financial Statements; The Accounting Equation
Learning Objecti: 02-01 Explain the nature and general purposes of financial statements.; 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

2) A business entity is regarded as separate from the personal activities of its owners whether it is a sole proprietorship, a partnership, or a corporation.
A) True
B) False
Answer: A
Explanation:
Diff: 1
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

3) Assets need not always have physical characteristics as do buildings, machinery, or inventory.
A) True
B) False
Answer: A
Explanation:
Diff: 1
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

4) The going concern principle assumes that the business will continue indefinitely.
A) True
B) False
Answer: A
Explanation:

Diff: 1
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Remember
AACSB: Analytical Thinking
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5) Notes payable and accounts payable both require a company to pay an amount owed by a certain date. Notes payable generally have interest, while accounts payable generally do not.
A) True
B) False
Answer: A
Explanation:
Diff: 1
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

6) Any business event that might affect the future profitability of a business should be reported in its balance sheet.
A) True
B) False
Answer: B
Explanation:
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

7) The practice of showing assets on the balance sheet at their cost, rather than at their current market value is explained, in part, by the fact that cost is supported by objective evidence that can be verified by independent experts.
A) True
B) False
Answer: A
Explanation:
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.

Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

8) Liabilities are usually listed in order of magnitude, from smallest dollar amount to largest dollar amount.
A) True
B) False
Answer: B
Explanation:
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

9) The entity principle states that the affairs of the owners are not part of the financial operations of a business entity and should be separated.
A) True
B) False
Answer: A
Explanation:
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

10) The accounting equation may be stated as "assets minus liabilities equals owners' equity."
A) True
B) False
Answer: A
Explanation:
Diff: 1
Topic: The Accounting Equation
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

11) Total assets plus total liabilities must equal total owners' equity.
A) True
B) False
Answer: B
Explanation:

Diff: 2
Topic: The Accounting Equation
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

12) A transaction that causes an increase in an asset may also cause a decrease in another asset, an increase in a liability, or an increase in owners' equity.
A) True
B) False
Answer: A
Explanation:
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

13) The collection of an account receivable will cause total assets to decrease.
A) True
B) False
Answer: B
Explanation:
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

14) The payment of a liability causes an increase in owners' equity.
A) True
B) False
Answer: B
Explanation:
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

15) When a business borrows money from a bank, the immediate effect is an increase in total assets and a decrease in liabilities or owners' equity.
A) True
B) False
Answer: B
Explanation:
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

16) The purchase of an asset, such as office equipment, for cash will cause owners' equity to decrease.
A) True
B) False
Answer: B
Explanation:
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

17) Total assets must always equal total liabilities plus total owners' equity.
A) True
B) False
Answer: A
Explanation:
Diff: 1
Topic: The Accounting Equation
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

18) If a company purchases equipment with cash, its total assets will increase.
A) True
B) False
Answer: B
Explanation:
Diff: 1
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often

referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

19) If a company purchases equipment by issuing a note payable, its total assets will not change.
A) True
B) False
Answer: B
Explanation:
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

20) The balance sheet shows assets, liabilities, and equity, as an extension of the accounting equation.
A) True
B) False
Answer: A
Explanation:
Diff: 1
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

21) A net profit results from having more revenues than liabilities.
A) True
B) False
Answer: B
Explanation:
Diff: 2
Topic: Income Statement
Learning Objecti: 02-05 Explain how the income statement reports an enterprise's financial performance for a period of time in terms of the relationship of revenues and expenses.
Bloom's: Understand
AACSB: Analytical Thinking; Reflective Thinking
Accessibility: Keyboard Navigation

22) A statement of cash flows reports revenue and expense activities for a specific time period such as one month or one year.
A) True
B) False
Answer: B
Explanation:

Diff: 1
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

23) It is not unusual for an entity to report a significant increase in cash from operating activities, but a decrease in the total amount of cash.
A) True
B) False
Answer: A
Explanation:
Diff: 2
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

24) The statement of cash flows provides a link between two balance sheets by showing how net income (or loss) has changed owners' equity from one balance sheet date to the next.
A) True
B) False
Answer: B
Explanation:
Diff: 2
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

25) Articulation between the financial statements means that they relate closely to each other on the basis of the same underlying transaction information.
A) True
B) False
Answer: A
Explanation:
Diff: 1
Topic: Relationships among Financial Statements
Learning Objecti: 02-07 Explain how the statement of financial position (balance sheet), income statement, and statement of cash flows relate to each other.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

26) Limited liability means that owners of a business are only liable for the debts of the business up to the

amounts they can afford.
A) True
B) False
Answer: B
Explanation:
Diff: 1
Topic: Forms of Business Organization
Learning Objecti: 02-08 Explain common forms of business ownership—sole proprietorship, partnership, and corporation—and demonstrate how they differ in terms of their statements of financial position.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

27) In a business organized as a corporation, it is not necessary to list the equity of each stockholder on the balance sheet.
A) True
B) False
Answer: A
Explanation:
Diff: 2
Topic: Forms of Business Organization
Learning Objecti: 02-08 Explain common forms of business ownership—sole proprietorship, partnership, and corporation—and demonstrate how they differ in terms of their statements of financial position.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

28) The owner of a sole proprietorship is personally liable for the debts of the business, whereas the stockholders of a corporation are not personally liable for the debts of the business.
A) True
B) False
Answer: A
Explanation:
Diff: 1
Topic: Forms of Business Organization
Learning Objecti: 02-08 Explain common forms of business ownership—sole proprietorship, partnership, and corporation—and demonstrate how they differ in terms of their statements of financial position.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

29) Window dressing occurs when management attempts to make a company look financially stronger than it actually is.
A) True
B) False
Answer: A
Explanation:
Diff: 1
Topic: Management's Interest in Financial Statements
Learning Objecti: 02-09 Discuss the importance of financial statements to a company and its investors and creditors and why management may take steps to improve the appearance of the company in its financial

statements.
Bloom's: Remember
AACSB: Ethics
Accessibility: Keyboard Navigation

30) Decision makers outside the organization base their credit decisions on weekly, or even daily, financial statements.
A) True
B) False
Answer: B
Explanation:
Diff: 1
Topic: Management's Interest in Financial Statements
Learning Objecti: 02-09 Discuss the importance of financial statements to a company and its investors and creditors and why management may take steps to improve the appearance of the company in its financial statements.
Bloom's: Remember
AACSB: Ethics
Accessibility: Keyboard Navigation

31) The major outgrowth from business failures and allegations of fraudulent financial reporting during the 1990s was the passage of the Securities and Exchange Act.
A) True
B) False
Answer: B
Explanation:
Diff: 1
Topic: Management's Interest in Financial Statements
Learning Objecti: 02-09 Discuss the importance of financial statements to a company and its investors and creditors and why management may take steps to improve the appearance of the company in its financial statements.
Bloom's: Remember
AACSB: Ethics
Accessibility: Keyboard Navigation

32) Which of the following is the primary objective of an income statement?
A) Providing managers with detailed information about where the enterprise stands at a specific date.
B) Providing users outside the business organization with information about the company's operating results for a period of time.
C) Reporting to the Internal Revenue Service the company's taxable income.
D) Indicating to investors in a particular company the current market values of their investments.
Answer: B
Explanation: A)
B)
C)
D)
Diff: 1
Topic: Introduction to Financial Statements
Learning Objecti: 02-01 Explain the nature and general purposes of financial statements.
Bloom's: Remember
AACSB: Analytical Thinking

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33) Which of the following describes the proper form of a balance sheet?
A) Owners' equity is always the first section listed because it is the most important to external users.
B) Cash is always the first asset listed, followed by permanent assets (such as land and buildings), and finally by assets such as receivables and supplies.
C) Liabilities are listed before owners' equity.
D) A subtotal for total assets plus total liabilities is shown.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 1
Topic: Introduction to Financial Statements
Learning Objecti: 02-01 Explain the nature and general purposes of financial statements.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

34) A balance sheet is designed to show:
A) How much a business is worth.
B) The profitability of the business during the current year.
C) The assets, liabilities, and owners' equity of a business as of a particular date.
D) The cost of replacing the assets and of paying off the liabilities at December 31.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 1
Topic: Introduction to Financial Statements
Learning Objecti: 02-01 Explain the nature and general purposes of financial statements.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

35) Blue Wholesale Shirt Co. sold shirts to Pink Retail Shoppe. The owner of Pink Retail said she would pay Blue at a later date, which Blue Wholesale agreed to. Blue Wholesale Shirt Co. is considered to be a:
A) borrower. B) liability. C) creditor. D) debtor.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

36) Which of the following *best* defines an asset?
A) Something with physical form that is valued at cost in the accounting records.
B) An economic resource owned by a business and expected to benefit future operations.
C) An economic resource representing cash or the right to receive cash in the near future.
D) Something owned by a business that has a ready market value.
Answer: B
Explanation: A)
B)
C)
D)
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

37) From an accounting viewpoint, when is a business considered as an entity separate from its owner(s)?
A) Only when organized as a sole proprietorship.
B) Only when organized as a partnership.
C) Only when organized as a corporation.
D) A business is always considered as an accounting entity separate from the activities of the owner(s).
Answer: D
Explanation: A)
B)
C)
D)
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

38) The accounting principle that assumes that a company will operate in the foreseeable future is:
A) Going concern. B) Objectivity.C) Liquidity. D) Disclosure.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 1
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of

financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

39) The valuation of assets in the balance sheet is based primarily upon:
A) What it would cost to replace the assets.
B) Cost, because cost is usually factual and verifiable.
C) Current fair market value as established by independent appraisers.
D) Cost, because in the event of liquidation, the assets would be sold at an amount equal to their original cost.
Answer: B
Explanation: A)
B)
C)
D)
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

40) Which of the following is *not* a generally accepted accounting principle relating to the valuation of assets?
A) The cost principle - in general, assets are valued at cost, rather than at estimated market values.
B) The objectivity principle - accountants prefer to use objective, rather than subjective, information as the basis for accounting information.
C) The safety principle - assets are valued at no more than the value for which they are insured.
D) The going-concern assumption - one reason for valuing assets such as buildings and equipment at cost rather than at their current market values is the assumption that the business will use these assets rather than sell them.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

41) Each year, the accountant for Southern Real Estate Company adjusts the recorded value of each asset to its market value. Using these market value figures on the balance sheet violates:

