Accounting - What the Numbers Mean 12th edition Marshall Test Bank

SKU: 9781259969522-TEST-BANK

Accounting - What the Numbers Mean, 12e **(Marshall)**
Chapter 2 Financial Statements and Accounting Concepts/Principles

1) Which of the following is ***not*** a transaction to be recorded in the accounting records of an entity?
A) Investment of cash by the owners.
B) Sale of product to customers.
C) Receipt of a plaque recognizing the firm's encouragement of employee participation in the United Way fund drive.
D) Receipt of services from a "quick-print" shop in exchange for the promise to provide advertising design services of equivalent value.

Answer: C
Difficulty: 1 Easy
Topic: Financial Statements
Learning Objective: 02-01 Explain what transactions are.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

2) The balance sheet might also be called:
A) Statement of Financial Position.
B) Statement of Assets.
C) Statement of Changes in Financial Position.
D) Statement of Equity.

Answer: A
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-02 Identify and explain the kind of information reported in each financial statement and describe how financial statements are related to each other.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

3) Transactions are summarized in:
A) the notes for the financial statements.
B) the independent auditor's report.
C) the entity's accounts.
D) the Accounting Standards Updates (ASUs).

Answer: C
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-01 Explain what transactions are.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

4) A fiscal year:
A) is always the same as the calendar year.
B) is frequently selected based on the firm's operating cycle.
C) must always end on the same date each year.
D) must end on the last day of a month.

Answer: B
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-01 Explain what transactions are.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

5) Which of the following is ***not*** a principal form of business organization?
A) Partnership.
B) Sole proprietorship.
C) Limited unregistered business.
D) Corporation.

Answer: C
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-01 Explain what transactions are.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

6) The time frame associated with a balance sheet is:
A) a point in time in the past.
B) a one-year past period of time.
C) a single date in the future.
D) a function of the information included in it.

Answer: A
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-02 Identify and explain the kind of information reported in each financial statement and describe how financial statements are related to each other.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

7) Current U.S. Generally Accepted Accounting Principles and auditing standards require the financial statements of an entity for the reporting period to include:
A) earnings and gross receipts of cash for the period.
B) projected earnings for the subsequent period.
C) financial position at the end of the period.
D) current fair values of all assets at the end of the period.

Answer: C
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-01 Explain what transactions are.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

8) The balance sheet equation can be represented by:
A) Assets = Liabilities + Stockholders' Equity
B) Assets – Liabilities = Stockholders' Equity
C) Net Assets = Stockholders' Equity
D) All of the answers are correct.

Answer: D
Difficulty: 1 Easy
Topic: Financial Statements
Learning Objective: 02-03 Explain the meaning and usefulness of the accounting equation.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

9) Stockholders' equity refers to which of the following?
A) A listing of the organization's assets and liabilities.
B) The ownership right of the stockholder(s) of the entity.
C) Probable future sacrifices of economic benefits.
D) The amount of resources controlled by the entity.

Answer: B
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

10) Accumulated depreciation on a balance sheet:
A) is part of stockholders' equity.
B) represents the portion of the cost of an asset that is assumed to have been "used up" in the process of operating the business.
C) represents cash that will be used to replace worn out equipment.
D) recognizes the economic loss in value of an asset because of its age or use.

Answer: B
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

11) The distinction between a current asset and other assets is based on:
A) how long the asset has been owned.
B) amounts that will be paid to other entities within a year.
C) the ability to determine the current fair value of the asset.
D) when the asset is expected to be converted to cash, or used to benefit the entity.

Answer: D
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

12) The income statement shows amounts for:
A) revenues, expenses, losses, and liabilities.
B) revenues, expenses, gains, and fair value per share.
C) revenues, assets, gains, and losses.
D) revenues, gains, expenses and losses.

Answer: D
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

13) The time frame associated with an income statement is:
A) a point in time in the past.
B) a past period of time.
C) a future period of time.
D) a function of the information included in it.