A) The accounting equation. B) The stable-dollar assumption.
C) The business entity concept. D) The cost principle.
Answer: D
Explanation: A)
B)
C)
D)
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

42) The owner of Westhampton Fish Eatery purchased a new car for his daughter who is away at college at a cost of $43,000 and reported this amount as Delivery Vehicle in the restaurant's balance sheet. The reporting of this item in this manner violated the:
A) Cost principle. B) Business entity concept.
C) Objectivity principle. D) Going-concern assumption.
Answer: B
Explanation: A)
B)
C)
D)
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

43) Eton Corporation purchased land in 1998 for $190,000. In 2018, it purchased a nearly identical parcel of land for $430,000. In its 2018 balance sheet, Eton valued these two parcels of land at a combined value of $860,000. Reporting the land in this manner violated the:
A) Cost principle. B) Principle of the business entity.
C) Objectivity principle. D) Going-concern assumption.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

44) Bob Bertolucci, owner of Bob's Bazaar, also owns a personal residence that costs $575,000. The market value of his residence is $725,000. During preparation of the financial statements for Bob's Bazaar, the accounting principle most relevant to the presentation of Bob's home is:
A) The concept of the business entity. B) The cost principle.
C) The going-concern assumption. D) The objectivity principle.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

45) Which of the following will *not* cause a change in the owners' equity of a business?
A) Purchase of land with cash. B) Withdrawal of cash by the owner.
C) Sale of land at a profit. D) Losses from unprofitable operations.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

46) Which of the following is correct when a corporation uses cash to pay for an expense?
A) Total assets will decrease. B) Retained earnings will increase.
C) Owners' equity will increase. D) Liabilities will increase.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often

referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

47) Deerpark Corporation recently borrowed $70,000 cash from its bank. Which of the following was *unaffected* by this transaction?
A) Assets. B) Liabilities. C) Owners' equity. D) Cash.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

48) Which of the following transactions would cause an increase in both assets and owners' equity?
A) Investment of cash in the business by the owner.
B) Sale of land for a price less than its cost.
C) Borrowing money from a bank.
D) Sale of land for cash at a price equal to its cost.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

49) A transaction caused an increase in both assets and owners' equity. This transaction could have been resulted from the:
A) Sale of services to a customer.
B) Sale of land for a price less than its cost.
C) Borrowing money from a bank.
D) Sale of land for cash at a price equal to its cost.
Answer: A
Explanation: A)
B)
C)

D)
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

50) The amount of owners' equity in a business is *not* affected by:
A) The percentage of total assets held in cash.
B) The investments made in the business by the owner.
C) The profitability of the business.
D) The amount of dividends paid to stockholders.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

51) Decreases in owners' equity are caused by:
A) Purchases of assets and payment of liabilities.
B) Purchases of assets and incurrence of liabilities.
C) Payment of liabilities and unprofitable operations.
D) Distributions of assets to the owners and unprofitable operations.
Answer: D
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

52) Which of the following transactions would cause a change in owners' equity?
A) Repayment of the principal on a bank loan.
B) Purchase of a delivery truck on credit.

C) Sale of land on credit for a price above cost.
D) Borrowing money from a bank.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

53) On the statement of financial position, how are assets and liabilities normally presented?
A) Assets are presented in their order of permanence; liabilities are presented in the order in which they become due.
B) Assets are presented in the order in which they become due; liabilities are presented in their order of permanence.
C) Assets are presented in order of profitability; liabilities are presented in order of liquidity.
D) Assets are presented in order of liquidity; liabilities are presented in order of profitability.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

54) Which of the following assets would most likely be listed *last* on a statement of financial position?
A) Land. B) Cash.
C) Accounts receivable. D) Equipment.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

55) Which of the following liabilities would most likely be listed *last* on a statement of financial position?
A) Bonds payable, due in 20 years. B) Accounts payable.
C) Note payable, due in 3 years. D) Income taxes payable.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

56) If a transaction causes an asset account to decrease, which of the following related effects may occur?
A) An increase of equal amount in an owners' equity account.
B) An increase in a liability account.
C) An increase of equal amount in another asset account.
D) An increase in the combined total of liabilities and owners' equity.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

57) A payment of a business debt not including interest:
A) Decreases total assets.
B) Increases total liabilities.
C) Increases the owners' equity in the business.
D) Decreases the owners' equity in the business.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.
Bloom's: Understand

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

58) If total assets equal $270,000 and total liabilities equal $202,500, the total owners' equity must equal:
A) $472,500.
B) $67,500.
C) $270,000.
D) Cannot be determined from the information given.
Answer: B
Explanation: A) $270,000 − $202,500 = $67,500
B) $270,000 − $202,500 = $67,500
C) $270,000 − $202,500 = $67,500
D) $270,000 − $202,500 = $67,500
Diff: 2
Topic: The Accounting Equation
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

59) If total assets equal $345,000 and total owners' equity equal $120,000, then total liabilities must equal:
A) $465,000.
B) $225,000.
C) $120,000.
D) Cannot be determined from the information given.
Answer: B
Explanation: A) $345,000 − $120,000 = $225,000
B) $345,000 − $120,000 = $225,000
C) $345,000 − $120,000 = $225,000
D) $345,000 − $120,000 = $225,000
Diff: 2
Topic: The Accounting Equation
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

60) Owners' equity in a business increases as a result of which of the following?
A) Payments of cash to the owners.
B) Losses from unprofitable operation of the business.
C) Earnings from profitable operation of the business.
D) Borrowing from a commercial bank.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation; Payment of Expenses

Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

61) Owners' equity in a business decreases as a result of which of the following?
A) Investments of cash by the owners.
B) Profits from operating the business.
C) Losses from unprofitable operation of the business.
D) Repaying a loan to a commercial bank.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

62) To appear in a balance sheet of a business entity, an asset need *not*:
A) Be an economic resource. B) Have a ready market value.
C) Be expected to benefit future operations. D) Be owned by the business.
Answer: B
Explanation: A)
B)
C)
D)
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

63) A balance sheet:
A) Provides owners, investors, and other interested parties with all the financial information they need to evaluate the financial strength, profitability, and future prospects of a given business entity.
B) Shows the current market value of the owners' equity in the business at the balance sheet date.
C) Assists creditors in evaluating the debt-paying ability of a business by showing the assets and liabilities of the business, plus the assets and liabilities of its owner (or owners).
D) Shows the assets, liabilities, and owners' equity of a business entity, valued in conformity with generally accepted accounting principles.
Answer: D

Explanation: A)
B)
C)
D)
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

64) Which of the following is correct if a company purchases equipment for $70,000 cash?
A) Total assets will increase by $70,000. B) Total assets will decrease by $70,000.
C) Total assets will remain the same. D) Total owners' equity will decrease.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

65) If a company purchases equipment for $65,000 by issuing a note payable:
A) Total assets will increase by $65,000. B) Total assets will decrease by $65,000.
C) Total assets will remain the same. D) Total owners' equity will decrease.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

66) If a company has a profit:
A) Assets will be equal to liabilities plus owners' equity.
B) Assets will be less than liabilities plus owners' equity.
C) Assets will be greater than liabilities plus owners' equity.
D) Owners' equity will be greater than its assets.
Answer: A
Explanation: A)

B)
C)
D)
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

67) Capital stock represents:
A) The amount invested in the business by stockholders when shares of stock were initially issued by a corporation.
B) The owners' equity for a business organized as a corporation.
C) The owners' equity accumulated through profitable operations that have not been paid out as dividends.
D) The price paid by the current owners to acquire shares of stock in the corporation, regardless of whether they bought the shares directly from the corporation or from another stockholder.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

68) The balance sheet item that represents the portion of owners' equity resulting from profitable operations of the business is:
A) Accounts receivable. B) Cash.
C) Capital stock. D) Retained earnings.
Answer: D
Explanation: A)
B)
C)
D)
Diff: 1
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

69) Retained earnings appears on:
A) The income statement. B) The balance sheet.
C) The statement of cash flows. D) All three of the financial statements.

Answer: B
Explanation: A)
B)
C)
D)
Diff: 1
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

At December 31, 2018, the accounting records of Braun Corporation contain the following items:

Accounts Payable	$ 16,000	Accounts Receivable	$ 40,000
Land	$ 240,000	Cash	?
Capital Stock	?	Equipment	$ 120,000
Building	$ 180,000	Notes Payable	$ 190,000
Retained Earnings	$ 160,000		

-

70) If Capital Stock is $260,000, what is the December 31, 2018 cash balance?
A) $86,000. B) $94,000. C) $46,000. D) $686,000.
Answer: C
Explanation: A) A/P($16,000) + N/P($190,000) + Capital Stock($260,000) + R.E.($160,000) = $626,000
Cash(?) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $626,000
Cash = $46,000
B) A/P($16,000) + N/P($190,000) + Capital Stock($260,000) + R.E.($160,000) = $626,000
Cash(?) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $626,000
Cash = $46,000
C) A/P($16,000) + N/P($190,000) + Capital Stock($260,000) + R.E.($160,000) = $626,000
Cash(?) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $626,000
Cash = $46,000
D) A/P($16,000) + N/P($190,000) + Capital Stock($260,000) + R.E.($160,000) = $626,000
Cash(?) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $626,000
Cash = $46,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

71) If Capital Stock is $320,000, total assets of Braun Corporation at December 31, 2018, amounts to:
A) $686,000. B) $926,000. C) $726,000. D) $106,000.
Answer: A
Explanation: A) A/P($16,000) + N/P($190,000) + Capital Stock($320,000) + R.E.($160,000) = $686,000
Total Assets = $686,000
B) A/P($16,000) + N/P($190,000) + Capital Stock($320,000) + R.E.($160,000) = $686,000

Total Assets = $686,000
C) A/P($16,000) + N/P($190,000) + Capital Stock($320,000) + R.E.($160,000) = $686,000
Total Assets = $686,000
D) A/P($16,000) + N/P($190,000) + Capital Stock($320,000) + R.E.($160,000) = $686,000
Total Assets = $686,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

72) If Cash at December 31, 2018, is $86,000, Capital Stock is:
A) $260,000. B) $300,000. C) $620,000. D) $168,000.
Answer: B
Explanation: A) Cash($86,000) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $666,000
A/P($16,000) + N/P($190,000) + Capital Stock(?) + R.E.($160,000) = $666,000
Capital Stock = $300,000
B) Cash($86,000) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $666,000
A/P($16,000) + N/P($190,000) + Capital Stock(?) + R.E.($160,000) = $666,000
Capital Stock = $300,000
C) Cash($86,000) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $666,000
A/P($16,000) + N/P($190,000) + Capital Stock(?) + R.E.($160,000) = $666,000
Capital Stock = $300,000
D) Cash($86,000) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $666,000
A/P($16,000) + N/P($190,000) + Capital Stock(?) + R.E.($160,000) = $666,000
Capital Stock = $300,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

73) If Cash at December 31, 2018, is $26,000, total owners' equity is:
A) $160,000. B) $366,000. C) $606,000. D) $400,000.
Answer: D
Explanation: A) Cash($26,000) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $606,000
A/P($16,000) + N/P($190,000) + Capital Stock(?) + R.E.($160,000) = $606,000
Capital Stock = ($240,000) + R. E.($160,000) = $400,000
Total Owners' Equity = $400,000
B) Cash($26,000) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $606,000
A/P($16,000) + N/P($190,000) + Capital Stock(?) + R.E.($160,000) = $606,000

Capital Stock = ($240,000) + R. E.($160,000) = $400,000
Total Owners' Equity = $400,000
C) Cash($26,000) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $606,000
A/P($16,000) + N/P($190,000) + Capital Stock(?) + R.E.($160,000) = $606,000
Capital Stock = ($240,000) + R. E.($160,000) = $400,000
Total Owners' Equity = $400,000
D) Cash($26,000) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $606,000
A/P($16,000) + N/P($190,000) + Capital Stock(?) + R.E.($160,000) = $606,000
Capital Stock = ($240,000) + R. E.($160,000) = $400,000
Total Owners' Equity = $400,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

74) If Cash at December 31, 2018, is $66,000, total assets amounts to:
A) $606,000. B) $806,000. C) $662,000. D) $646,000.
Answer: D
Explanation: A) Cash($66,000) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $646,000 Total Assets = $646,000
B) Cash($66,000) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $646,000 Total Assets = $646,000
C) Cash($66,000) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $646,000 Total Assets = $646,000
D) Cash($66,000) + A/R($40,000) + Land($240,000) + Building($180,000) + Equipment($120,000) = $646,000 Total Assets = $646,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

At December 31, 2018, the accounting records of Hercules Manufacturing, Inc. contain the following items:

			30,00
Accounts Payable	$ 12,000	Accounts Receivable	$ 0
Land	$ 90,000	Cash	$ 7,000
Building	250,000	Equipment	$?
Notes Payable	$ 135,000	Capital Stock	188,000
Retained Earnings	?		

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75) If total assets of Hercules Manufacturing, Inc. are $556,000, Equipment is carried in Hercules Manufacturing accounting records at:

A) $377,000. B) $179,000. C) $150,000. D) $ 90,000.
Answer: B
Explanation: A) Cash($7,000) + A/R($30,000) + Land($90,000) + Building($250,000) + Equipment(?) = $556,000
Equipment = $179,000
B) Cash($7,000) + A/R($30,000) + Land($90,000) + Building($250,000) + Equipment(?) = $556,000
Equipment = $179,000
C) Cash($7,000) + A/R($30,000) + Land($90,000) + Building($250,000) + Equipment(?) = $556,000
Equipment = $179,000
D) Cash($7,000) + A/R($30,000) + Land($90,000) + Building($250,000) + Equipment(?) = $556,000
Equipment = $179,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

76) If total assets of Hercules Manufacturing, Inc. are $556,000, Retained Earnings at December 31, 2018, must be:
A) $811,000. B) $180,000. C) $221,000. D) $335,000.
Answer: C
Explanation: A) A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.(?) = $556,000
Retained Earnings = $221,000
B) A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.(?) = $556,000
Retained Earnings = $221,000
C) A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.(?) = $556,000
Retained Earnings = $221,000
D) A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.(?) = $556,000
Retained Earnings = $221,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

77) If Retained Earnings at December 31, 2018, is $140,000, total assets amounts to:
A) $ 98,000. B) $377,000. C) $475,000. D) $188,000.
Answer: C
Explanation: A) A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.($140,000) = $475,000
Total assets = $475,000
B) A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.($140,000) = $475,000
Total assets = $475,000
C) A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.($140,000) = $475,000
Total assets = $475,000
D) A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.($140,000) = $475,000
Total assets = $475,000
Diff: 2

Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

78) If Retained Earnings at December 31, 2018, is $100,000, Equipment is carried in Hercules Manufacturing, Inc. accounting records at:
A) $ 42,000. B) $ 58,000. C) $ 43,500. D) $345,000.
Answer: B
Explanation: A) A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.($100,000) = $435,000
Cash($7,000) + A/R($30,000) + Land($90,000) + Building($250,000) + Equipment(?) = $435,000
Equipment = $58,000
B) A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.($100,000) = $435,000
Cash($7,000) + A/R($30,000) + Land($90,000) + Building($250,000) + Equipment(?) = $435,000
Equipment = $58,000
C) A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.($100,000) = $435,000
Cash($7,000) + A/R($30,000) + Land($90,000) + Building($250,000) + Equipment(?) = $435,000
Equipment = $58,000
D) A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.($100,000) = $435,000
Cash($7,000) + A/R($30,000) + Land($90,000) + Building($250,000) + Equipment(?) = $435,000
Equipment = $58,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
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79) Assume that the Equipment shown above was acquired by the business five years ago and has a book value of $156,000, but has a current appraised value of $200,000. Hercules Manufacturing's Retained Earnings at December 31, 2018, amounts to:
A) $533,000. B) $345,000. C) $198,000. D) $356,000.
Answer: C
Explanation: A) Cash($7,000) + A/R($30,000) + Land($90,000) + Building($250,000) +
Equipment($156,000) = $533,000
A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.(?) = $533,000
Retained Earnings = $198,000
B) Cash($7,000) + A/R($30,000) + Land($90,000) + Building($250,000) + Equipment($156,000) = $533,000
A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.(?) = $533,000
Retained Earnings = $198,000
C) Cash($7,000) + A/R($30,000) + Land($90,000) + Building($250,000) + Equipment($156,000) = $533,000
A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.(?) = $533,000
Retained Earnings = $198,000
D) Cash($7,000) + A/R($30,000) + Land($90,000) + Building($250,000) + Equipment($156,000) = $533,000
A/P($12,000) + N/P($135,000) + Capital Stock($188,000) + R.E.(?) = $533,000

Retained Earnings = $198,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
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At December 31, 2018 the accounting records of Gordon, Inc. contain the following items:

Accounts Payable	$ 2,500	Accounts Receivable	$ 18,750
Land	$ 30,000	Cash	?
Building	$ 31,250	Equipment	$ 40,000
Notes Payable	?	Capital Stock	$ 12,500
Retained Earnings	$ 125,000		

80) If the Notes Payable is $10,000, the December 31, 2018 cash balance is:
A) $ 60,000. B) $160,000. C) $ 30,000. D) $ 20,000.
Answer: C
Explanation: A) A/P($2,500) + N/P($10,000) + Capital Stock($12,500) + R.E.($125,000) = $150,000
Cash(?) + A/R($18,750) + Land($30,000) + Building($31,250) + Equipment($40,000) = $150,000
Cash = $30,000
B) A/P($2,500) + N/P($10,000) + Capital Stock($12,500) + R.E.($125,000) = $150,000
Cash(?) + A/R($18,750) + Land($30,000) + Building($31,250) + Equipment($40,000) = $150,000
Cash = $30,000
C) A/P($2,500) + N/P($10,000) + Capital Stock($12,500) + R.E.($125,000) = $150,000
Cash(?) + A/R($18,750) + Land($30,000) + Building($31,250) + Equipment($40,000) = $150,000
Cash = $30,000
D) A/P($2,500) + N/P($10,000) + Capital Stock($12,500) + R.E.($125,000) = $150,000
Cash(?) + A/R($18,750) + Land($30,000) + Building($31,250) + Equipment($40,000) = $150,000
Cash = $30,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

81) If the Notes Payable balance is $25,000, then the total assets of Gordon, Inc. at December 31, 2018 amount to:
A) $ 27,500. B) $152,500. C) $120,000. D) $165,000.
Answer: D
Explanation: A) A/P($2,500) + N/P($25,000) + Capital Stock($12,500) + R.E.($125,000) = $165,000
Total Assets = $165,000
B) A/P($2,500) + N/P($25,000) + Capital Stock($12,500) + R.E.($125,000) = $165,000
Total Assets = $165,000
C) A/P($2,500) + N/P($25,000) + Capital Stock($12,500) + R.E.($125,000) = $165,000
Total Assets = $165,000

D) A/P($2,500) + N/P($25,000) + Capital Stock($12,500) + R.E.($125,000) = $165,000
Total Assets = $165,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

82) If the Cash balance at December 31, 2018 is $67,500, the Notes Payable balance is:
A) $118,750. B) $ 47,500. C) $137,500. D) $140,000.
Answer: B
Explanation: A) Cash($67,500) + A/R($18,750) + Land($30,000) + Building($31,250) + Equipment($40,000) = $187,500
A/P($2,500) + N/P(?) + Capital Stock($12,500) + R.E.($125,000) = $187,500
Notes Payable = $47,500
B) Cash($67,500) + A/R($18,750) + Land($30,000) + Building($31,250) + Equipment($40,000) = $187,500
A/P($2,500) + N/P(?) + Capital Stock($12,500) + R.E.($125,000) = $187,500
Notes Payable = $47,500
C) Cash($67,500) + A/R($18,750) + Land($30,000) + Building($31,250) + Equipment($40,000) = $187,500
A/P($2,500) + N/P(?) + Capital Stock($12,500) + R.E.($125,000) = $187,500
Notes Payable = $47,500
D) Cash($67,500) + A/R($18,750) + Land($30,000) + Building($31,250) + Equipment($40,000) = $187,500
A/P($2,500) + N/P(?) + Capital Stock($12,500) + R.E.($125,000) = $187,500
Notes Payable = $47,500
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