Answer: B
Difficulty: 1 Easy
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Remember
AACSB: Communication
Accessibility: Keyboard Navigation

14) Revenues are:
A) cash receipts.
B) increases in net assets from selling products or providing services.
C) increases in net assets from occasional sales of equipment.
D) increases in net assets from selling common stock.

Answer: B
Difficulty: 3 Hard
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

15) Expenses are:
A) cash disbursements.
B) decreases in net assets from uninsured accidents.
C) decreases in net assets from dividends to stockholders.
D) decreases in net assets resulting from usual operating activities.

Answer: D
Difficulty: 3 Hard
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

16) The purpose of the income statement is to show the:
A) change in the fair value of the assets from the prior income statement.
B) market value per share of stock at the date of the statement.
C) revenues collected during the period covered by the statement.
D) net income or net loss for the period covered by the statement.

Answer: D
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

17) The Statement of Changes in Stockholders' Equity shows:
A) the change in cash during a year.
B) revenues, expenses, and liabilities for the period.
C) net income and dividends for the period.
D) paid-in capital and long-term debt at the end of the period.

Answer: C
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

18) Paid-in Capital represents:
A) earnings retained for use in the business.
B) the amount invested in the entity by the stockholders.
C) fair value of the entity's common stock.
D) net assets of the entity at the date of the statement.

Answer: B
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

19) Retained Earnings represents:
A) the amount invested in the entity by the stockholders.
B) cash that is available for dividends.
C) cumulative net income that has not been distributed to stockholders as dividends.
D) par value of common stock outstanding.

Answer: C
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

20) Additional paid-in capital represents:
A) the difference between the total amounts invested by the stockholders and the par or stated value of the stock.
B) distributions of earnings that have been made to the stockholders.
C) distributions of earnings that have not been made to the stockholders.
D) the summation of the total amount invested by the stockholders and the par or stated value of the stock.

Answer: A
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

21) The Statement of Cash Flows:
A) shows how cash changed during the period.
B) is an optional financial statement.
C) shows the change in the fair value of the entity's common stock during the period.
D) shows the dividends that will be paid in the future.

Answer: A
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

22) On January 31, an entity's balance sheet showed total assets of $2,250 and liabilities of $750. Stockholders' equity at January 31 was:
A) $1,500
B) $3,000
C) $1,250
D) $750

Answer: A
Explanation: $2,250 – $750 = $1,500
Difficulty: 1 Easy
Topic: Financial Statements
Learning Objective: 02-03 Explain the meaning and usefulness of the accounting equation.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

23) On January 31, an entity's balance sheet showed ***net assets*** of $3,075 and liabilities of $675. Stockholders' equity on January 31 was:
A) $2,400
B) $3,075
C) $3,750
D) $675

Answer: B
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-03 Explain the meaning and usefulness of the accounting equation.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

24) At the end of the year, retained earnings totaled $5,100. During the year, net income was $750, and dividends of $360 were declared and paid. Retained earnings at the beginning of the year totaled:
A) $6,210
B) $3,990
C) $3,690
D) $4,710

Answer: D
Explanation: ? + $750 – $360 = $5,100.
Solve for the missing number: $5,100 – $750 + $360 = $4,710
Difficulty: 3 Hard
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

25) The balance sheet shows the following accounts and amounts:

Cash $13,000; Short-term Debt $21,000; Buildings and Equipment $420,000; Inventory, $44,000; Notes Payable $60,000; Accumulated Depreciation $110,000; Common Stock $80,000; Accounts Receivable $38,000; Retained Earnings $237,000; Accounts Payable $17,000.

Total assets on the balance sheet are:
A) $367,000
B) $405,000
C) $515,000
D) $625,000

Answer: B
Explanation: $13,000 + $420,000 + $44,000 - $110,000 + $38,000 = $405,000
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

26) The balance sheet shows the following accounts and amounts:

Cash $13,000; Short-term Debt $21,000; Buildings and Equipment $420,000; Inventory, $44,000; Notes Payable $60,000; Accumulated Depreciation $110,000; Common Stock $80,000; Accounts Receivable $38,000; Retained Earnings $237,000; Accounts Payable $17,000.