83) Refer to the information above. If the Cash balance at December 31, 2018 is $62,500 then Total Liabilities amounts to:
A) $ 42,500. B) $140,000. C) $ 45,000. D) $182,500.
Answer: C
Explanation: A) Cash($62,500) + A/R($18,750) + Land($30,000) + Building($31,250) + Equipment($40,000) = $182,500
A/P($2,500) + N/P(?) + Capital Stock($12,500) + R.E.($125,000) = $182,500
$2,500 (Accounts Payable) + $42,500 (Notes Payable) = $45,000
Total Liabilities = $45,000
B) Cash($62,500) + A/R($18,750) + Land($30,000) + Building($31,250) + Equipment($40,000) = $182,500
A/P($2,500) + N/P(?) + Capital Stock($12,500) + R.E.($125,000) = $182,500
$2,500 (Accounts Payable) + $42,500 (Notes Payable) = $45,000
Total Liabilities = $45,000

C) Cash($62,500) + A/R($18,750) + Land($30,000) + Building($31,250) + Equipment($40,000) = $182,500
A/P($2,500) + N/P(?) + Capital Stock($12,500) + R.E.($125,000) = $182,500
$2,500 (Accounts Payable) + $42,500 (Notes Payable) = $45,000
Total Liabilities = $45,000
D) Cash($62,500) + A/R($18,750) + Land($30,000) + Building($31,250) + Equipment($40,000) = $182,500
A/P($2,500) + N/P(?) + Capital Stock($12,500) + R.E.($125,000) = $182,500
$2,500 (Accounts Payable) + $42,500 (Notes Payable) = $45,000
Total Liabilities = $45,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
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84) Which of the following is correct if at the end of Crystal Imports' first year of operations, Assets are $800,000 and Owners' Equity is $720,000?
A) The owner(s) must have invested $800,000 to start the business.
B) The business must be operating profitably.
C) Liabilities are $80,000.
D) Liabilities are $1,520,000.
Answer: C
Explanation: A) $800,000(Assets) − $720,000(Owners' Equity) = $80,000 (Liabilities)
B) $800,000(Assets) − $720,000(Owners' Equity) = $80,000 (Liabilities)
C) $800,000(Assets) − $720,000(Owners' Equity) = $80,000 (Liabilities)
D) $800,000(Assets) − $720,000(Owners' Equity) = $80,000 (Liabilities)
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
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85) During the current year, the assets of Wheatley's increased by $362,000, and the liabilities increased by $260,000. The owners' equity in the business must have:
A) Decreased by $102,000. B) Decreased by $622,000.
C) Increased by $102,000. D) Increased by $622,000.
Answer: C
Explanation: A) $362,000 − $260,000 = $102,000
B) $362,000 − $260,000 = $102,000
C) $362,000 − $260,000 = $102,000
D) $362,000 − $260,000 = $102,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply

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86) The total liabilities of Hogan's Company on the balance sheet are $270,000; this amount is equal to three-fourths of the total assets. What is the amount of owners' equity?
A) $202,500. B) $ 90,000. C) $360,000. D) $630,000.
Answer: B
Explanation: A) ¾ Assets = $270,000 Assets =$360,000; Owners' Equity = ($360,000) Assets − ($270,000) Liabilities= $90,000
B) ¾ Assets = $270,000 Assets =$360,000; Owners' Equity = ($360,000) Assets − ($270,000) Liabilities= $90,000
C) ¾ Assets = $270,000 Assets =$360,000; Owners' Equity = ($360,000) Assets − ($270,000) Liabilities= $90,000
D) ¾ Assets = $270,000 Assets =$360,000; Owners' Equity = ($360,000) Assets − ($270,000) Liabilities= $90,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
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87) Thirty percent of the total assets of Shanahan Corporation have been financed through borrowing. The total liabilities of the company are $600,000. What is the amount of owners' equity?
A) $ 180,000. B) $2,000,000. C) $1,400,000. D) $2,600,000.
Answer: C
Explanation: A) 30% of Assets = $600,000 Assets = $2,000,000; Owners' Equity = ($2,000,000) Assets − ($600,000) Liabilities = $1,400,000
B) 30% of Assets = $600,000 Assets = $2,000,000; Owners' Equity = ($2,000,000) Assets − ($600,000) Liabilities = $1,400,000
C) 30% of Assets = $600,000 Assets = $2,000,000; Owners' Equity = ($2,000,000) Assets − ($600,000) Liabilities = $1,400,000
D) 30% of Assets = $600,000 Assets = $2,000,000; Owners' Equity = ($2,000,000) Assets − ($600,000) Liabilities = $1,400,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
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88) A transaction caused a $60,000 increase in both total assets and total liabilities. This transaction could have been which of the following?
A) Purchase for office equipment for $60,000 cash.
B) Purchase of office equipment for $120,000, paying $60,000 cash and issuing a note payable for the balance.
C) Repayment of a $60,000 bank loan.
D) Investment of $60,000 cash in the business by the owner.
Answer: B

Explanation: A)
B)
C)
D)
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
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89) If $9,600 cash and a $31,000 note payable are given in exchange for some office machines to be used in a business:
A) Total assets are increased. B) Total liabilities are decreased.
C) Total assets are decreased. D) The owners' equity is increased.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
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90) If during the current year, liabilities of Corbett's Store increased by $220,000 and owners' equity increased by $160,000, then:
A) Assets at the end of the year total $380,000.
B) Assets at the end of the year total $60,000.
C) Assets increased during the year by $380,000.
D) Assets decreased during the year by $60,000.
Answer: C
Explanation: A) $220,000 + $160,000 = $380,000
B) $220,000 + $160,000 = $380,000
C) $220,000 + $160,000 = $380,000
D) $220,000 + $160,000 = $380,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

91) If during the current year, liabilities of Hayden Travel decreased by $50,000 and owners' equity increased by $75,000, then:
A) Assets at the end of the year total $125,000.

B) Assets at the end of the year total $25,000.
C) Assets increased during the year by $25,000.
D) Assets decreased during the year by $125,000.
Answer: C
Explanation: A) $75,000 − $50,000 = $25,000
B) $75,000 − $50,000 = $25,000
C) $75,000 − $50,000 = $25,000
D) $75,000 − $50,000 = $25,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

92) At the end of the current year, the owners' equity in Barclay Bakery is $246,000. During the year, the assets of the business had increased by $120,000 and the liabilities had increased by $72,000. Owners' equity at the beginning of the year must have been:
A) $198,000. B) $174,000. C) $284,000. D) $438,000.
Answer: A
Explanation: A) $120,000 − $72,000 = $48,000
$246,000 − $48,000 = $198,000
B) $120,000 − $72,000 = $48,000
$246,000 − $48,000 = $198,000
C) $120,000 − $72,000 = $48,000
$246,000 − $48,000 = $198,000
D) $120,000 − $72,000 = $48,000
$246,000 − $48,000 = $198,000
Diff: 3
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

93) At the end of the current year, the owners' equity in Durante Co. is $360,000. During the year, the assets of the business had increased by $68,000 and the liabilities had increased by $118,000. Owners' equity at the beginning of the year must have been:
A) $410,000. B) $310,000. C) $546,000. D) $174,000.
Answer: A
Explanation: A) $68,000 − $118,000 = ($50,000)
$360,000 − ($50,000) = $410,000
B) $68,000 − $118,000 = ($50,000)
$360,000 − ($50,000) = $410,000
C) $68,000 − $118,000 = ($50,000)
$360,000 − ($50,000) = $410,000
D) $68,000 − $118,000 = ($50,000)
$360,000 − ($50,000) = $410,000
Diff: 3

Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

94) During the current year, the assets of Quality Stairs increased by $175,000 and the liabilities decreased by $15,000. If the owners' equity in the business is $475,000 at the end of the year, the owners' equity at the beginning of the year must have been:
A) $335,000. B) $285,000. C) $665,000. D) $615,000.
Answer: B
Explanation: A) $175,000 + $15,000 = $190,000
$475,000 −$190,000 = $285,000
B) $175,000 + $15,000 = $190,000
$475,000 −$190,000 = $285,000
C) $175,000 + $15,000 = $190,000
$475,000 −$190,000 = $285,000
D) $175,000 + $15,000 = $190,000
$475,000 −$190,000 = $285,000
Diff: 3
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

95) An expense is best defined as:
A) Any payment of cash for the benefit of the company.
B) Past, present, or future payments of cash required to generate revenues.
C) Past payments of cash required to generate revenues.
D) Future payments of cash required to generate revenues.
Answer: B
Explanation: A)
B)
C)
D)
Diff: 2
Topic: Income Statement
Learning Objecti: 02-05 Explain how the income statement reports an enterprise's financial performance for a period of time in terms of the relationship of revenues and expenses.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

96) A revenue transaction may result in all of the following *except*:
A) An increase in assets.
B) An increase in owners' equity.
C) A positive cash flow in either the past, present, or future.
D) An increase in liabilities.

Answer: D
Explanation: A)
B)
C)
D)
Diff: 2
Topic: Income Statement
Learning Objecti: 02-05 Explain how the income statement reports an enterprise's financial performance for a period of time in terms of the relationship of revenues and expenses.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

[The following information applies to the questions displayed below.]

Astoria Co. had the following transactions during the month of August 2018:

(1) Cash received from bank loans was $20,000.
(2) Dividends of $9,500 were paid to stockholders in cash.
(3) Revenues earned and received in cash amounted to $33,500.
(4) Expenses incurred and paid were $26,000.

97) What amount of net income will be reported on an income statement for the month of August?
A) $20,000. B) $7,500. C) $0. D) $33,500.
Answer: B
Explanation: A) $33,500 − $26,000 = $7,500
B) $33,500 − $26,000 = $7,500
C) $33,500 − $26,000 = $7,500
D) $33,500 − $26,000 = $7,500
Diff: 2
Topic: Income Statement
Learning Objecti: 02-05 Explain how the income statement reports an enterprise's financial performance for a period of time in terms of the relationship of revenues and expenses.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

98) At the beginning of August, 2018, owners' equity in Astoria was $160,000. Given the transactions of August, what will be the owners' equity be at the end of the month?
A) $167,500. B) $150,500. C) $193,500. D) $158,000.
Answer: D
Explanation: A) $160,000 (Beginning Owners' Equity) + $7,500 (Net income) − $9,500 (Dividends) Ending Owners' Equity = $158,000
B) $160,000 (Beginning Owners' Equity) + $7,500 (Net income) − $9,500 (Dividends) Ending Owners' Equity = $158,000
C) $160,000 (Beginning Owners' Equity) + $7,500 (Net income) − $9,500 (Dividends) Ending Owners' Equity = $158,000
D) $160,000 (Beginning Owners' Equity) + $7,500 (Net income) − $9,500 (Dividends) Ending Owners' Equity = $158,000
Diff: 2
Topic: Payment of Expenses

Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

99) For the month of August, net cash flows from operating activities for Astoria were:
A) $33,500. B) $7,500. C) $20,000. D) $26,000.
Answer: B
Explanation: A) $33,500 – $26,000 = $7,500
B) $33,500 – $26,000 = $7,500
C) $33,500 – $26,000 = $7,500
D) $33,500 – $26,000 = $7,500
Diff: 2
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

[*The following information applies to the questions displayed below.*]

Waldorf Co. had the following transactions during the month of October 2018:

(1) Cash received from bank loans was $60,000.
(2) Dividends of $18,500 were paid to stockholders in cash.
(3) Revenues earned and received in cash amounted to $100,500.
(4) Expenses incurred and paid were $78,000.

100) What amount of net income will be reported on an income statement for the month of October?
A) $ 18,500. B) $ 22,500. C) $ 78,000. D) $100,500.
Answer: B
Explanation: A) $100,500 − $78,000 = $22,500
B) $100,500 − $78,000 = $22,500
C) $100,500 − $78,000 = $22,500
D) $100,500 − $78,000 = $22,500
Diff: 2
Topic: Income Statement
Learning Objecti: 02-05 Explain how the income statement reports an enterprise's financial performance for a period of time in terms of the relationship of revenues and expenses.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

101) At the beginning of October, owners' equity in Waldorf was $480,000. Given the transactions in October 2018, what will be the owners' equity at the end of the month?
A) $480,000. B) $484,000. C) $502,500. D) $580,500.
Answer: B
Explanation: A) $480,000 (Beginning Owners' Equity) + $22,500 (Net income) − $18,500 (Dividends) Ending Owners' Equity = $484,000

B) $480,000 (Beginning Owners' Equity) + $22,500 (Net income) − $18,500 (Dividends) Ending Owners' Equity = $484,000
C) $480,000 (Beginning Owners' Equity) + $22,500 (Net income) − $18,500 (Dividends) Ending Owners' Equity = $484,000
D) $480,000 (Beginning Owners' Equity) + $22,500 (Net income) − $18,500 (Dividends) Ending Owners' Equity = $484,000
Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

102) Refer to the information above. For the month of October, net cash flows from operating activities for Waldorf were:
A) $ 18,500. B) $ 22,500. C) $ 78,000. D) $100,500.
Answer: B
Explanation: A) $100,500 − $78,000 = $22,500
B) $100,500 − $78,000 = $22,500
C) $100,500 − $78,000 = $22,500
D) $100,500 − $78,000 = $22,500
Diff: 2
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

103) Which of the following activities is *not* a category into which cash flows are classified?
A) Marketing activities. B) Operating activities.
C) Financing activities. D) Investing activities.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 1
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

104) A strong statement of cash flows indicates that significant cash is being generated by:
A) Operating activities. B) Financing activities.
C) Investing activities. D) Effective tax planning.
Answer: A
Explanation: A)

B)
C)
D)
Diff: 2
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

105) During the month of May, Henderson Company had the following transactions:
(1) Revenues of $60,000 were earned and received in cash.
(2) Bank loans of $9,000 were paid off.
(3) Equipment of $20,000 was purchased.
(4) Expenses of $36,800 were paid.
(5) Stockholders purchased additional shares for $22,000 cash.

A statement of cash flows for May would report net cash flows from operating activities of:
A) $60,000. B) $16,200. C) $23,200. D) $20,000.
Answer: C
Explanation: A) $60,000 – $36,800 = $23,200
B) $60,000 – $36,800 = $23,200
C) $60,000 – $36,800 = $23,200
D) $60,000 – $36,800 = $23,200
Diff: 2
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility:

[The following information applies to the questions displayed below.]

During the month of August, Boyce Company had the following transactions:

(1)Revenues of $120,000 were earned and received in cash.
(2)Bank loans of $18,000 were paid off.
(3)Equipment of $40,000 was purchased with cash.
(4)Expenses of $73,600 were paid.
(5)Stockholders purchased additional shares for $44,000 cash.

106) A statement of cash flows for August would report net cash flows from operating activities of:
A) $26,000. B) $32,400. C) $40,000. D) $46,400.
Answer: D
Explanation: A) Cash revenues $120,000 − cash expenses $73,600 = $46,400
B) Cash revenues $120,000 − cash expenses $73,600 = $46,400
C) Cash revenues $120,000 − cash expenses $73,600 = $46,400
D) Cash revenues $120,000 − cash expenses $73,600 = $46,400
Diff: 2

Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

107) A statement of cash flows for August would report net cash flows from financing activities of:
A) $40,000. B) $26,000. C) $46,400. D) $32,400.
Answer: B
Explanation: A) Issue of stock $44,000 − bank loan paid $18,000 = $26,000
B) Issue of stock $44,000 − bank loan paid $18,000 = $26,000
C) Issue of stock $44,000 − bank loan paid $18,000 = $26,000
D) Issue of stock $44,000 − bank loan paid $18,000 = $26,000
Diff: 2
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

108) A statement of cash flows for August would report net cash flows from investing activities of:
A) ($26,000). B) $32,400. C) ($40,000). D) $46,400.
Answer: C
Explanation: A) Equipment purchased = $40,000 used
B) Equipment purchased = $40,000 used
C) Equipment purchased = $40,000 used
D) Equipment purchased = $40,000 used
Diff: 2
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

109) A statement of cash flows for August would report an increase in cash of:
A) $26,000. B) $32,400. C) $40,000. D) $46,400.
Answer: B
Explanation: A) $46,400+ $26,000 − $40,000 = $32,400
B) $46,400+ $26,000 − $40,000 = $32,400
C) $46,400+ $26,000 − $40,000 = $32,400
D) $46,400+ $26,000 − $40,000 = $32,400
Diff: 2
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

[*The following information applies to the questions displayed below.*]

During the month of February, Fadness Company had the following transactions:

(1) Revenues of $225,000 were earned and received in cash.
(2) Bank loans of $18,000 were paid off.
(3) New bank loans of $15,000 were incurred.
(4) Equipment of $40,000 was purchased with cash.
(5) Equipment was sold for its book value of $36,000. Cash was received.
(6) Expenses of $171,400 were paid.
(7) Stockholders purchased additional shares for $50,000 cash.

110) A statement of cash flows for February would report net cash flows from operating activities of:
A) $ 4,000. B) $35,600. C) $53,600. D) $96,600.
Answer: C
Explanation: A) Cash revenues $225,000 − cash expenses $171,400 = $53,600
B) Cash revenues $225,000 − cash expenses $171,400 = $53,600
C) Cash revenues $225,000 − cash expenses $171,400 = $53,600
D) Cash revenues $225,000 − cash expenses $171,400 = $53,600
Diff: 2
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

111) A statement of cash flows for February would report net cash flows from financing activities of:
A) $4,000. B) $47,000. C) $83,000. D) $96,600.
Answer: B
Explanation: A) Issue of stock $50,000 + bank loan issued $15,000 − bank loan paid $18,000 = $47,000
B) Issue of stock $50,000 + bank loan issued $15,000 − bank loan paid $18,000 = $47,000
C) Issue of stock $50,000 + bank loan issued $15,000 − bank loan paid $18,000 = $47,000
D) Issue of stock $50,000 + bank loan issued $15,000 − bank loan paid $18,000 = $47,000
Diff: 2
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

112) A statement of cash flows for February would report net cash flows from investing activities of:
A) ($ 4,000). B) $47,000. C) $53,600. D) $76,000.
Answer: A
Explanation: A) Equipment purchased $40,000 – equipment sold $36,000 = $4,000 used
B) Equipment purchased $40,000 – equipment sold $36,000 = $4,000 used
C) Equipment purchased $40,000 – equipment sold $36,000 = $4,000 used
D) Equipment purchased $40,000 – equipment sold $36,000 = $4,000 used
Diff: 2

Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

113) A statement of cash flows for February would report an increase in cash of:
A) ($ 4,000). B) $47,000. C) $53,600. D) $96,600.
Answer: D
Explanation: A) $53,600+ $47,000 − $4,000 = $96,600
B) $53,600+ $47,000 − $4,000 = $96,600
C) $53,600+ $47,000 − $4,000 = $96,600
D) $53,600+ $47,000 − $4,000 = $96,600$53,600+ $47,000 − $4,000 = $96,600
Diff: 2
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

114) If cash flows from operating activities is a positive amount, then:
A) The amount will be shown on the statement of cash flows in parentheses.
B) The company must have had a net profit for the year.
C) The company must have paid off more debts than it earned during the year.
D) The company may still have a decrease in the total amount of cash for the period.
Answer: D
Explanation: A)
B)
C)
D)
Diff: 2
Topic: Statement of Cash Flows
Learning Objecti: 02-06 Explain how the statement of cash flows presents the change in cash for a period of time in terms of the company's operating, investing, and financing activities.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

115) The change in owners' equity due to only revenue and expense transactions is explained by the:
A) Statement of cash flows. B) Statement of financial position.
C) Income statement. D) Tax return.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 2
Topic: Relationships among Financial Statements
Learning Objecti: 02-07 Explain how the statement of financial position (balance sheet), income statement, and

statement of cash flows relate to each other.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

116) Which one of the following is *not* considered as one of the three primary financial statements?
A) Balance sheet. B) Income statement.
C) Statement of cash flows. D) Statement of budgeting activities.
Answer: D
Explanation: A)
B)
C)
D)
Diff: 1
Topic: Relationships among Financial Statements
Learning Objecti: 02-07 Explain how the statement of financial position (balance sheet), income statement, and statement of cash flows relate to each other.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

117) The way in which financial statements relate is known as:
A) Solvency. B) Objectivity.C) Articulation. D) Entity.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 1
Topic: Relationships among Financial Statements
Learning Objecti: 02-07 Explain how the statement of financial position (balance sheet), income statement, and statement of cash flows relate to each other.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