Total liabilities on the balance sheet are:
A) $77,000
B) $98,000
C) $178,000
D) $208,000

Answer: B
Explanation: $21,000 + $60,000 + $17,000 = $98,000
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

27) The balance sheet shows the following accounts and amounts:

Inventory, $84,000; Long-term Debt 125,000; Common Stock $60,000; Accounts Payable $44,000; Cash $132,000; Buildings and Equipment $390,000; Short-term Debt $48,000; Accounts Receivable $109,000; Retained Earnings $204,000; Notes Payable $54,000; Accumulated Depreciation $180,000.

Total current assets on the balance sheet are:
A) $216,000
B) $325,000
C) $535,000
D) $715,000

Answer: B
Explanation: $84,000 + $132,000 + $109,000 = $325,000
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

28) The balance sheet shows the following accounts and amounts:

Inventory, $84,000; Long-term Debt 125,000; Common Stock $60,000; Accounts Payable $44,000; Cash $132,000; Buildings and Equipment $390,000; Short-term Debt $48,000; Accounts Receivable $109,000; Retained Earnings $204,000; Notes Payable (six-month) $54,000; Accumulated Depreciation $180,000.

Total current liabilities on the balance sheet are:
A) $98,000
B) $146,000
C) $271,000
D) $326,000

Answer: B
Explanation: $44,000 + $48,000 + $54,000 = $146,000
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

29) At the beginning of the fiscal year, the balance sheet showed assets of $2,728 and stockholders' equity of $1,672. During the year, assets increased $148 and liabilities decreased $76.

Stockholders' equity at the end of the year totaled:
A) $1,672
B) $1,744
C) $1,896
D) $2,876

Answer: C
Explanation: $1,672 + $148 + $76 = $1,896
Difficulty: 3 Hard
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

30) At the beginning of the fiscal year, the balance sheet showed assets of $2,728 and stockholders' equity of $1,672. During the year, assets increased $148 and liabilities decreased $76.

Liabilities at the end of the year totaled:
A) $980
B) $1,056
C) $1,672
D) $1,820

Answer: A
Explanation: $1,056 – $76 = $980
Difficulty: 3 Hard
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

31) At the beginning of the year, paid-in capital was $164 and retained earnings was $94. During the year, the stockholders invested $48 and dividends of $12 were declared and paid. Retained earnings at the end of the year were $104.

Total stockholders' equity at the end of the year was:
A) $164
B) $188
C) $212
D) $316

Answer: D
Explanation: paid-in capital + retained earnings = total stockholders' equity
$164 + $48 + $104 = $316
Difficulty: 3 Hard
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

32) At the beginning of the year, paid-in capital was $164 and retained earnings was $94. During the year, the stockholders invested $48 and dividends of $12 were declared and paid. Retained earnings at the end of the year were $104.

Net income for the year was:
A) $20
B) $22
C) $30
D) $40

Answer: B
Explanation: Beginning RE + NI – DIV = Ending RE, or $94 + ? – $12 = $104.
Solve for the missing net income = $104 – $94 + $12 = $22
Difficulty: 3 Hard
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

33) The going concern concept refers to a presumption that:
A) the entity will be profitable in the coming year.
B) the entity will not be involved in a merger within a year.
C) the entity will continue to operate in the foreseeable future.
D) top management of the entity will not change in the coming year.

Answer: C
Difficulty: 2 Medium
Topic: Accounting Concepts and Principles
Learning Objective: 02-05 Identify and explain the broad, generally accepted concepts and principles that apply to the accounting process.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

34) Consolidated financial statements report financial position, results of operations, and cash flows for:
A) a parent corporation and its subsidiaries.
B) a parent corporation alone.
C) two corporations that are owned by the same individual.
D) a parent corporation and its 100% owned subsidiaries only.