118) Which business organization is recognized as a separate legal entity under the law?
A) Corporation.
B) Sole proprietorship.
C) Partnership.
D) All business organizations are separate legal entities.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 1
Topic: Forms of Business Organization
Learning Objecti: 02-08 Explain common forms of business ownership—sole proprietorship, partnership, and corporation—and demonstrate how they differ in terms of their statements of financial position.
Bloom's: Remember

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

119) Retained earnings is:
A) The positive cash flows of a company.
B) The net worth of a company.
C) The owners' equity that has accumulated as a result of profitable operations.
D) Equal to the total assets of a company.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 1
Topic: Forms of Business Organization
Learning Objecti: 02-08 Explain common forms of business ownership—sole proprietorship, partnership, and corporation—and demonstrate how they differ in terms of their statements of financial position.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

120) Which of the following best describes liquidity?
A) The ability to increase the value of retained earnings.
B) The ability to pay the debts of the company as they become due.
C) Being able to buy everything the company requires for cash.
D) Purchasing everything the company requires on credit.
Answer: B
Explanation: A)
B)
C)
D)
Diff: 1
Topic:
Learning Objecti: 02-09 Discuss the importance of financial statements to a company and its investors and creditors and why management may take steps to improve the appearance of the company in its financial statements.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

121) Profitability may be defined as:
A) The ability to pay the debts of the company as they become due.
B) The ability to increase retained earnings.
C) Distributing dividends out of retained earnings.
D) Having excess cash.
Answer: B
Explanation: A)
B)
C)
D)
Diff: 1

Topic:
Learning Objecti: 02-09 Discuss the importance of financial statements to a company and its investors and creditors and why management may take steps to improve the appearance of the company in its financial statements.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

122) The principle of adequate disclosure means that a company should disclose:
A) Only the important monetary information.
B) All confidential information regarding the company.
C) Any financial facts that a reasonably informed person would consider necessary for the proper interpretation of the financial statements.
D) Only subsequent events.
Answer: C
Explanation: A)
B)
C)
D)
Diff: 2
Topic:
Learning Objecti: 02-09 Discuss the importance of financial statements to a company and its investors and creditors and why management may take steps to improve the appearance of the company in its financial statements.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

123) Which of the following statements regarding liquidity and profitability is *not* true?
A) If a business is unable to pay its debts as they come due, it is operating unprofitably.
B) A business may be liquid, yet operate unprofitably for several years.
C) A business may operate profitably, yet be unable to meet its obligations.
D) In order to survive in the long run, a business must both remain liquid and operate profitably.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: Management's Interest in Financial Statements
Learning Objecti: 02-09 Discuss the importance of financial statements to a company and its investors and creditors and why management may take steps to improve the appearance of the company in its financial statements.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

124) The concept of adequate disclosure means that:
A) The accounting department of a business must inform management of the accounting principles used in preparing the financial statements.
B) The company must inform users of any significant facts necessary for proper interpretation of the

financial statements, including events occurring after the financial statement date.
C) The independent auditors must disclose in the financial statements any and all errors detected in the company's accounting records.
D) The financial statements should include a comprehensive list of each transaction that occurred during the year.
Answer: B
Explanation: A)
B)
C)
D)
Diff: 2
Topic: Management's Interest in Financial Statements
Learning Objecti: 02-09 Discuss the importance of financial statements to a company and its investors and creditors and why management may take steps to improve the appearance of the company in its financial statements.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

125) According to the Sarbanes-Oxley Act, CEOs and CFOs must certify to the accuracy of their company's financial statements:
A) Monthly and Quarterly.
B) Quarterly and Annually.
C) Monthly and Annually.
D) CEOs and CFOs are not required to certify to the company's financial statement; only CPAs do.
Answer: B
Explanation: A)
B)
C)
D)
Diff: 1
Topic: Management's Interest in Financial Statements
Learning Objecti: 02-09 Discuss the importance of financial statements to a company and its investors and creditors and why management may take steps to improve the appearance of the company in its financial statements.
Bloom's: Remember
AACSB: Ethics
Accessibility: Keyboard Navigation

126) A strong statement of financial position shows:
A) Large amounts of liquid assets relative to the liabilities due in the near future.
B) Large amounts of debt relative to stockholders' equity.
C) That cash is being generated by operations.
D) That profits are being generated by operations.
Answer: A
Explanation: A)
B)
C)
D)
Diff: 2
Topic: Management's Interest in Financial Statements

Learning Objecti: 02-09 Discuss the importance of financial statements to a company and its investors and creditors and why management may take steps to improve the appearance of the company in its financial statements.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

127) Financial statements
A set of financial statements includes three related accounting reports, or statements. In the space provided, list the names of three primary statements, and give a brief description of the accounting information contained in each.
Answer: * Balance sheet. A report showing at a specific date the financial position of the company by reporting the assets (resources) that it owns, the liabilities (debts) that it owes, and the amount of the owners' equity in the business.
* Income statement. A report indicating the profitability (or net income) of the business over a specific time period.
* Statement of cash flows. A report summarizing the cash receipts and cash payments of the business over the same time period covered by the income statement. The cash flows from three activities are presented on the statement. In order of presentation, they include: (1) operating activities; (2) investing activities; and (3) financing activities.
Diff: 2
Topic: Introduction to Financial Statements
Learning Objecti: 02-01 Explain the nature and general purposes of financial statements.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility:

128) Development of generally accepted accounting principles
(A.) What is meant by the phrase "generally accepted accounting principles"?
(B.) Explain the concept of the business entity and how it relates to generally accepted accounting principles.
Answer: (A.) Generally accepted accounting principles are the concepts, standards, or rules used in the preparation of financial statements.
(B.) Generally accepted accounting principles require that financial statements describe the activities of a specific economic entity, which is an economic unit that engages in identifiable business activities.
Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility:

129) Valuation of assets under generally accepted accounting principles
Under generally accepted accounting principles, the assets owned by a business are reported in the balance sheet at their historical cost. Identify and briefly explain two accounting principles other than the cost principle that support the valuation of assets at cost in the balance sheet.
Answer: Student may choose any two of the following:
* Going-concern assumption. An assumption by accountants that a business will operate in the foreseeable future unless specific evidence that this is not a reasonable assumption exists, such as impending

bankruptcy. Since assets of the business were acquired for use and not for resale, estimated current market prices or appraisal values are of less importance than if these items were intended for sale.
* Objectivity principle. Accounting measurements should be based upon dollar amounts that are factual and subject to independent verification. Historical cost of assets is objective; estimated market values or appraisals change over time and are not factual or objective.
* Stable-dollar assumption. An assumption by accountants that the dollar is a stable unit of measure. This assumption permits reporting assets at cost, even though individual assets may have been acquired in different years.

Diff: 2
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility:

130) Accounting terminology
Listed below are nine technical accounting terms introduced in this chapter:

Assets	*Accounting equation*	*Inflation*
Balance Sheet	*Liabilities*	*Going concern assumption*
Cost principle	*Owners' equity*	*Liquidity*

Each of the following statements may (or may not) describe one of these technical terms. In the space provided below each statement, indicate the accounting term described, or answer "None" if the statement does not correctly describe any of the terms. Do not use a term more than once.
(A.) Having the financial ability to pay debts as they become due.
(B.) An assumption that a business will operate in the foreseeable future.
(C.) Economic resources owned by businesses that are expected to benefit future operations.
(D.) The debts or obligations of a business organization.
(E.) Assets = Liabilities + Owners' Equity
(F.) The principle which states that assets are valued in the balance sheet at their historical cost.
(G.) A residual amount equal to assets minus liabilities.
Answer: (A.) Liquidity; (B.) Going concern assumption; (C.) Assets; (D.) Liabilities; (E.) Accounting equation; (F.) Cost principle; (G.) Owners' equity
Explanation:
Diff: 1
Topic: A Starting Point: Statement of Financial Position
Learning Objecti: 02-02 Explain certain accounting principles that are important for an understanding of financial statements and how professional judgment by accountants may affect the application of those principles.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility:

131) Accounting equation
(A.) During the current year, the assets of Duffy Stationery increased by $650,000 and the liabilities decreased by $340,000. What was the change in owners' equity during the year?
(B.) The owners' equity of Graham Interiors appears on the balance sheet as $720,000 and is equal to one-

fourth of total assets. Compute the amount of total liabilities.
(C.) At the end of the year, the owners' equity in Scott Mfg. amounted to $845,000. During 2018, the assets of the business increased by $515,000 and the liabilities increased by $205,000. The owners' equity at the beginning of 2018 was how much?
Answer: (A.) $990,000 increase
(B.) $2,160,000
(C.) $535,000
Feedback:
(A.) Change in owners' equity = $650,000 + $340,000 = $990,000 increase
(B.) Total assets = 4 × $720,000 = $2,880,000
Total liabilities = $2,880,000 assets − $720,000 owners' equity = $2,160,000
(C.) Change in owners' equity = $515,000 − $205,000 = $310,000 increase
Beginning owners' equity = $845,000 ending balance − $310,000 increase = $535,000
Diff: 2
Topic: The Accounting Equation
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility:

132) Effects of transactions on elements of the accounting equation
Some of the transactions carried out by Tudor Wholesale during the first month of the company's operations are listed below. Determine the effect of each transaction on the total assets, the total liabilities, and the owners' equity. Prepare your answer in columnar form, identifying each transaction by letter and using the symbols (+) for increase, (—) for decrease, and (NC) for no change. An answer is provided for the first transaction to serve as an example.

Transactions	Total Assets	Total Liabilities	Owners' Equity
A. Issued capital stock in exchange for cash	+	NC	+
B. Bought land and a building at a total price of $165,000. Made a down payment of $65,000 cash and signed a note payable for the balance.			
C. Bought adjoining lot for use as parking lot; paid cash in full			
D. Sold a portion of the land on credit at a price equal to its cost.			
E. Obtained a loan from a bank.			
F. Purchased office equipment on credit.			
G. Paid a liability.			
H. Collected part of amount owned to the business from purchaser of land.			
I. Sold another portion of the land for cash at a price in excess of cost.			