Answer: A
Difficulty: 2 Medium
Topic: Accounting Concepts and Principles
Learning Objective: 02-05 Identify and explain the broad, generally accepted concepts and principles that apply to the accounting process.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

35) A concept or principle that relates to transactions is:
A) materiality.
B) full disclosure.
C) original cost.
D) consistency.

Answer: C
Difficulty: 2 Medium
Topic: Accounting Concepts and Principles
Learning Objective: 02-05 Identify and explain the broad, generally accepted concepts and principles that apply to the accounting process.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

36) Matching revenues and expenses refers to:
A) having revenues equal expenses.
B) recording revenues when cash is received.
C) accurately reflecting the results of operations for a fiscal period.
D) recording revenues when a product is sold or a service is rendered.

Answer: C
Difficulty: 2 Medium
Topic: Accounting Concepts and Principles
Learning Objective: 02-05 Identify and explain the broad, generally accepted concepts and principles that apply to the accounting process.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

37) Accrual accounting:
A) is designed to match revenues and expenses.
B) results in the balance sheet showing the fair value of the entity's assets.
C) means that expenses are recorded when they are paid.
D) cannot result in the entity having net income unless cash is received from customers.

Answer: A
Difficulty: 2 Medium
Topic: Accounting Concepts and Principles
Learning Objective: 02-05 Identify and explain the broad, generally accepted concepts and principles that apply to the accounting process.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

38) Which of the following accounting methods accomplishes much of the matching of revenues and expenses?
A) Match accounting.
B) Cash accounting.
C) Accrual accounting.
D) Full disclosure accounting.

Answer: C
Difficulty: 1 Easy
Topic: Accounting Concepts and Principles
Learning Objective: 02-05 Identify and explain the broad, generally accepted concepts and principles that apply to the accounting process.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

39) The principle of consistency means that:
A) the accounting methods used by an entity never change.
B) the same accounting methods are used by all firms in an industry.
C) the effect of any change in an accounting method will be disclosed in the financial statements or notes thereto.
D) there are no alternative methods of accounting for the same transaction.

Answer: C
Difficulty: 2 Medium
Topic: Accounting Concepts and Principles
Learning Objective: 02-05 Identify and explain the broad, generally accepted concepts and principles that apply to the accounting process.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

40) The principle of full disclosure means that the reporting entity must fully disclose:
A) all client data.
B) all proprietary information.
C) all necessary information to prevent a reasonably astute user of financial statements from being misled.
D) all necessary information to prevent all users of financial statements from being misled.

Answer: C
Difficulty: 2 Medium
Topic: Accounting Concepts and Principles
Learning Objective: 02-05 Identify and explain the broad, generally accepted concepts and principles that apply to the accounting process.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

41) The balance sheet of an entity:
A) shows the fair value of the assets at the date of the balance sheet.
B) reflects the impact of inflation on the replacement cost of the assets.
C) reports plant and equipment at its opportunity cost.
D) shows amounts that are not adjusted for changes in the purchasing power of the dollar.

Answer: D
Difficulty: 2 Medium
Topic: Accounting Concepts and Principles
Learning Objective: 02-05 Identify and explain the broad, generally accepted concepts and principles that apply to the accounting process.
Bloom's: Understand
AACSB: Communication
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

42) Which of the following is ***not*** a limitation of financial statements?
A) Financial statements report quantitative economic information; they do not reflect qualitative economic variables.
B) The cost principle requires assets to be recorded at their original cost; thus, the balance sheet does not generally reflect the fair values of most assets and liabilities.
C) Net income from the income statement is added to the Retained Earnings account balance in the balance sheet.
D) Estimates are used in many areas of accounting; when the estimate is made, about the only fact known is that the estimate is probably not equal to the "true" amount.

Answer: C
Difficulty: 2 Medium
Topic: Accounting Concepts and Principles
Learning Objective: 02-07 Identify and explain several limitations of financial statements.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

43) Which of the following is ***not*** a limitation of financial statements?
A) It is possible that two firms operating in the same industry may follow different accounting methods for the exact same transaction.
B) Full disclosure requires that the financial statements and notes include all necessary information to prevent a reasonably astute user of the financial statements from being misled.
C) Financial statements are not adjusted to show the impact of inflation.
D) Financial statements do not reflect opportunity cost, which is an economic concept relating to income forgone because an opportunity to earn income was not pursued.

Answer: B
Difficulty: 2 Medium
Topic: Accounting Concepts and Principles
Learning Objective: 02-07 Identify and explain several limitations of financial statements.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

44) Which of the following is ***not*** included in a corporation's annual report?
A) The reporting firm's financial statements for the fiscal year.
B) The report of the external auditor's examination of the financial statements.
C) Notes to the financial statements and key financial data for at least the past five years.
D) A detailed Management's Discussion and Analysis section.
E) All of the answers are included in a corporation's annual report.

Answer: E
Difficulty: 1 Easy
Topic: The Corporation's Annual Report
Learning Objective: 02-08 Describe what a corporation's annual report is and why it is issued.
Bloom's: Remember
AACSB: Communication
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

45) Listed below are a number of financial statement captions. Indicate in the spaces to the right of each caption (1) the category of each item, and (2) the financial statement on which the item can usually be found.

Category		*Financial Statement*	
Asset	A	Balance sheet	BS
Liability	L	Income statement	IS
Stockholders' Equity	SE		
Revenue	R		
Expense	E		
Gain	G		
Loss	LS		

	(1)	(2)
Accounts receivable	_____	_____
Cost of goods sold	_____	_____
Retained earnings	_____	_____
Interest revenue	_____	_____
Loss on sale of building	_____	_____
Notes payable	_____	_____
Additional paid-in capital	_____	_____
Equipment	_____	_____
Short-term debt	_____	_____
General expense	_____	_____

Answer:

	Category	***Financial Statement***
Accounts receivable	A	BS
Cost of goods sold	E	IS
Retained earnings	SE	BS
Interest revenue	R	IS
Loss on sale of building	LS	IS
Notes payable	L	BS
Additional paid-in capital	SE	BS
Equipment	A	BS
Short-term debt	L	BS
General expense	E	IS

Difficulty: 1 Easy
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

46) Listed below are a number of financial statement captions. Indicate in the spaces to the right of each caption (1) the category of each item, and (2) the financial statement on which the item can usually be found.

Category		*Financial Statement*	
Asset	A	Balance sheet	BS
Liability	L	Income statement	IS
Stockholders' Equity	SE		
Revenue	R		
Expense	E		
Gain	G		
Loss	LS		

Dividends payable	_____	_____
Selling expenses	_____	_____
Common stock	_____	_____
Long-term debt	_____	_____
Income tax expense	_____	_____
Gain on sale of land	_____	_____
Buildings	_____	_____
Accounts payable	_____	_____
Merchandise inventory	_____	_____
Net income	_____	_____

Answer:

	Category	***Financial Statement***
Dividends payable	L	BS
Selling expenses	E	IS
Common stock	SE	BS
Long-term debt	L	BS
Income tax expense	E	IS
Gain on sale of land	G	IS
Buildings	A	BS
Accounts payable	L	BS
Merchandise inventory	A	BS
Net income	SE	IS

Difficulty: 1 Easy
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

47) Listed here are a number of accounts: Merchandise Inventory, Land, Common Stock, Accounts Payable, Insurance Expense, Equipment, Cash, Cost of Goods Sold, Buildings, Retained Earnings, Supplies, Long-term Debt, Sales, Accounts Receivable.

Required:

Which of the accounts listed above are ***not*** assets? How would you categorize each of these nonasset accounts?

Answer: Common Stock and Retained Earnings are stockholders' equity accounts;
Cost of Goods Sold and Insurance Expense are expenses; Sales is a revenue account; Long-term Debt and Accounts Payable are liabilities.