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Transactions	Total Assets	Total Liabilities	Owners' Equity
A. Issued capital stock in exchange for cash	+	NC	+
B. Bought land and a building at a total price of $165,000. Made a down payment of $65,000 cash and signed a note payable for the balance.	+	+	NC
C. Bought adjoining lot for use as parking lot; paid cash in full	NC	NC	NC
D. Sold a portion of the land on credit at a price equal to its cost.	NC	NC	NC
E. Obtained a loan from a bank.	+	+	NC
F. Purchased office equipment on credit.	+	+	NC
G. Paid a liability.	-	-	NC
H. Collected part of amount owned to the business from purchaser of land.	NC	NC	NC
I. Sold another portion of the land for cash at a price in excess of cost.	+	NC	+

Answer:

Explanation:
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility:

133) Effects of transactions on elements of the accounting equation
Some of the transactions carried out by Tsang Company during the first month of the company's operations are listed below. Determine the dollar effect of each transaction on the total assets, the total liabilities, and the owners' equity of Tsang Company. Use the symbols (+) for increase, (—) for decrease, and (NC) for no change. An answer is provided for the first transaction to serve as an example.

Transaction	Total Assets	Total Liabilities	Owners' Equity
A. Issued capital stock to Don Tsang in exchange for his investment of $200,000 in the business.	+$200,000	NC	+200,000
B. Purchased a computer for the business for $5,500 cash.			
C. Borrowed $20,000 from the bank.			
D. Purchased office furnishings at a total price of $4,200, terms $600 cash and balance payable in two installments.			
E. Paid $1,800 of the balance due on the office furnishings.			
F. Sold an extra monitor that had cost $250 for $300 on credit.			

G. Collected $150 of accounts receivable from purchaser of the monitor.			
H. Bought a small truck to be used in the business for $29,000; paid cash in full.			

Answer:

Transaction	Total Assets	Total Liabilities	Owners' Equity
A. Issued capital stock to Don Tsang in exchange for his investment of $200,000 in the business.	+$200,000	NC	+200,000
B. Purchased a computer for the business for $5,500 cash.	NC	NC	NC
C. Borrowed $20,000 from the bank.	+$20,000	+$20,000	NC
D. Purchased office furnishings at a total price of $4,200, terms $600 cash and balance payable in two installments.	+$3,600	+$3,600	NC
E. Paid $1,800 of the balance due on the office furnishings.	-$1,800	-$1,800	NC
F. Sold an extra monitor that had cost $250 for $300 on credit.	+$50	NC	+$50
G. Collected $150 of accounts receivable from purchaser of the monitor.	NC	NC	NC
H. Bought a small truck to be used in the business for $29,000; paid cash in full.	NC	NC	NC

Explanation:
Diff: 2
Topic: The Accounting Equation; Payment of Expenses
Learning Objecti: 02-03 Demonstrate how certain business transactions affect the elements of the accounting equation: Assets = Liabilities plus Owners' Equity.; 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility:

134) List the following accounts in the order that they would appear in a balance sheet.
Capital Stock
Equipment
Accounts Receivable
Retained Earnings
Revenue
Accounts Payable
Cash
Rent Expense
Answer: Cash, Accounts Receivable, Equipment, Accounts Payable, Capital Stock, Retained Earnings (Revenue and Rent Expense do not appear in a balance sheet).
Diff: 1
Topic: Payment of Expenses; Management's Interest in Financial Statements

Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.; 02-09 Discuss the importance of financial statements to a company and its investors and creditors and why management may take steps to improve the appearance of the company in its financial statements.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility:

135) Computation of assets, liabilities, and owners' equity after a series of transactions
On April 30, 2018, the balance sheet of China Collectibles showed total assets of $700,000, total liabilities of $400,000, and owners' equity of $300,000. The following transactions occurred in May of 2018:
(1) Capital stock was issued in exchange for $165,000 cash.
(2) The business purchased equipment for $360,000, paying $160,000 cash and issuing a note payable for $200,000.
(3) The business paid $70,000 of its accounts payable.
(4) The business collected $54,000 of its accounts receivable.
Compute the following as of May 31, 2018:
(A.) Total assets
(B.) Total liabilities
(C.) Owners' equity
Answer: (A.) Total assets = $995,000
(B.) Total liabilities = $530,000
(C.) Owners' equity = $465,000
Explanation: (A.) Total assets: $700,000 + $165,000 + $360,000 − $160,000 − $70,000 + $54,000 − $54,000 = $995,000
(B.) Total liabilities: $400,000 + $200,000 − $70,000 = $530,000
(C.) Owners' equity: $300,000 + $165,000 = $465,000 (or $995,000 − $530,000 = $465,000)
Diff: 3
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility:

136) Computation of assets, liabilities, and owners' equity after a series of transactions
The December 31, 2017 balance sheet of Charles Realty reported total assets of $900,000, total liabilities of $350,000, and owners' equity of $550,000. The following transactions occurred in January of 2018:
(1) The business purchased land for $250,000, paying $100,000 cash and issuing a note payable for the balance.
(2) The business collected accounts receivable totaling $45,000.
(3) The business sold land costing $50,000 for $60,000 cash.
(4) The business paid $50,000 of the note payable.
Compute the following at January 31, 2018:
(A.) Total assets
(B.) Total liabilities
(C.) Owners' equity
Answer: (A.) Total assets = $1,010,000
(B.) Total liabilities = $450,000
(C.) Owners' equity = $560,000
Explanation: (A.) Total assets: $900,000 + $250,000 − $100,000 + $45,000 − $45,000 − $50,000 + $60,000

− $50,000 = $1,010,000
(B.) Total liabilities: $350,000 + $150,000 − $50,000 = $450,000
(C.) Owners' equity: $550,000 + $10,000 = $560,000 (or $1,010,000 − $450,000 = $560,000)
Diff: 3
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility:

137) Preparation of balance sheet
Prepare the balance sheet as of December 31, 2018, for Gamma Company, from the following list of items, arranged in random order. You must compute the amount for accounts payable to complete the balance sheet.

			$260,00
Accounts payable	$?	Land	0
Office equipment	$41,600	Notes payable	$377,000
Buildings	$533,000	Accounts receivable	$97,500
Capital stock	$494,000	Cash	$19,760

Answer:

GAMMA Company
Balance Sheet
December 31, 2018

Assets		Liabilities & Owners' Equity	
Cash	$19,760	Liabilities:	
Accounts receivable	97,500	Notes Payable	$377,000
Office Equipment	41,600	Accounts Payable	80,860
Buildings	533,000	Total Liabilities	$457,860
Land	260,000	Owners' equity	
		Capital Stock	494,000
		Total Liabilities	
Total Assets	$951,860	Owners' equity	$951,860

Diff: 2
Topic: Payment of Expenses; Management's Interest in Financial Statements
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.; 02-09 Discuss the importance of financial statements to a company and its investors and creditors and why management may take steps to improve the appearance of the company in its financial statements.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility:

138) Preparation of balance sheet after a series of transactions
The balance sheet was as follows for Custom Ceramics on February 1, 2018:

Custom Ceramics

Balance Sheet February 1, 2018					
Assets			Liabilities & Owners' Equity		
Cash	$7,000		Liabilities:		
Accounts receivable	5,200		Notes payable		$ 40,000
Office Equipment	30,000		Accounts payable		6,000
Buildings	50,000		Total liabilities		$ 46,000
Land	80,000		Owners' equity:		
	_____		Capital stock	$100,000	
			Retained earnings	26,200	$126,200
			Total liabilities		
Total assets	$172,200		Owners' equity		$172,200

During the first week of February, the following transactions occurred:
(1) The business used cash to pay off $5,000 of its accounts payable. (No payment was made on the notes payable.)
(2) Additional capital stock was issued to Joan Custom for $15,000 cash.
(3) Equipment was purchased on credit for $1,800
(4) The business collected $4,000 cash from accounts receivable.

Complete the balance sheet for Custom Ceramics as of February 8, 2018.

Custom Ceramics Balance Sheet February 8, 2018					
Assets			Liabilities & Owners' Equity		
Cash	$		Liabilities:		
Accounts receivable			Notes payable		$
Office Equipment			Accounts payable		
Buildings			Total liabilities		$
Land			Owners' equity:		
	_____		Capital stock		
			Retained earnings		$
			Total liabilities		
Total assets	$		Owners' equity		$

Answer:

Custom Ceramics Balance Sheet February 8, 2018						
Assets			Liabilities & Owners' Equity			
Cash	$21,000	a	Liabilities:			
Accounts receivable	1,200	b	Notes payable		$ 40,000	
Office Equipment	31,800	c	Accounts payable		2,800	d

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Buildings	50,000		Total liabilities		$ 42,800	
Land	80,000		Owners' equity:			
	_____		Capital stock	$115,000		
			Retained earnings	26,200	$141,200	e
			Total liabilities			
Total assets	$184,000		owners' equity		$184,000	

Feedback:
(a.) $7,000 + $4,000 + $15,000 − $5,000 = $21,000
(b.) $5,200 − $4,000 collected = $1,200
(c.) $30,000 + $1,800 = $31,800
(d.) $6,000 + $1,800 (equipment purchase) − $5,000 paid = $2,800
(e.) $126,200 + $15,000 (additional investment) = $141,200
Diff: 3
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility:

139) Completion of balance sheet
Use the following information to complete the balance sheet of Adelphi Construction as of December 31, 2018.
(1) The company was organized on January 1, 2018 and has operated for the full year 2018.
(2) Earnings were $275,000 and dividends of $70,000 were paid to stockholders.
(3) Cash and accounts receivable together amount to one and one-half times as much as notes payable.