The assets listed are: Land, Merchandise Inventory, Equipment, Accounts Receivable, Supplies, Cash, and Buildings.
Difficulty: 1 Easy
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Remember
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

48) Total assets were $24,000 and total liabilities were $13,500 at the beginning of the year. Net income for the year was $4,000, and dividends of $1,500 were declared and paid during the year.

Required:

Calculate total stockholders' equity at the end of the year.

Answer:

	A	=	L	+	SE	
Beginning:	$24,000	=	$13,500	+	?	
Changes:		=		+	4,000	net income (increase to RE)
		=		−	1,500	dividends (decrease to RE)
Ending:		=		+	?	

500 + ?

Solution approach:

Beginning stockholders' equity = $24,000 − $13,500 = $10,500. Net income increases retained earnings and dividends decrease retained earnings. Retained earnings are part of stockholders' equity, so assuming no other changes occurred during the year, ending stockholders' equity = $10,500 + $4,000 − $1,500 = $13,000.
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-03 Explain the meaning and usefulness of the accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

49) Stockholders' equity totaled $41,000 at the beginning of the year. During the year, net income was $6,000, dividends of $1,500 were declared and paid, and $5,000 of common stock was issued at par value.

Required:

Calculate total stockholders' equity at the end of the year.

Answer:

		SE
Beginning:	$	41,000
Changes:	+	5,000common stock issued at par value (increase to PIC)
	+	6,000net income (increase to RE)
	–	1,500dividends (decrease to RE)
Ending:		?

Solution approach:

No information is given about assets or liabilities, so the focus is entirely on stockholders' equity. Beginning stockholders' equity +/- changes during the year = ending stockholders' equity. $41,000 + $5,000 + $6,000 – $1,500 = $50,500.
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-03 Explain the meaning and usefulness of the accounting equation.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

50) During the year, net sales were $750,000; gross profit was $300,000; net income was $120,000; income tax expense was $30,000; and selling, general, and administrative expenses were $132,000.

Required:

Calculate cost of goods sold, income from operations, income before taxes, and interest expense.

Answer:

Net sales	$ 750,000		
Cost of goods sold	?	=	450,000
Gross profit	$ 300,000		
Selling, general, and administrative expenses	132,000		
Income from operations	?	=	168,000
Interest expense	?	=	18,000
Income before taxes	$?	=	150,000
Income tax expense	30,000		
Net income	$ 120,000		

Solution approach:
Set up an income statement using the structure and format as shown in Exhibit 2–2, then solve for missing amounts.

One possible calculation sequence:

(1) $750,000 – $300,000 = $450,000 cost of goods sold.
(2) $300,000 – $132,000 = $168,000 income from operations.
(3) $120,000 + $30,000 = $150,000 income before taxes.
(4) $168,000 – $150,000 = $18,000 interest expense.
Difficulty: 3 Hard
Topic: Financial Statements
Learning Objective: 02-02 Identify and explain the kind of information reported in each financial statement and describe how financial statements are related to each other.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

51) During the year, cost of goods sold was $320,000; income from operations was $304,000; income tax expense was $64,000; interest expense was $48,000; and selling, general, and administrative expenses were $176,000.

Required:

Calculate net sales, gross profit, income before taxes, and net income.

Answer:

Net sales	$?	=	800,000
Cost of goods sold	320,000		
Gross profit	$?	=	480,000
Selling, general, and administrative expenses	176,000		
Income from operations	304,000		
Interest expense	48,000		
Income before taxes	$?	=	256,000
Income tax expense	64,000		
Net income	$?	=	192,000

Solution approach:
Set up an income statement using the structure and format as shown in Exhibit 2-2, then solve for missing amounts.

Calculation sequence:

(1) $304,000 – $48,000 = $256,000 income before taxes.
(2) $256,000 – $64,000 = $192,000 net income.
(3) $304,000 + $176,000 = $480,000 gross profit.
(4) $480,000 + $320,000 = $800,000 net sales.

An alternative calculation sequence would have been to solve for gross profit and net sales first, and to then solve for income before taxes and net income.
Difficulty: 3 Hard
Topic: Financial Statements
Learning Objective: 02-02 Identify and explain the kind of information reported in each financial statement and describe how financial statements are related to each other.
Bloom's: Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

52) From the data given below, calculate the Retained Earnings balance of December 31, 2019.

Retained earnings, December 31, 2020	$ 345,000
Increase in total liabilities during 2020	99,000
Gain on the sale of buildings during 2020	42,000
Dividends declared and paid in 2020	27,000
Proceeds from sale of common stock in 2020	96,000
Net income for the year ended December 31, 2020	123,000

Answer: Prepare the retained earning portion of a statement of changes in stockholders' equity for the year ended December 31, 2020.

Retained earnings, December 31, 2019	$?
Add: Net income for the year	123,000
Less: Dividends for the year	(27,000)
Retained earnings, December 31, 2020	$ 345,000

Solving the model, retained earnings at December 31, 2019, was $249,000.
Note that the gain on the sale of buildings would be included within the net income for the year.
Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

53) From the data given below, calculate the Retained Earnings balance as of December 31, 2020.

Retained earnings, December 31, 2019	$ 840,000
Cost of equipment purchased during 2020	250,000
Net loss for the year ended December 31, 2020	86,000
Dividends declared and paid in 2020	110,000
Decrease in cash balance from January 1, 2020, to December 31, 2020	24,000
Decrease in long-term debt in 2020	134,000

Answer: Prepare the retained earnings portion of a statement of changes in stockholders' equity for the year ended December 31, 2020:

Retained earnings, December 31, 2019	$ 840,000
Less: Net loss for the year	(86,000)
Less: Dividends for the year	(110,000)
Retained earnings, December 31, 2020	$ 644,000

Difficulty: 2 Medium
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

54) Volunteer, Inc. is in the process of liquidating and going out of business. The firm has $69,820 in cash, inventory totaling $214,000, accounts receivable of $144,000, plant and equipment with a $384,000 book value, and total liabilities of $614,000. It is estimated that the inventory can be disposed of in a liquidation sale for 75% of its cost, all but 15% of the accounts receivable can be collected, and plant and equipment can be sold for $420,000.

(a.) Calculate the amount of cash that would be available to the stockholders if the accounts receivable are collected, the other assets are sold as described, and the liabilities are paid in full.

(b.) Describe how the difference between book value and liquidation value would be treated on the final income statement for Volunteer, Inc. with respect to the following assets: inventory, accounts receivable, and plant and equipment. What income statement accounts would be affected when these assets are sold or collected as described above?

Answer:
(a.)

Cash now available	$ 69,820
Inventory liquidation value ($214,000 × .75)	160,500
Accounts receivable collections ($144,000 × .85)	122,400
Plant and equipment disposal value	420,000
Total cash available	$ 772,720
Less: Payment of liabilities	(614,000)
Cash available to stockholders	$ 158,720

(b.)
The inventory was sold at less than cost, so cost of goods sold would be included in the income statement, and a loss on the market value decline might also be shown separately. Sales would also be shown in the revenues section of the income statement. Since less than 100% of the accounts receivable were collected, the difference should be treated as bad debts expense. Plant and equipment was sold for more than book value, so Volunteer, Inc. should record a gain on the sale of plant and equipment.
Difficulty: 3 Hard
Topic: Accounting Concepts and Principles
Learning Objective: 02-06 Discuss why investors must carefully consider cash flow information in conjunction with accrual accounting results.
Bloom's: Create
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

55) Ann Kimber is thinking about going out of business and retiring. Her firm has $50,000 in cash, other assets totaling $71,400, and total liabilities of $51,000. The other assets can be sold for an estimated $68,000 cash in a liquidation sale. Calculate the amount of cash that would be available upon Ann's retirement if the other assets were sold and the liabilities were paid.

Answer: $50,000 + $68,000 – $51,000 = $67,000
Difficulty: 2 Medium
Topic: Accounting Concepts and Principles
Learning Objective: 02-06 Discuss why investors must carefully consider cash flow information in conjunction with accrual accounting results.
Bloom's: Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

56) Presented below is a statement of cash flows for Plum, Inc., for the year ended December 31, 2020. Also shown is a partially completed comparative balance sheet as of December 31, 2020 and 2019.

PLUM, INC.
Statement of Cash Flows
For the year ended December 31, 2020

Cash flows from operating activities:	
Net income	**$ 27,000**
Add (deduct) items not affecting cash:	
Depreciation expense	**135,000**
Decrease in accounts receivable	**69,000**
Increase in inventory	**(21,000)**
Increase in short-term debt	**15,000**
Increase in notes payable	**36,000**
Decrease in accounts payable	(18,000)
Net cash provided by operating activities	$ 243,000
Cash flows from investing activities:	
Purchase of equipment	**$ (150,000)**
Purchase of buildings	(144,000)
Net cash used by investing activities	(294,000)
Cash flows from financing activities:	
Cash used for retirement of long-term debt	**$ (75,000)**
Proceeds from issuance of common stock	**30,000**
Payment of cash dividends on common stock	(9,000)
Net cash used by financing activities	(54,000)
Net decrease in cash for the year	$ (105,000)

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

PLUM, INC.
Balance Sheets
December 31, 2020, and 2019

	2020	2019
Assets		
Current assets:		
Cash	$	$ 264,000
Accounts receivable		219,000
Inventory	168,000	
Total current assets	$	$
Land		120,000
Buildings and Equipment	780,000	
Less: Accumulated depreciation		(369,000)
Total land, buildings and equipment		
Total assets	$	$
Liabilities		
Current liabilities:		
Short-term debt	**$ 96,000**	**$**
Notes payable		**108,000**
Accounts payable		87,000
Total current liabilities	$	$
Long-term debt	255,000	
Stockholders' Equity		
Common stock	**$ 120,000**	
Retained earnings		
Total stockholders' equity	**$**	**$**
Total liabilities and stockholders' equity	**$**	**$**

Required:

(a.) Complete the December 31, 2020 and 2019 balance sheets.
(b.) Prepare a Statement of Changes in Retained Earnings for the year ended December 31, 2020.

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

Answer:
(a.)

PLUM, INC.
Balance Sheets
December 31, 2020, and 2019

	2020	2019
Assets		
Current assets:		
Cash	$ 159,000	$ 264,000
Accounts receivable	150,000	219,000
Inventory	168,000	147,000
Total current assets	$ 477,000	$ 630,000
Land	120,000	120,000
Buildings and Equipment	780,000	486,000
Less: Accumulated depreciation	(504,000)	(369,000)
Total land, buildings and equipment	$ 396,000	$ 237,000
Total assets	$ 873,000	$ 867,000
Liabilities		
Current liabilities:		
Short-term debt	**$ 96,000**	**$ 81,000**
Notes payable	**144,000**	**108,000**
Accounts payable	69,000	87,000
Total current liabilities	$ 309,000	$ 276,000
Long-term debt	255,000	330,000
Stockholders' Equity		
Common stock	**$ 120,000**	**$ 90,000**
Retained earnings	189,000	171,000
Total stockholders' equity	$ 309,000	$ 261,000
Total liabilities and stockholders' equity	$ 873,000	$ 867,000

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank

(b.)

PLUM, INC.
Statement of Changes in Retained Earnings
For the year ended December 31, 2020

Retained earnings, January 1, 2020	$ 171,000
Add: Net income for the year	27,000
Less: Cash dividends for the year	(9,000)
Retained earnings, December 31, 2020	$ 186,000

Difficulty: 3 Hard
Topic: Financial Statements
Learning Objective: 02-04 Explain the meaning of each of the captions on the financial statements illustrated in this chapter.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Copyright 2020 © McGraw-Hill Education. All rights reserved. No reproduction or distribution without the prior written consent of McGraw-Hill Education.

Accounting - What the Numbers Mean 12th edition Marshall Test Bank