Adelphi Construction					
Balance Sheet					
December 31, 2018					
Assets			Liabilities & Owners' Equity		
Cash	$		Liabilities:		
Accounts receivable	85,000		Notes payable		$
Equipment	96,000		Accounts payable		
Building	250,000		Income taxes payable		$ 40,000
Land	184,000		Total liabilities		$215,000
			Owners' equity:		
	_____		Capital stock	$	
			Retained earnings		$
			Total liabilities and		
Total assets	$		owners' equity		$620,000

Answer:

Adelphi Construction					
Balance Sheet					
December 31, 2018					
Assets			Liabilities & Owners' Equity		
Cash	$ 5,000	b	Liabilities:		
Accounts receivable	85,000		Notes payable		$ 60,000[c]
Equipment	96,000		Accounts payable		115,000[d]
Building	250,000		Income taxes payable		$ 40,000
Land	184,000		Total liabilities		$ 215,000
			Owners' equity:		
			Capital stock	$200,000[f]	
			Retained earnings	205,000[e]	$405,000
			Total liabilities and		
Total assets	$620,000	a	owners' equity		$620,000

Feedback:
(a.) Total assets must be $620,000 to agree with the total of liabilities plus owners' equity.
(b.) Cash must be $5,000 to achieve a total asset figure of $620,000.
(c.) Cash ($5,000) plus accounts receivable ($85,000) equals $90,000. This total is stated to be 1.5 times the amount of notes payable. Notes payable is computed as $90,000 divided by 1.5, or $60,000.
(d.) Accounts payable must be $115,000 to achieve total liabilities figure of $215,000.
(e.) Retained earnings at the end of the first accounting period must be earnings ($275,000) less dividends $(70,000), or $205,000.
(f.) Capital stock must be $200,000 to achieve total liabilities and owners' equity figure of $620,000.
Diff: 3
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility:

140) Completion of balance sheet
Use the following information to complete the December 31, 2018 balance sheet of Copper Supplies Company.
(1) Owners' equity as of January 1, 2018, totaled $175,000, which included capital stock of $150,000.
(2) Additional capital stock was issued during 2018 in exchange for $40,000 cash.
(3) Net income for 2018 amounted to $200,000; no dividends were paid during 2018.
(4) Cash and accounts receivable together amount to 3 times as much as accounts payable.

Copper Supplies Company					
Balance Sheet					
December 31, 2018					
Assets			Liabilities & Owners' Equity		
Cash	$ 30,000		Liabilities:		
Accounts receivable	?		Accounts payable		$ 40,000
Equipment	?		Notes payable		?
Building	300,000		Total liabilities		$?
Land	215,000		Owners' equity:		
			Capital stock	$	
			Retained earnings		$?
			Total liabilities and		
Total assets	$835,000		owners' equity		$?

Answer:

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Copper Supplies Company					
Balance Sheet					
December 31, 2018					
Assets			Liabilities & Owners' Equity		
Cash	$ 30,000		Liabilities:		
Accounts receivable	90,000	b	Accounts payable		$ 40,000
Equipment	200,000	c	Notes payable		380,000[g]
Building	300,000		Total liabilities		$420,000[f]
Land	215,000		Owners' equity:		
			Capital stock	$190,000[d]	
			Retained earnings	225,000[e]	$415,000
			Total liabilities and		
Total assets	$835,000		owners' equity		$835,000[a]

Feedback:
(a.) Total of liabilities & owners' equity must be $835,000 to agree with the amount of total assets.
(b.) Cash and accounts receivable together amount to 3 times accounts payable, or $120,000. Since cash is $30,000, accounts receivable are $120,000 — $30,000, or $90,000.
(c.) Equipment must be $200,000 to achieve total assets of $835,000.
(d.) Beginning capital stock is $150,000 + stock issued of $40,000 = $190,000.
(e.) Beginning retained earnings (175,000 − 150,000) + net income of 200,000 = 225,000.
(f.) Total liabilities must be $420,000 to achieve the total of liabilities plus owners' equity of $835,000.
(g.) Since total liabilities are $420,000 and accounts payable are $40,000, notes payable must be $380,000.

Diff: 3
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility:

141) Effects of transactions on balance sheet items
Show the effect of each of the seven listed transactions on the balance sheet items of Distinctive Draperies. Indicate the new balances after the transaction of May 2 and each subsequent transaction. The effects of the May 1 transaction are already filled in to provide you with an example.

May	1	Issued capital stock for $75,000.
	2	Purchased a small office building at a price of $58,000 for the land and $65,000 for the building. Paid $43,000 cash and signed a note payable for the balance.
	8	Borrowed $15,000 from the bank. Signed a 60-day note payable for this amount.
	16	Purchased copying machines, computers, and other office equipment for $19,000. Paid $9,000 cash and signed a note payable for the balance.
	28	Sold an item of office equipment (computer) to a stockholder at its cost of $2,800. The stockholder paid $800 cash and promised to pay the balance within 30 days.
	30	Paid $5,000 on the liability for the office equipment.
	31	Collected $500 from the stockholder who had bought the computer.

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		Assets									=	Liabilities	+	Owners' Equity
		Cash	+	Accounts Receivable	+	Land	+	Buildings	+	Office Equipment	=	Notes Payable	+	Capital Stock
May 1		+$75,000												+$75,000
2														
Balance														
8														
Balance														
16														
Balance														
28														
Balance														
30														
Balance														
31														
Balance														

Answer:

		Assets									=	Liabilities	+	Owners' Equity
		Cash	+	Accounts Receivable	+	Land	+	Buildings	+	Office Equipment	=	Notes Payable	+	Capital stock
May 1		+$75, 000												+$75,000
2		-43,000				+$58,000		+$65,000				+$80,000		
Balance		$32,000				$58,000		$65,000				$80,000		$75,000
8		+ 15,000										+ 15,000		
Balance		$47,000				$58,000		$65,000				$95,000		$75,000
16		- 9,000								+ $19,000		+ 10,000		
Balance		$38,000				$58,000		$65,000		$19,000		$105,000		$75,000
28		+ 800		+ $2,000						- 2,800				
Balance		$38,800		$2,000		$58,000		$65,000		$16,200		$105,000		$75,000
30		- 5,000										- 5,000		
Balance		$33,800		$2,000		$58,000		$65,000		$16,200		$100,000		$75,000
31		+ 500		-500										
Balance		$34,300		$1,500		$58,000		$65,000		$16,200		$100,000		$75,000

Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility:

142) Effects of transactions on balance sheet items
Show the effect of each of the six listed transactions on the balance sheet items of Renaissance Investment Services, Inc. Indicate the new balances after the transaction of November 2 and each subsequent

transaction. The effects of the November 1 transaction are already filled in to provide you with an example.

Nov.	1	Issued capital stock for $200,000.
	2	Purchased a small office building at a price of $86,000 for the land and $74,000 for the building. Made a cash payment of 20% of the total price and signed a note payable for the balance.
	7	Purchased telephones, computers, and other office equipment for $58,000. Paid $23,000 cash and signed a note payable for the balance.
	12	Sold one of the computers to a stockholder at its cost of $3,500. The stockholder paid $500 cash and agreed to pay the balance within 10 days.
	22	Received $3,000 due from the stockholder who had purchased the computer.
	30	Paid $17,500 on the note payable for the office equipment.

	Assets										=	Liabilities	+	Owners' Equity
	Cash	+	Accounts Receivable	+	Land	+	Buildings	+	Office Equipment		=	Notes Payable	+	Capital Stock
Nov 1	+$200,000													+$200,000
2														
Balance														
7														
Balance														
12														
Balance														
22														
Balance														
30														
Balance														

Answer:

		Assets										=	Liabilities	+	Owners' Equity
		Cash	+	Accounts Receivable	+	Land	+	Buildings	+	Office Equipment		=	Notes Payable	+	Capital stock
Nov 1		+$200,000													+$200,000
2		-32,000				+$86,000		+$74,000					+$128,000		
Balance		$168,000				$86,000		$74,000					$128,000		$200,000
7		- 23,000								+ 58,000			+ 35,000		
Balance		$145,000				$86,000		$74,000		$58,000			$163,000		$200,000
12		+ 500		+ $3,000						- 3,500					
Balance		$145,500		3,000		$86,000		$74,000		$54,500			$163,000		$200,000
22		+ 3,000		- 3,000											
Balance		$148,500				$86,000		$74,000		$54,500			$163,000		$200,000
30		- 17,500											- 17,500		
Balance		$131,000	=		=	$86,000	=	$74,000		$54,500		=	$145,500		$200,000

Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet,

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is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility:

143) An inexperienced accounting intern at Tasso Company prepared the following income statement for the month of July 2018:

Tasso Company Month of July 2018		
Revenues:		
Services provided to customers	$25,000	
Capital stock	12,500	
Loan from bank	37,500	$75,000
Expenses:		
Payments to long-term creditors	$20,000	
Expenses required to provide services to		
customers	18,750	
Purchase of equipment	10,000	48,750
Net income		$ 26,250

Instructions: Prepare a revised income statement in accordance with generally accepted accounting principles.
Answer:

Tasso Company Month of July 2018		
Revenues:		
Services provided to customers	$ 25,000	
Expenses:		
Expenses required to provide services to		
customers	18,750	
Net income	$ 6,250	

Diff: 2
Topic: Income Statement
Learning Objecti: 02-05 Explain how the income statement reports an enterprise's financial performance for a period of time in terms of the relationship of revenues and expenses.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility:

144) From the following accounts and amounts prepare a balance sheet for the Swell Company for December 31, 2018. You must compute the amount for retained earnings to complete the balance sheet.

Accounts Payable	$61,250
Accounts Receivable	$70,500
Building	$50,000
Capital Stock	$50,000

Cash	$64,000
Equipment	$30,000
Insurance Expense	$5,000
Land	$125,000
Notes Payable	$175,000
Sales Revenue	$25,000
Salaries Expense	$20,000

Answer:

Swell Company			
Balance Sheet			
December 31, 2018			
Assets		Liabilities & Owners' Equity	
		Liabilities	
Cash	$64,000	Notes Payable	$175,000
Accounts Receivable	70,500	Accounts Payable	61,250
Equipment	30,000	Total Liabilities	236,250
Building	50,000	Owners' Equity	
Land	125,000	Capital Stock	$50,000
		Retained Earnings	53,250
		Total Liabilities	
Total Assets	$339,500	& Owners' Equity	$339,500

Diff: 2
Topic: Payment of Expenses
Learning Objecti: 02-04 Explain how the statement of financial position, often referred to as the balance sheet, is an expansion of the basic accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility:

145) Forms of Business Organization
State and describe the three most common forms of business organizations in the United States.
Answer: (1) Sole Proprietorship—One person, unlimited liability, and owner acts as manager.
(2) Partnership—Two or more persons and owners are personally responsible for debts.
(3) Corporation—Stockholders are owners, limited liability, ease of transfer of ownership, and separate entity under the law.
Diff: 1
Topic: Forms of Business Organization
Learning Objecti: 02-08 Explain common forms of business ownership—sole proprietorship, partnership, and corporation—and demonstrate how they differ in terms of their statements of financial position.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: