**Chapter 01 Accounting in Business**

# MULTIPLE CHOICE QUESTIONS

1. Accounting is an information and measurement system that identifies, records, and communicates relevant, reliable, and comparable information about an organization's business activities.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Importance of Accounting

Learning Objective: 01-C1 Explain the purpose and importance of accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Recordkeeping, or bookkeeping, is the recording of transactions and events, either manually or electronically. This is just one part of accounting.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Importance of Accounting

Learning Objective: 01-C1 Explain the purpose and importance of accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. An accounting system captures relevant data about transactions and then classifies, records, and reports data.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Importance of Accounting

Learning Objective: 01-C1 Explain the purpose and importance of accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Financial accounting is the area of accounting aimed at serving external users by providing them with general-purpose financial statements.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Internal operating activities include research and development, distribution, and human resources.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. The primary objective of managerial accounting is to provide general purpose financial statements to help external users analyze and interpret an organization's activities.

## True

* 1. False

Answer: B Explanation:

Diff: 1

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. External auditors examine financial statements to verify that they are prepared according to generally accepted accounting principles.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## External users include lenders, shareholders, customers, and regulators.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Regulators often have legal authority over certain activities of organizations.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Remember

AACSB: Communication

AICPA: FN Decision Making; BB Legal

## Internal users include lenders, shareholders, brokers and nonexecutive employees.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Opportunities in accounting include auditing, consulting, market research, and tax planning.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Identifying the proper ethical path is usually easy.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Ethics

Learning Objective: 01-C3 Explain why ethics are crucial to accounting. Bloom's: Understand

AACSB: Ethics

AICPA: BB Industry; FN Decision Making

1. The Sarbanes-Oxley Act (SOX) requires each issuer of securities to disclose whether it has adopted a code of ethics for its senior financial officers and the contents of that code.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Ethics

Learning Objective: 01-C3 Explain why ethics are crucial to accounting. Bloom's: Remember

AACSB: Ethics

AICPA: FN Reporting; BB Legal

1. The fraud triangle asserts that the three factors that must exist for a person to commit fraud are opportunity, pressure, and rationalization.

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: Ethics

Learning Objective: 01-C3 Explain why ethics are crucial to accounting. Bloom's: Understand

AACSB: Ethics

AICPA: BB Industry; FN Decision Making; BB Legal

1. The Sarbanes-Oxley Act (SOX) does not require public companies to apply both accounting oversight and stringent internal controls.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Ethics

AICPA: FN Reporting; BB Legal

## A partnership is a business owned by two or more people.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Decision Making; BB Legal

## Owners of a corporation are called shareholders or stockholders.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Decision Making; BB Legal

## In the partnership form of business, the owners are called stockholders.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Decision Making; BB Legal

1. The balance sheet shows a company's net income or loss due to earnings activities over a period of time.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. The Financial Accounting Standards Board is the governmental agency that sets both broad and specific accounting principles.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication AICPA: FN Reporting; BB Legal

1. The business entity principle means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Generally accepted accounting principles are the basic assumptions, concepts, and guidelines for preparing financial statements.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. The business entity assumption means that a business is accounted for separately from other business entities, including its owner or owners.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

1. As a general rule, revenues should not be recognized in the accounting records when earned, but rather when cash is received.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: FN Measurement; BB Industry

1. Specific accounting principles are basic assumptions, concepts, and guidelines for preparing financial statements and arise out of long-used accounting practice.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

## General accounting principles stem from long-used accounting practices.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

## A sole proprietorship is a business owned by one or more persons.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Decision Making; BB Legal

## Unlimited liability and separate taxation of the business are advantages of a sole proprietorship.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: FN Decision Making; BB Legal

1. Understanding generally accepted accounting principles is not necessary to effectively use and interpret financial statements.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. The International Accounting Standards board (IASB) has the authority to impose its standards on companies around the world.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: FN Reporting; BB Global

1. Objectivity means that financial information is supported by independent, unbiased evidence; it demands more than a person's opinion.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

1. The idea that a business will continue to operate instead of being closed or sold underlies the going-concern assumption.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

1. According to the measurement (cost) principle, it is necessary for managers to report an approximation of an asset's market value upon purchase.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: FN Measurement; BB Industry

1. The monetary unit assumption means that all companies doing business in the United States must express transactions and events in U.S. dollars.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Global

1. The International Accounting Standards Board (IASB) is the government group that establishes reporting requirements for companies that issue stock to the public.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: FN Measurement; BB Global

1. A limited liability company offers the limited liability of a partnership or proprietorship and the tax treatment of a corporation.

## True

* 1. False

Answer: B Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Decision Making; BB Legal

1. A limited liability company offers the limited liability of a corporation and the tax treatment of a partnership or proprietorship.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Decision Making; BB Legal

1. The Securities and Exchange Commission (SEC) is a government agency that has legal authority to establish GAAP.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication AICPA: FN Reporting; BB Legal

1. The three common forms of business ownership include sole proprietorship, partnership, and non-profit.

## True

* 1. False

Answer: B Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Decision Making; BB Legal

1. The three common forms of business ownership include sole proprietorship, partnership, and corporation.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Decision Making; BB Legal

## The three major types of business activities are operating, financing, and investing.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Business Activities and the Accounting Equation

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Planning is a part of each business activity (Operating, investing, and financing), and gives each activity meaning and focus.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Business Activities and the Accounting Equation

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making; BB Critical Thinking

1. *Financing activities* provide the means organizations use to pay for resources such as land, buildings, and equipment.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Business Activities and the Accounting Equation

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making; BB Critical Thinking

1. Investing activities are the means an organization uses to pay for resources like land, buildings, and equipment to carry out its plans.

## True

* 1. False

Answer: B Explanation:

Diff: 1

Topic: Business Activities and the Accounting Equation

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations. Bloom's: Understand

AACSB: Communication

AICPA: FN Decision Making; BB Critical Thinking

1. Investing activities are the acquiring and disposing of resources that an organization uses to acquire and sell its products or services.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Business Activities and the Accounting Equation

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Owner financing refers to resources contributed by creditors or lenders.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: Business Activities and the Accounting Equation

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Revenues are increases in equity (via net income) from a company's sales of products and services to customers.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

## A net loss occurs when revenues exceed expenses.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement; FN Reporting; BB Critical Thinking

## Net income occurs when revenues exceed expenses.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement; FN Reporting; BB Critical Thinking

## Liabilities are the owner's claim on assets.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

## Assets are the resources a company owns or controls that are expected to yield future benefits.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

## Owner withdrawals are subtracted in the calculation of net income, as expenses.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Understand

AACSB: Communication

AICPA: FN Measurement; BB Industry

## The accounting equation can be restated as: Assets - Equity = Liabilities.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

## The accounting equation implies that: Assets + Liabilities = Equity.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

## Owner's investments are increases in equity from a company's earnings activities.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Critical Thinking

## Every business transaction leaves the accounting equation in balance.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

1. An external transaction is an exchange within an entity that may or may not affect the accounting equation.

## True

* 1. False

Answer: B Explanation:

Diff: 1

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; FN Decision Making

1. From an accounting perspective, an event is a happening that affects the accounting equation, but cannot be measured.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Understand

AACSB: Communication

AICPA: FN Measurement; BB Industry; FN Decision Making

1. Owner's equity is increased when cash is received from customers in payment of previously recorded accounts receivable.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Critical Thinking

## An owner's investment increases equity via net income.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Critical Thinking

1. Return on assets is often stated in ratio form as the amount of average total assets divided by income.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Return on Assets

Learning Objective: 01-A2 Compute and interpret return on assets. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

## Return on assets is also known as return on investment.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Return on Assets

Learning Objective: 01-A2 Compute and interpret return on assets. Bloom's: Remember

AACSB: Communication

AICPA: BB Resource Management; FN Decision Making

1. Return on assets is useful in evaluating management, analyzing and forecasting profits, and planning activities.

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: Return on Assets

Learning Objective: 01-A2 Compute and interpret return on assets. Bloom's: Understand

AACSB: Communication

AICPA: BB Resource Management; FN Decision Making

1. Arrow's net income of $117 million and average assets of $1,400 million results in a return on assets of 8.36%.

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: Return on Assets

Learning Objective: 01-A2 Compute and interpret return on assets. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

## Return on assets reflects a company's ability to generate profit through productive use of its assets.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: Return on Assets

Learning Objective: 01-A2 Compute and interpret return on assets. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

## Risk is the uncertainty about the return we will earn.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Return and Risk Analysis

Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk. Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Industry; FN Risk Analysis

## Generally, the lower the risk, the higher the return that can be expected.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Return and Risk Analysis

Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk. Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Industry; FN Risk Analysis

## U.S. Government Treasury bonds provide low return and low risk to investors.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: Return and Risk Analysis

Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk. Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Industry; BB Critical Thinking; FN Risk Analysis

1. The four basic financial statements include the balance sheet, income statement, statement of owner's equity, and statement of cash flows.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## An income statement reports on investing and financing activities.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

## A balance sheet covers activities over a period of time such as a month or year.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. The income statement describes revenues earned and expenses incurred along with the resulting net income or loss over a specified period of time, due to earnings activities.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

## The statement of cash flows shows the net effect of revenues and expenses for a reporting period.

* 1. True
  2. False

Answer: B Explanation:

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

## The income statement shows the financial position of a business on a specific date.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

## The first section of the income statement reports cash flows from operating activities.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

## The balance sheet is based on the accounting equation.

* 1. True
  2. False

Answer: A Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Investing activities involve the buying and selling of assets such as land and equipment that are held for long-term use in the business.

## True

* 1. False

Answer: A Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Operating activities include long-term borrowing and repaying cash from lenders, and cash investments or withdrawals by the owner.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. The purchase of supplies appears on the statement of cash flows as an investing activity because it involves the purchase of assets.

## True

* 1. False

Answer: B Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

## The income statement reports on operating activities at a point in time.

* 1. True
  2. False

Answer: B Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. The statement of cash flows identifies cash flows separated into operating, investing, and financing activities over a period of time.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Ending capital reported on the statement of owner's equity is calculated by adding owner investments and net losses and subtracting net income and withdrawals.

## True

* 1. False

Answer: B Explanation:

Diff: 3

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Industry; FN Reporting; BB Critical Thinking

## The materiality constraint looks at both the importance and relative size of an amount.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Legal

1. The cost-benefit constraint prescribes that only information with benefits of disclosure less than the costs of providing it, need be disclosed.

## True

* 1. False

Answer: B Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Legal

1. The cost-benefit constraint prescribes that only information with benefits of disclosure greater than the costs of providing it need be disclosed.

## True

* 1. False

Answer: A Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Legal

## Net income is sometimes called earnings or profit.

* 1. True
  2. False

Answer: A Explanation:

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## Accounting is an information and measurement system that does all of the following *except*:

* 1. Records business activities.
  2. Helps people make better decisions.
  3. Communicates business activities.
  4. Eliminates the need for interpreting financial data.
  5. Identifies business activities. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Importance of Accounting

Learning Objective: 01-C1 Explain the purpose and importance of accounting. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Decision Making

## Technology:

* 1. Reduces the time, effort and cost of recordkeeping.
  2. In accounting is only available to large corporations.
  3. Has not improved the clerical accuracy of accounting.
  4. Has replaced accounting.
  5. In accounting has replaced the need for decision makers. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Importance of Accounting

Learning Objective: 01-C1 Explain the purpose and importance of accounting. Bloom's: Understand

AACSB: Technology

AICPA: BB Industry; FN Leveraging Technology

## The primary objective of financial accounting is to:

* 1. Provide accounting information that serves external users.
  2. Serve the decision-making needs of internal users.
  3. Monitor and control company activities.
  4. Provide information on both the costs and benefits of looking after products and services.
  5. Know what, when, and how much product to produce. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

## The area of accounting aimed at serving the decision making needs of internal users is:

* 1. Financial accounting.
  2. SEC reporting.
  3. External auditing.
  4. Managerial accounting.
  5. Bookkeeping.

Answer: D Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## External users of accounting information include all of the following *except*:

* 1. Government regulators.
  2. Customers.
  3. Purchasing managers.
  4. Shareholders.
  5. Creditors.

Answer: C Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

## All of the following regarding a Certified Public Accountant are true *except*:

* 1. Must meet education and experience requirements.
  2. Must pass an examination.
  3. May also be a Certified Management Accountant.
  4. Must exhibit ethical character.
  5. Cannot hold any certificate other than a CPA. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Ethical behavior requires that:

* 1. Auditors invest in businesses they audit.
  2. Auditors' pay depends on the success of the client's business.
  3. Auditors' pay not depend on the success of the client's business.
  4. Analysts report information favorable to their companies.
  5. Managers use accounting information to benefit themselves. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Ethics

Learning Objective: 01-C3 Explain why ethics are crucial to accounting. Bloom's: Understand

AACSB: Ethics

AICPA: FN Reporting; BB Legal

1. The conceptual framework that the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are attempting to converge and enhance includes the following broad areas to guide standard setting *except*:

## Uniformity

* 1. Recognition and measurement
  2. Objectives
  3. Qualitative characteristics
  4. Elements

Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Decision Making; BB Legal

## All of the following are true regarding ethics *except*:

* 1. Ethics can be difficult to apply.
  2. Ethics are beliefs that distinguish right from wrong.
  3. Are critical in accounting.
  4. Ethics rules are often set for CPAs.
  5. Ethics do not affect the operations or outcome of a company. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Ethics

Learning Objective: 01-C3 Explain why ethics are crucial to accounting. Bloom's: Understand

AACSB: Ethics

AICPA: BB Industry; FN Decision Making

1. The accounting concept that requires financial statement information to be supported by independent, unbiased evidence is:

## Revenue recognition principle.

* 1. Time-period assumption.
  2. Objectivity principle.
  3. Going-concern assumption.
  4. Business entity assumption. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Legal

## A corporation is:

* 1. A business legally separate from its owners.
  2. The same as a limited liability partnership.
  3. Controlled by the FASB.
  4. Not subject to double taxation.
  5. Not responsible for its own acts and own debts. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Decision Making; BB Legal

1. The independent group that is attempting to harmonize accounting practices of different countries is the:

## CAP. B) IASB. C) SEC. D) AICPA. E) FASB. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Reporting; BB Global

1. The private-sector group that currently has the authority to establish generally accepted accounting principles in the United States is the:

## SEC. B) AAA. C) AICPA. D) APB. E) FASB. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting; BB Legal

1. The accounting concept that requires every business to be accounted for separately from other business entities, including its owner or owners is known as the:

## Time-period assumption.

* 1. Revenue recognition principle.
  2. Measurement (Cost) principle.
  3. Business entity assumption.
  4. Going-concern assumption. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting; BB Legal

1. The rule that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue, is the:

## Objectivity principle.

* 1. Monetary unit assumption.
  2. Business entity assumption.
  3. Going-concern assumption.
  4. Measurement (Cost) Principle. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting; BB Legal

1. If a company is considering the purchase of a parcel of land that was acquired by the seller for

$85,000, is offered for sale at $150,000, is assessed for tax purposes at $95,000, is recognized by the purchaser as easily being worth $140,000, and is purchased for $137,000, the land should be recorded in the purchaser's books at:

## A) $140,000. B) $137,000. C) $150,000. D) $138,500. E) $95,000.

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Apply

AACSB: Communication; Analytical Thinking AICPA: FN Measurement; BB Industry

1. To include the personal assets and transactions of a business's owner in the records and reports of the business would be in conflict with the:

## Going-concern assumption.

* 1. Business entity assumption.
  2. Objectivity principle.
  3. Revenue recognition principle.
  4. Monetary unit assumption. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting; BB Legal

1. The accounting principle that requires accounting information to be based on actual cost and requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange, is the:

## Going-concern assumption.

* 1. Measurement (Cost) principle.
  2. Business entity assumption.
  3. Accounting equation.
  4. Realization principle. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; FN Reporting; BB Legal

1. The rule that (1) requires revenue to be recognized at the time it is earned, (2) allows the inflow of assets associated with revenue to be in a form other than cash, and (3) measures the amount of revenue as the cash plus the cash equivalent value of any noncash assets received from customers in exchange for goods or services, is called the:

## Measurement (Cost) principle.

* 1. Objectivity principle.
  2. Business entity assumption.
  3. Going-concern assumption.
  4. Revenue recognition principle. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; FN Reporting; BB Legal

1. The question of when revenue should be recognized on the income statement according to GAAP is addressed by the:

## Business entity assumption.

* 1. Objectivity principle.
  2. Going-concern assumption.
  3. Revenue recognition principle.
  4. Measurement (Cost) principle. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; FN Reporting; BB Legal

## The International Accounting Standards Board (IASB):

* 1. Only applies to companies that are members of the European Union.
  2. Is the only source of generally accepted accounting principles (GAAP).
  3. Has the authority to impose its standards on companies around the world.
  4. Hopes to create harmony among accounting practices of different countries to improve comparability.
  5. Is the government group that establishes reporting requirements for companies that issue stock to the investing public.

## Answer: D Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Reporting; BB Global

1. The Superior Company acquired a building for $500,000. The building was appraised at a value of

$575,000. The seller had paid $300,000 for the building 6 years ago. Which accounting principle would require Superior to record the building on its records at $500,000?

## Business entity assumption.

* 1. Revenue recognition principle.
  2. Monetary unit assumption.
  3. Measurement (Cost) principle.
  4. Going-concern assumption. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Apply

AACSB: Communication; Analytical Thinking AICPA: FN Measurement; BB Industry; BB Legal

1. On December 15 of the current year, Conrad Accounting Services signed a $40,000 contract with a client to provide bookkeeping services to the client in the following year. Which accounting principle would require Conrad Accounting Services to record the bookkeeping revenue in the following year and not the year the cash was received?

## Going-concern assumption.

* 1. Monetary unit assumption.
  2. Measurement (Cost) principle.
  3. Business entity assumption.
  4. Revenue recognition principle. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Apply

AACSB: Communication

AICPA: FN Measurement; BB Legal

1. Marsha Bogswell is the owner of Bogswell Legal Services. Which accounting principle requires Marsha to keep her personal financial information separate from the financial information of Bogswell Legal Services?

## Expense recognition (Matching) principle.

* 1. Going-concern assumption.
  2. Monetary unit assumption.
  3. Measurement (Cost) principle.
  4. Business entity assumption. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Apply

AACSB: Communication AICPA: FN Reporting; BB Legal

## A limited partnership:

* 1. Is subject to double taxation.
  2. Includes a general partner with unlimited liability.
  3. May only have two partners.
  4. Is the same as a corporation.
  5. Has owners called stockholders. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication AICPA: FN Reporting; BB Legal

## A partnership:

* 1. Is also called a sole proprietorship.
  2. Has to have a written agreement in order to be legal.
  3. Has unlimited liability for its partners.
  4. Is a legal organization separate from its owners.
  5. Has owners called shareholders. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication AICPA: FN Reporting; BB Legal

1. Which of the following accounting principles require that all goods and services purchased be recorded at actual cost?

## Expense recognition (Matching) principle..

* 1. Measurement (Cost) principle.
  2. Consideration assumption.
  3. Going-concern assumption.
  4. Business entity assumption. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: FN Measurement; BB Legal

1. Which of the following accounting principles prescribes that a company record its expenses incurred to generate the revenue reported?

## Expense recognition (Matching) principle.

* 1. Going-concern assumption.
  2. Measurement (Cost) principle.
  3. Consideration assumption.
  4. Business entity assumption. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: FN Measurement; BB Legal

## Revenue is properly recognized:

* 1. Only if the transaction creates an account receivable.
  2. At the end of the accounting period.
  3. When the customer makes an order.
  4. Upon completion of the sale or when services have been performed and the business obtains the right to collect the sales price.

## When cash from a sale is received. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: FN Measurement; BB Industry

## Which of the following purposes would financial statements serve for external users?

* 1. To determine purchasing needs.
  2. To fulfill regulatory requirements for companies whose stock is sold to the public.
  3. To assess employee performance and compensation.
  4. To find information about projected costs and revenues of proposed products.
  5. To assist in monitoring consumer needs and price concerns. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. In a business decision where there are ethical concerns, the preferred course of action should be one that:

## Results in maintaining operations at the current level.

* 1. Is agreed upon by the most managers.
  2. Avoids casting doubt on the decision maker and upholds trust.
  3. Maximizes the company's profits.
  4. Costs the least to implement. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Ethics

Learning Objective: 01-C3 Explain why ethics are crucial to accounting. Bloom's: Understand

AACSB: Communication; Ethics

AICPA: BB Industry; FN Decision Making

1. If a company uses $1,300 of its cash to purchase supplies, the effect on the accounting equation would be:

## Assets decrease $1,300 and equity decreases $1,300.

* 1. Assets increase $1,300 and liabilities decrease $1,300.
  2. Assets increase $1,300 and liabilities increase $1,300.
  3. One asset increases $1,300 and another asset decreases $1,300, causing no effect.
  4. Assets decrease $1,300 and equity increases $1,300. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. If a company receives $12,000 from the owner to establish a proprietorship, the effect on the accounting equation would be:

## Liabilities increase $12,000 and equity decreases $12,000.

* 1. Assets increase $12,000 and liabilities increase $12,000.
  2. Assets decrease $12,000 and equity decreases $12,000.
  3. Assets increase $12,000 and equity increases $12,000.
  4. Assets increase $12,000 and liabilities decrease $12,000. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. If a company purchases equipment costing $4,500 on credit, the effect on the accounting equation would be:

## Assets increase $4,500 and liabilities decrease $4,500.

* 1. Assets increase $4,500 and liabilities increase $4,500.
  2. Equity decreases $4,500 and liabilities increase $4,500.
  3. Equity increases $4,500 and liabilities decrease $4,500.
  4. Liabilities decrease $4,500 and assets increase $4,500. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

## An example of a financing activity is:

* 1. Buying office supplies.
  2. Buying land.
  3. Obtaining a long-term loan.
  4. Buying office equipment.
  5. Selling inventory.

Answer: C Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

## An example of an operating activity is:

* 1. Purchasing office equipment.
  2. Selling stock.
  3. Paying wages.
  4. Paying off a loan.
  5. Borrowing money from a bank. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Apply

AACSB: Analytical Thinking AICPA: FN Reporting; BB Legal

## Operating activities:

* 1. Are also called strategic management.
  2. Are the means organizations use to pay for resources like land, buildings and equipment.
  3. Are also called asset management.
  4. Involve acquiring and disposing of resources that a business uses to acquire and sell its products or services.
  5. Involve using resources to research, develop, purchase, produce, distribute and market products and services.

## Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Financial Statements; Business Activities and the Accounting Equation

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.; 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.

Bloom's: Understand AACSB: Communication

AICPA: BB Industry; FN Decision Making

## An example of an investing activity is:

* 1. Selling inventory.
  2. Paying wages of employees.
  3. Withdrawals by the owner.
  4. Contribution from owner.
  5. Purchase of land.

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 3

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

## Net Income:

* 1. Decreases equity.
  2. Represents owners' claims against assets.
  3. Equals assets minus liabilities.
  4. Is the excess of revenues over expenses.
  5. Represents the amount of assets owners put into a business. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## If equity is $300,000 and liabilities are $192,000, then assets equal:

A) $300,000. B) $792,000. C) $192,000. D) $492,000. E) $108,000.

Answer: D

Explanation: A) Assets = Liabilities + Owner's Equity

Assets = $192,000 + $300,000 = $492,000

1. Assets = Liabilities + Owner's Equity Assets = $192,000 + $300,000 = $492,000
2. Assets = Liabilities + Owner's Equity Assets = $192,000 + $300,000 = $492,000
3. Assets = Liabilities + Owner's Equity Assets = $192,000 + $300,000 = $492,000
4. Assets = Liabilities + Owner's Equity Assets = $192,000 + $300,000 = $492,000

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

## If assets are $300,000 and liabilities are $192,000, then equity equals:

A) $492,000. B) $792,000. C) $108,000. D) $300,000. E) $192,000.

Answer: C

Explanation: A) Assets = Liabilities + Owner's Equity

Equity = $300,000 - $192,000 = $108,000

1. Assets = Liabilities + Owner's Equity Equity = $300,000 - $192,000 = $108,000
2. Assets = Liabilities + Owner's Equity Equity = $300,000 - $192,000 = $108,000
3. Assets = Liabilities + Owner's Equity Equity = $300,000 - $192,000 = $108,000
4. Assets = Liabilities + Owner's Equity Equity = $300,000 - $192,000 = $108,000

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

## Resources a company owns or controls that are expected to yield future benefits are:

* 1. Revenues.
  2. Liabilities.
  3. Owner's Equity.
  4. Expenses.
  5. Assets.

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

## Increases in equity from a company's sales of products or services are:

* 1. Revenues.
  2. Owner's Equity.
  3. Assets.
  4. Expenses.
  5. Liabilities.

Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

## The difference between a company's assets and its liabilities, or net assets is:

* 1. Expense.
  2. Net loss.
  3. Equity.
  4. Net income.
  5. Revenue.

Answer: C Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

## Creditors' claims on the assets of a company are called:

* 1. Net losses. B) Liabilities. C) Expenses. D) Revenues. E) Equity. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

1. Decreases in equity that represent costs of providing products or services to customers, used to earn revenues are called:

## Liabilities.

* 1. Withdrawals.
  2. Equity.
  3. Owner's Investment.
  4. Expenses.

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

1. The description of the relation between a company's assets, liabilities, and equity, which is expressed as Assets = Liabilities + Equity, is known as the:

## Return on equity ratio.

* 1. Accounting equation.
  2. Net income.
  3. Business equation.
  4. Income statement equation. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

## Revenues are:

* 1. The excess of expenses over assets.
  2. Resources owned or controlled by a company.
  3. The same as net income.
  4. The increase in equity from a company's sales of products and services.
  5. The costs of assets or services used. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

## If assets are $99,000 and liabilities are $32,000, then equity equals:

A) $131,000. B) $32,000. C) $198,000. D) $67,000. E) $99,000.

Answer: D

Explanation: A) Assets = Liabilities + Owner's Equity

$99,000 = $32,000 + Owner's Equity; Owner's Equity = $67,000

1. Assets = Liabilities + Owner's Equity

$99,000 = $32,000 + Owner's Equity; Owner's Equity = $67,000

1. Assets = Liabilities + Owner's Equity

$99,000 = $32,000 + Owner's Equity; Owner's Equity = $67,000

1. Assets = Liabilities + Owner's Equity

$99,000 = $32,000 + Owner's Equity; Owner's Equity = $67,000

1. Assets = Liabilities + Owner's Equity

$99,000 = $32,000 + Owner's Equity; Owner's Equity = $67,000

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Critical Thinking

## Another name for equity is:

* 1. Expenses.
  2. Net assets.
  3. Net loss.
  4. Net income.
  5. Revenue.

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Understand

AACSB: Communication

AICPA: FN Measurement; BB Industry

## When expenses exceed revenues, the resulting change in equity is called:

* 1. Net assets.
  2. Net loss.
  3. Net income.
  4. Negative equity.
  5. A liability.

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

## A resource that the owner takes from the company is called a(n):

* 1. Investment.
  2. Liability.
  3. Contribution.
  4. Withdrawal.
  5. Expense.

Answer: D Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

## Distributions of cash or other resources by a business to its owners are called:

* 1. Expenses.
  2. Withdrawals.
  3. Assets.
  4. Net Income.
  5. Retained earnings.

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

## The assets of a company total $700,000; the liabilities, $200,000. What are the net assets? A) $500,000.

B) $900,000. C) $200,000.

1. It is impossible to determine unless the amount of this owners' investment is known. E) $700,000.

Answer: A

Explanation: A) Assets = Liabilities + Owner's Equity

$700,000 = $200,000 + Owner's Equity (or Claims of the Owners); Owner's Equity

= $500,000

* 1. Assets = Liabilities + Owner's Equity

$700,000 = $200,000 + Owner's Equity (or Claims of the Owners); Owner's Equity

= $500,000

* 1. Assets = Liabilities + Owner's Equity

$700,000 = $200,000 + Owner's Equity (or Claims of the Owners); Owner's Equity

= $500,000

* 1. Assets = Liabilities + Owner's Equity

$700,000 = $200,000 + Owner's Equity (or Claims of the Owners); Owner's Equity

= $500,000

* 1. Assets = Liabilities + Owner's Equity

$700,000 = $200,000 + Owner's Equity (or Claims of the Owners); Owner's Equity

= $500,000

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. On May 31 of the current year, the assets and liabilities of Riser, Inc. are as follows: Cash $20,500; Accounts Receivable, $7,250; Supplies, $650; Equipment, $12,000; Accounts Payable, $9,300. What is the amount of owner's equity as of May 31 of the current year?

## A) $13,050. B) $49,700. C) $40,400. D) $31,100. E) $20,500.

Answer: D

Explanation: A) Assets = Liabilities + Owner's Equity

Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + Owner's Equity

$20,500 + $7,250 + $650 + $12,000 = $9,300 + Owner's Equity

$40,400 = $9,300 + Owner's Equity; Owner's Equity = $31,100

1. Assets = Liabilities + Owner's Equity

Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + Owner's Equity

$20,500 + $7,250 + $650 + $12,000 = $9,300 + Owner's Equity

$40,400 = $9,300 + Owner's Equity; Owner's Equity = $31,100

Diff: 3

1. Assets = Liabilities + Owner's Equity

Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + Owner's Equity

$20,500 + $7,250 + $650 + $12,000 = $9,300 + Owner's Equity

$40,400 = $9,300 + Owner's Equity; Owner's Equity = $31,100

1. Assets = Liabilities + Owner's Equity

Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + Owner's Equity

$20,500 + $7,250 + $650 + $12,000 = $9,300 + Owner's Equity

$40,400 = $9,300 + Owner's Equity; Owner's Equity = $31,100

1. Assets = Liabilities + Owner's Equity

Cash + Accounts Receivable + Supplies + Equipment = Accounts Payable + Owner's Equity

$20,500 + $7,250 + $650 + $12,000 = $9,300 + Owner's Equity

$40,400 = $9,300 + Owner's Equity; Owner's Equity = $31,100

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. On August 31 of the current year, the assets and liabilities of Gladstone, Inc. are as follows: Cash

$30,000; Supplies, $600; Equipment, $10,000; Accounts Payable, $8,500. What is the amount of owner's equity as of August 31 of the current year?

## A) $12,100. B) $49,100. C) $30,900. D) $10,900. E) $32,100.

Answer: E

Explanation: A) Assets - Liabilities = Owner's Equity

Cash + Supplies + Equipment - Accounts Payable = Owner's Equity

$30,000 + $600 + $10,000 - $8,500 = $32,100

* 1. Assets - Liabilities = Owner's Equity

Cash + Supplies + Equipment - Accounts Payable = Owner's Equity

$30,000 + $600 + $10,000 - $8,500 = $32,100

* 1. Assets - Liabilities = Owner's Equity

Cash + Supplies + Equipment - Accounts Payable = Owner's Equity

$30,000 + $600 + $10,000 - $8,500 = $32,100

* 1. Assets - Liabilities = Owner's Equity

Cash + Supplies + Equipment - Accounts Payable = Owner's Equity

$30,000 + $600 + $10,000 - $8,500 = $32,100

* 1. Assets - Liabilities = Owner's Equity

Cash + Supplies + Equipment - Accounts Payable = Owner's Equity

$30,000 + $600 + $10,000 - $8,500 = $32,100

Diff: 3

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

## Assets created by selling goods and services on credit are:

* 1. Equity.
  2. Accounts payable.
  3. Expenses.
  4. Liabilities.
  5. Accounts receivable. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry

1. An exchange of value between two entities that yields a change in the accounting equation is called:

## An external transaction.

* 1. The accounting equation.
  2. Net Income.
  3. Recordkeeping or bookkeeping.
  4. An asset.

Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Saddleback Company paid off $30,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?

## Assets, $30,000 decrease; liabilities, $30,000 increase.

* 1. Assets, $30,000 decrease; equity $30,000 decrease.
  2. Assets, $30,000 increase; equity, $30,000 increase.
  3. Liabilities, $30,000 decrease; equity, $30,000 increase.
  4. Assets, $30,000 decrease; liabilities, $30,000 decrease. Answer: E

Explanation: A) Assets = Liabilities + Owner's Equity

Assets would decrease by $30,000 in Cash due to the payment of the accounts payable.

Liabilities would also decrease by $30,000 in Accounts Payable due to the payment of an obligation. There is no effect on Owner's Equity.

* + 1. Assets = Liabilities + Owner's Equity

Assets would decrease by $30,000 in Cash due to the payment of the accounts payable.

Liabilities would also decrease by $30,000 in Accounts Payable due to the payment of an obligation. There is no effect on Owner's Equity.

* + 1. Assets = Liabilities + Owner's Equity

Assets would decrease by $30,000 in Cash due to the payment of the accounts payable.

Liabilities would also decrease by $30,000 in Accounts Payable due to the payment of an obligation. There is no effect on Owner's Equity.

* + 1. Assets = Liabilities + Owner's Equity

Assets would decrease by $30,000 in Cash due to the payment of the accounts payable.

Liabilities would also decrease by $30,000 in Accounts Payable due to the payment of an obligation. There is no effect on Owner's Equity.

* + 1. Assets = Liabilities + Owner's Equity

Assets would decrease by $30,000 in Cash due to the payment of the accounts payable.

Liabilities would also decrease by $30,000 in Accounts Payable due to the payment of an obligation. There is no effect on Owner's Equity.

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. If Houston Company billed a client for $10,000 of consulting work completed, the accounts receivable asset increases by $10,000 and:

## Accounts payable increases $10,000.

* 1. Revenue decreases $10,000
  2. Accounts payable decreases $10,000.
  3. Cash increases $10,000.
  4. Revenue increases $10,000. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. Alpha Company has assets of $600,000, liabilities of $250,000, and equity of $350,000. It buys office equipment on credit for $75,000. What would be the effects of this transaction on the accounting equation?

## Assets increase by $75,000 and liabilities increase by $75,000.

* 1. Liabilities increase by $75,000 and expenses decrease by $75,000.
  2. Assets increase by $75,000 and expenses decrease by $75,000.
  3. Assets increase by $75,000 and expenses increase by $75,000.
  4. Assets decrease by $75,000 and expenses decrease by $75,000. Answer: A

Explanation: A) Assets = Liabilities + Owner's Equity

$600,000 = $250,000 + $350,000

Assets increase by $75,000 (Equipment) due to the purchase.

Liabilities also increase by $75,000 (Accounts Payable) due to the purchase on credit.

* + 1. Assets = Liabilities + Owner's Equity

$600,000 = $250,000 + $350,000

Assets increase by $75,000 (Equipment) due to the purchase.

Liabilities also increase by $75,000 (Accounts Payable) due to the purchase on credit.

* + 1. Assets = Liabilities + Owner's Equity

$600,000 = $250,000 + $350,000

Assets increase by $75,000 (Equipment) due to the purchase.

Liabilities also increase by $75,000 (Accounts Payable) due to the purchase on credit.

Diff: 2

* + 1. Assets = Liabilities + Owner's Equity

$600,000 = $250,000 + $350,000

Assets increase by $75,000 (Equipment) due to the purchase.

Liabilities also increase by $75,000 (Accounts Payable) due to the purchase on credit.

* + 1. Assets = Liabilities + Owner's Equity

$600,000 = $250,000 + $350,000

Assets increase by $75,000 (Equipment) due to the purchase.

Liabilities also increase by $75,000 (Accounts Payable) due to the purchase on credit.

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. Contessa Company collected $42,000 cash on its accounts receivable. The effects of this transaction as reflected in the accounting equation are:

## Total assets increase and equity decreases.

* 1. Total assets decrease and equity increases.
  2. Total assets, total liabilities, and total equity are unchanged.
  3. Both total assets and equity are unchanged and liabilities increase.
  4. Both total assets and total liabilities decrease. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. If the liabilities of a business increased $75,000 during a period of time and the owner's equity in the business decreased $30,000 during the same period, the assets of the business must have:

## Decreased $105,000.

* 1. Decreased $45,000.
  2. Increased $105,000.
  3. Increased $45,000.
  4. Increased $30,000. Answer: D

Explanation: A) Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Change in Assets = +$75,000 – $30,000

Change in Assets = Increase of $45,000

* + 1. Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Change in Assets = +$75,000 – $30,000

Change in Assets = Increase of $45,000

* + 1. Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Change in Assets = +$75,000 – $30,000

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* + 1. Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Change in Assets = +$75,000 – $30,000

Change in Assets = Increase of $45,000

Diff: 3

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. If the assets of a business increased $89,000 during a period of time and its liabilities increased

$67,000 during the same period, equity in the business must have:

## Decreased $156,000.

* 1. Increased $89,000.
  2. Decreased $22,000.
  3. Increased $22,000.
  4. Increased $156,000. Answer: D

Explanation: A) Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Increase of $89,000 = Increase of $67,000 + Change in Owner's Equity Change in Owner's Equity = Increase of $22,000

* + 1. Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Increase of $89,000 = Increase of $67,000 + Change in Owner's Equity Change in Owner's Equity = Increase of $22,000

Diff: 3

* + 1. Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Increase of $89,000 = Increase of $67,000 + Change in Owner's Equity Change in Owner's Equity = Increase of $22,000

* + 1. Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Increase of $89,000 = Increase of $67,000 + Change in Owner's Equity Change in Owner's Equity = Increase of $22,000

* + 1. Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Increase of $89,000 = Increase of $67,000 + Change in Owner's Equity Change in Owner's Equity = Increase of $22,000

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. If the liabilities of a company increased $74,000 during a period of time and equity in the company decreased $19,000 during the same period, what was the effect on the assets?

## None of the above.

* 1. Assets would have decreased $19,000.
  2. Assets would have increased $55,000.
  3. Assets would have decreased $55,000.
  4. Assets would have increased $19,000. Answer: C

Explanation: A) Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Change in Assets = +$74,000 – $19,000

Change in Assets = +$55,000

* + 1. Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Change in Assets = +$74,000 – $19,000

Change in Assets = +$55,000

* + 1. Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Change in Assets = +$74,000 – $19,000

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* + 1. Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Change in Assets = +$74,000 – $19,000

Change in Assets = +$55,000

Diff: 3

* + 1. Assets = Liabilities + Owner's Equity

Change in Assets = Change in Liabilities + Change in Owner's Equity Change in Assets = +$74,000 – $19,000

Change in Assets = +$55,000

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. If a company paid $38,000 of its accounts payable in cash, what was the effect on the accounting equation?
   1. Assets would decrease $38,000, liabilities would decrease $38,000, and equity would increase $38,000.
   2. Assets would decrease $38,000, liabilities would decrease $38,000, and equity remains unchanged.

## Assets would increase $38,000 and liabilities would decrease $38,000.

* 1. There would be no effect on the accounts because the accounts are affected by the same amount.
  2. Assets would decrease $38,000, liabilities would decrease $38,000, and equity would decrease $38,000.

## Answer: B

Explanation: A) Assets = Liabilities + Owner's Equity

Assets will decrease by $38,000 in Cash due to the payment of the debt.

Liabilities will decrease by $38,000 in Accounts payable due to the payment of the debt.

Owner's Equity would not be affected by this transaction.

* + 1. Assets = Liabilities + Owner's Equity

Assets will decrease by $38,000 in Cash due to the payment of the debt.

Liabilities will decrease by $38,000 in Accounts payable due to the payment of the debt.

Owner's Equity would not be affected by this transaction.

* + 1. Assets = Liabilities + Owner's Equity

Assets will decrease by $38,000 in Cash due to the payment of the debt.

Liabilities will decrease by $38,000 in Accounts payable due to the payment of the debt.

Owner's Equity would not be affected by this transaction.

* + 1. Assets = Liabilities + Owner's Equity

Assets will decrease by $38,000 in Cash due to the payment of the debt.

Liabilities will decrease by $38,000 in Accounts payable due to the payment of the debt.

Owner's Equity would not be affected by this transaction.

Diff: 2

* + 1. Assets = Liabilities + Owner's Equity

Assets will decrease by $38,000 in Cash due to the payment of the debt.

Liabilities will decrease by $38,000 in Accounts payable due to the payment of the debt.

Owner's Equity would not be affected by this transaction.

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

## If assets are $365,000 and equity is $120,000, then liabilities are:

A) $365,000. B) $245,000. C) $610,000. D) $120,000. E) $485,000.

Answer: B

Explanation: A) Assets = Liabilities + Owner's Equity

$365,000 = Liabilities + $120,000 Liabilities = $245,000

* + - 1. Assets = Liabilities + Owner's Equity

$365,000 = Liabilities + $120,000 Liabilities = $245,000

* + - 1. Assets = Liabilities + Owner's Equity

$365,000 = Liabilities + $120,000 Liabilities = $245,000

* + - 1. Assets = Liabilities + Owner's Equity

$365,000 = Liabilities + $120,000 Liabilities = $245,000

* + - 1. Assets = Liabilities + Owner's Equity

$365,000 = Liabilities + $120,000 Liabilities = $245,000

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. Rushing had income of $150 million and average invested assets of $1,800 million. Its return on assets is:

## A) 120%. B) 83.3%. C) 16.7%. D) 8.3%. E) 12%.

Answer: D

Explanation: A) Return on Assets = Net Income/Average Assets

Return on Assets = $150 million/$1,800 million = 0.0833 = 8.3%

1. Return on Assets = Net Income/Average Assets

Return on Assets = $150 million/$1,800 million = 0.0833 = 8.3%

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1. Return on Assets = Net Income/Average Assets

Return on Assets = $150 million/$1,800 million = 0.0833 = 8.3%

Diff: 2

Topic: Return on Assets

Learning Objective: 01-A2 Compute and interpret return on assets. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

1. Cage Company had income of $350 million and average invested assets of $2,000 million. Its return on assets (ROA) is:

## A) 3.5%. B) 17.5%. C) 35%. D) 1.8%. E) 5.7%.

Answer: B

Explanation: A) Return on Assets = Net Income/Average Assets

Return on Assets = $350 million/$2,000 million = 0.175 = 17.5%

1. Return on Assets = Net Income/Average Assets

Return on Assets = $350 million/$2,000 million = 0.175 = 17.5%

1. Return on Assets = Net Income/Average Assets

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Return on Assets = $350 million/$2,000 million = 0.175 = 17.5%

1. Return on Assets = Net Income/Average Assets

Return on Assets = $350 million/$2,000 million = 0.175 = 17.5%

Diff: 2

Topic: Return on Assets

Learning Objective: 01-A2 Compute and interpret return on assets. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

1. Speedy has net income of $18,955, and assets at the beginning of the year of $200,000. Assets at the end of the year total $246,000. Compute its return on assets.

## A) 7.7%. B) 13.0%. C) 8.5%. D) 9.5%. E) 11.8%.

Answer: C

Explanation: A) Return on Assets = Net Income/Average Assets

Return on Assets = $18,955/[($200,000 + $246,000)/2] Return on Assets = $18,955/$223,000 = 0.085 = 8.5%

1. Return on Assets = Net Income/Average Assets

Return on Assets = $18,955/[($200,000 + $246,000)/2] Return on Assets = $18,955/$223,000 = 0.085 = 8.5%

1. Return on Assets = Net Income/Average Assets

Return on Assets = $18,955/[($200,000 + $246,000)/2] Return on Assets = $18,955/$223,000 = 0.085 = 8.5%

1. Return on Assets = Net Income/Average Assets

Return on Assets = $18,955/[($200,000 + $246,000)/2] Return on Assets = $18,955/$223,000 = 0.085 = 8.5%

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Diff: 3

Topic: Return on Assets

Learning Objective: 01-A2 Compute and interpret return on assets. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

1. Chou Co. has a net income of $43,000, assets at the beginning of the year are $250,000 and assets at the end of the year are $300,000. Compute its return on assets.

## A) 8.4%. B) 1.5%. C) 17.2%. D) 14.3%. E) 15.6%.

Answer: E

Explanation: A) Return on Assets = Net Income/Average Assets

Return on Assets = $43,000/[($250,000 + $300,000)/2] Return on Assets = $43,000/$275,000 = 0.156 = 15.6%

1. Return on Assets = Net Income/Average Assets

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Diff: 3

Topic: Return on Assets

Learning Objective: 01-A2 Compute and interpret return on assets. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

## U.S. government bonds are:

* 1. Low-risk and high-return investments.
  2. High-risk and high-return investments.
  3. Low-risk and low-return investments.
  4. High risk and no-return investments.
  5. High-risk and low-return investments. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Return and Risk Analysis

Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk. Bloom's: Understand

AACSB: Analytical Thinking

AICPA: BB Industry; FN Risk Analysis

## Risk is:

* 1. Derived from the idea of getting something back from an investment.
  2. The reward for investment.
  3. The uncertainty about the return expected to be earned.
  4. Unrelated to return expected.
  5. Net income divided by average total assets. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Return and Risk Analysis

Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Risk Analysis

## The statement of cash flows reports all of the following *except*:

* 1. Cash flows from investing activities.
  2. Cash flows from operating activities.
  3. The net increase or decrease in assets for the period reported.
  4. Cash flows from financing activities.
  5. The net increase or decrease in cash for the period reported. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

## The basic financial statements include all of the following *except*:

* 1. Income Statement.
  2. Statement of Owner's Equity.
  3. Statement of Cash Flows.
  4. Statement of Changes in Assets.
  5. Balance Sheet.

Answer: D Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## The statement of owner's equity:

* 1. Reports how equity changes over a period of time.
  2. Reports on cash flows for operating, financing, and investing activities at a point in time.
  3. Reports on cash flows for operating, financing, and investing activities over a period of time.
  4. Reports on amounts for assets, liabilities, and equity at a point in time.
  5. Reports how equity changes at a point in time. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. The financial statement that reports whether the business earned a profit and also lists the revenues and expenses is called the:

## Statement of cash flows.

* 1. Statement of financial position.
  2. Balance sheet.
  3. Income statement.
  4. Statement of owner's equity. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## A balance sheet lists:

* 1. The inflows and outflows of cash during the period.
  2. The types and amounts of assets, liabilities, and equity of a business as of a specific date.
  3. Only the information about what happened to equity during a time period.
  4. The assets and liabilities of a company but not the owner's equity.
  5. The types and amounts of the revenues and expenses of a business. Answer: B

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. A financial statement providing information that helps users understand a company's financial status, and which lists the types and amounts of assets, liabilities, and equity as of a specific date, is called a(n):

## Statement of owner's equity.

* 1. Financial Status Statement.
  2. Balance sheet.
  3. Income statement.
  4. Statement of cash flows. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. The financial statement that identifies a company's cash receipts and cash payments over a period of time is the:

## Balance sheet.

* 1. Statement of cash flows.
  2. Statement of financial position.
  3. Statement of changes in owner's equity.
  4. Income statement.

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. The financial statement that shows the beginning balance of owner's equity; the changes in equity that resulted from new investments by the owner, net income (or net loss); withdrawals; and the ending balance, is the:

## Statement of financial position.

* 1. Statement of cash flows.
  2. Balance sheet.
  3. Statement of owner's equity.
  4. Income statement.

Answer: D Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## Cash investments by owners are listed on which of the following statements?

* 1. Statement of owner's equity only.
  2. Statement of cash flows only.
  3. Balance sheet.
  4. Income statement.
  5. Statement of owner's equity and statement of cash flows. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

## Accounts payable appear on which of the following statements?

* 1. Balance sheet.
  2. Statement of cash flows.
  3. Transaction statement.
  4. Statement of owner's equity.
  5. Income statement.

Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## The income statement reports all of the following *except*:

* 1. Net income or loss earned by a business.
  2. The time period over which the earnings occurred.
  3. Expenses incurred by a business.
  4. Revenues earned by a business.
  5. Assets owned by a business. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. Use the following information as of December 31 to determine equity.

|  |  |
| --- | --- |
| Cash | $ 57,000 |
| Buildings | 175,000 |
| Equipment | 206,000 |
| Liabilities | 141,000 |

## A) $141,000. B) $579,000. C) $297,000. D) $438,000. E) $57,000.

Answer: C

Explanation: A) Assets = Liabilities + Owner's Equity

Cash + Equipment + Buildings = Liabilities + Owner's Equity

$57,000 + $206,000 + $175,000 = $141,000 + Owner's Equity

$438,000 = $141,000 + Owner's Equity; Owner's Equity = $297,000

1. Assets = Liabilities + Owner's Equity

Cash + Equipment + Buildings = Liabilities + Owner's Equity

$57,000 + $206,000 + $175,000 = $141,000 + Owner's Equity

$438,000 = $141,000 + Owner's Equity; Owner's Equity = $297,000

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Cash + Equipment + Buildings = Liabilities + Owner's Equity

$57,000 + $206,000 + $175,000 = $141,000 + Owner's Equity

$438,000 = $141,000 + Owner's Equity; Owner's Equity = $297,000

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Use the following information for Meeker Corp. to determine the amount of equity to report.

|  |  |
| --- | --- |
| Cash | $ 70,000 |
| Buildings | 125,000 |
| Land | 205,000 |
| Liabilities | 130,000 |

## A) $530,000. B) $140,000. C) $20,000. D) $270,000. E) $390,000.

Answer: D

Explanation: A) Assets - Liabilities = Owner's Equity

Cash + Buildings + Land - Liabilities = Owner's Equity

$70,000 + $125,000 + $205,000 - $130,000 = $270,000

1. Assets - Liabilities = Owner's Equity

Cash + Buildings + Land - Liabilities = Owner's Equity

$70,000 + $125,000 + $205,000 - $130,000 = $270,000

1. Assets - Liabilities = Owner's Equity

Cash + Buildings + Land - Liabilities = Owner's Equity

$70,000 + $125,000 + $205,000 - $130,000 = $270,000

1. Assets - Liabilities = Owner's Equity

Cash + Buildings + Land - Liabilities = Owner's Equity

$70,000 + $125,000 + $205,000 - $130,000 = $270,000

1. Assets - Liabilities = Owner's Equity

Cash + Buildings + Land - Liabilities = Owner's Equity

$70,000 + $125,000 + $205,000 - $130,000 = $270,000

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Determine the net income of a company for which the following information is available for the month of July.

|  |  |
| --- | --- |
| Employee salaries expense | $180,000 |
| Interest expense | 10,000 |
| Rent expense | 20,000 |
| Consulting revenue | 400,000 |

## A) $400,000. B) $230,000. C) $210,000. D) $610,000. E) $190,000.

Answer: E

Explanation: A) Net Income = Revenues - Expenses

Net Income = Consulting Revenue - Employee Salaries Expense - Interest Expense

- Rent Expense

Net Income = $400,000 - $180,000 - $10,000 - $20,000; Net Income = $190,000

1. Net Income = Revenues - Expenses

Net Income = Consulting Revenue - Employee Salaries Expense - Interest Expense

* + Rent Expense

Net Income = $400,000 - $180,000 - $10,000 - $20,000; Net Income = $190,000

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Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Determine the net income of a company for which the following information is available for the month of September.

|  |  |
| --- | --- |
| Service revenue | $300,000 |
| Rent expense | 48,000 |
| Utilities expense | 3,200 |
| Salaries expense | 81,000 |

## A) $171,000. B) $252,000. C) $167,800. D) $263,800. E) $432,200.

Answer: C

Explanation: A) Revenues - Expenses = Net Income

Service Revenue - Rent Expense - Utilities Expense - Salaries Expense

$300,000 - $48,000 - $3,200 - $81,000 = $167,800

1. Revenues - Expenses = Net Income

Service Revenue - Rent Expense - Utilities Expense - Salaries Expense

$300,000 - $48,000 - $3,200 - $81,000 = $167,800

1. Revenues - Expenses = Net Income

Service Revenue - Rent Expense - Utilities Expense - Salaries Expense

$300,000 - $48,000 - $3,200 - $81,000 = $167,800

1. Revenues - Expenses = Net Income

Service Revenue - Rent Expense - Utilities Expense - Salaries Expense

$300,000 - $48,000 - $3,200 - $81,000 = $167,800

1. Revenues - Expenses = Net Income

Service Revenue - Rent Expense - Utilities Expense - Salaries Expense

$300,000 - $48,000 - $3,200 - $81,000 = $167,800

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

## A company acquires equipment for $75,000 cash. This represents a(n):

* 1. Financing activity.
  2. Revenue activity.
  3. Expense activity.
  4. Operating activity.
  5. Investing activity.

Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. A company borrows $125,000 from the Northern Bank and receives the loan proceeds in cash. This represents a(n):

## Operating activity.

* 1. Financing activity.
  2. Investing activity.
  3. Revenue activity.
  4. Expense activity.

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Zippy had cash inflows from operations $60,500; cash outflows from investing activities of

$47,000; and cash inflows from financing of $25,000. The net change in cash was:

## $132,000 increase.

* 1. $132,500 decrease.
  2. $38,500 decrease.
  3. $11,500 decrease.
  4. $38,500 increase. Answer: E

Explanation: A) Net Change in Cash = Cash Flows from Operating Activities + Cash Flows from

Investing

Activities + Cash Flows from Financing Activities

Net Change in Cash = $60,500 + ($47,000) + $25,000; Net Change in Cash =

$38,500

* + 1. Net Change in Cash = Cash Flows from Operating Activities + Cash Flows from Investing

Activities + Cash Flows from Financing Activities

Net Change in Cash = $60,500 + ($47,000) + $25,000; Net Change in Cash =

$38,500

* + 1. Net Change in Cash = Cash Flows from Operating Activities + Cash Flows from Investing

Activities + Cash Flows from Financing Activities

Net Change in Cash = $60,500 + ($47,000) + $25,000; Net Change in Cash =

$38,500

* + 1. Net Change in Cash = Cash Flows from Operating Activities + Cash Flows from Investing

Activities + Cash Flows from Financing Activities

Net Change in Cash = $60,500 + ($47,000) + $25,000; Net Change in Cash =

$38,500

* + 1. Net Change in Cash = Cash Flows from Operating Activities + Cash Flows from Investing

Activities + Cash Flows from Financing Activities

Net Change in Cash = $60,500 + ($47,000) + $25,000; Net Change in Cash =

$38,500

Diff: 3

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Zapper has beginning equity of $257,000, net income of $51,000, withdrawals of $40,000 and investments by owners of $6,000. Its ending equity is:

## A) $274,000. B) $208,000. C) $223,000. D) $268,000. E) $240,000.

Answer: A

Explanation: A) Ending Equity = Beginning Equity + Investments by Owners + Net Income - Withdrawals

Ending Equity = $257,000 + $6,000 + $51,000 - $40,000; Ending Equity =

$274,000

1. Ending Equity = Beginning Equity + Investments by Owners + Net Income - Withdrawals

Ending Equity = $257,000 + $6,000 + $51,000 - $40,000; Ending Equity =

$274,000

1. Ending Equity = Beginning Equity + Investments by Owners + Net Income - Withdrawals

Ending Equity = $257,000 + $6,000 + $51,000 - $40,000; Ending Equity =

$274,000

1. Ending Equity = Beginning Equity + Investments by Owners + Net Income - Withdrawals

Ending Equity = $257,000 + $6,000 + $51,000 - $40,000; Ending Equity =

$274,000

1. Ending Equity = Beginning Equity + Investments by Owners + Net Income - Withdrawals

Ending Equity = $257,000 + $6,000 + $51,000 - $40,000; Ending Equity =

$274,000

Diff: 3

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Cragmont has beginning equity of $277,000, net income of $63,000, withdrawals of $25,000 and no additional investments by owners during the period. Its ending equity is:

## A) $189,000. B) $315,000. C) $365,000. D) $239,000. E) $277,000.

Answer: B

Explanation: A) Beginning Equity + Investments by Owners + Net Income - Withdrawals = Ending Equity

$277,000 + $0 + $63,000 - $25,000 = $315,000

1. Beginning Equity + Investments by Owners + Net Income - Withdrawals = Ending Equity

$277,000 + $0 + $63,000 - $25,000 = $315,000

1. Beginning Equity + Investments by Owners + Net Income - Withdrawals = Ending Equity

$277,000 + $0 + $63,000 - $25,000 = $315,000

1. Beginning Equity + Investments by Owners + Net Income - Withdrawals = Ending Equity

$277,000 + $0 + $63,000 - $25,000 = $315,000

1. Beginning Equity + Investments by Owners + Net Income - Withdrawals = Ending Equity

$277,000 + $0 + $63,000 - $25,000 = $315,000

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

## Rent expense appears on which of the following statements?

* 1. Statement of owner's equity.
  2. Balance sheet.
  3. Statement of periodic expenses.
  4. Income statement.
  5. Statement of cash flows only. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. A company's balance sheet shows: cash $22,000, accounts receivable $16,000, office equipment

$50,000, and accounts payable $17,000. What is the amount of owner's equity?

## A) $17,000. B) $71,000. C) $105,000. D) $88,000. E) $29,000.

Answer: B

Explanation: A) Assets = Liabilities + Owner's Equity

Cash + Accounts Receivable + Office Equipment = Accounts Payable + Owner's Equity

$22,000 + $16,000 + $50,000 = $17,000 + Owner's Equity

$88,000 = $17,000 + Owner's Equity; Owner's Equity = $71,000

1. Assets = Liabilities + Owner's Equity

Cash + Accounts Receivable + Office Equipment = Accounts Payable + Owner's Equity

$22,000 + $16,000 + $50,000 = $17,000 + Owner's Equity

$88,000 = $17,000 + Owner's Equity; Owner's Equity = $71,000

1. Assets = Liabilities + Owner's Equity

Cash + Accounts Receivable + Office Equipment = Accounts Payable + Owner's Equity

$22,000 + $16,000 + $50,000 = $17,000 + Owner's Equity

$88,000 = $17,000 + Owner's Equity; Owner's Equity = $71,000

1. Assets = Liabilities + Owner's Equity

Cash + Accounts Receivable + Office Equipment = Accounts Payable + Owner's Equity

$22,000 + $16,000 + $50,000 = $17,000 + Owner's Equity

$88,000 = $17,000 + Owner's Equity; Owner's Equity = $71,000

1. Assets = Liabilities + Owner's Equity

Cash + Accounts Receivable + Office Equipment = Accounts Payable + Owner's Equity

$22,000 + $16,000 + $50,000 = $17,000 + Owner's Equity

$88,000 = $17,000 + Owner's Equity; Owner's Equity = $71,000

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. A company reported total equity of $145,000 at the beginning of the year. The company reported

$210,000 in revenues and $165,000 in expenses for the year. Liabilities at the end of the year totaled $92,000. What are the total assets of the company at the end of the year?

## A) $92,000. B) $45,000. C) $282,000. D) $98,000. E) $210,000.

Answer: C

Explanation: A) Assets = Liabilities + Owner's Equity

Assets = $92,000 + (Beginning Equity + Revenues - Expenses) Assets = $92,000 + ($145,000 + $210,000 - $165,000)

Assets = $92,000 + $190,000; Assets = $282,000

1. Assets = Liabilities + Owner's Equity

Assets = $92,000 + (Beginning Equity + Revenues - Expenses) Assets = $92,000 + ($145,000 + $210,000 - $165,000)

Assets = $92,000 + $190,000; Assets = $282,000

1. Assets = Liabilities + Owner's Equity

Assets = $92,000 + (Beginning Equity + Revenues - Expenses) Assets = $92,000 + ($145,000 + $210,000 - $165,000)

Assets = $92,000 + $190,000; Assets = $282,000

1. Assets = Liabilities + Owner's Equity

Assets = $92,000 + (Beginning Equity + Revenues - Expenses) Assets = $92,000 + ($145,000 + $210,000 - $165,000)

Assets = $92,000 + $190,000; Assets = $282,000

1. Assets = Liabilities + Owner's Equity

Assets = $92,000 + (Beginning Equity + Revenues - Expenses) Assets = $92,000 + ($145,000 + $210,000 - $165,000)

Assets = $92,000 + $190,000; Assets = $282,000

Diff: 3

Topic: Transaction Analysis; Financial Statements

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Flitter reported net income of $17,500 for the past year. At the beginning of the year the company had $200,000 in assets and $50,000 in liabilities. By the end of the year, assets had increased to

$300,000 and liabilities were $75,000. Calculate its return on assets:

## A) 23.3%. B) 35.0%. C) 8.8%. D) 7.0%. E) 5.8%.

Answer: D

Explanation: A) Return on Assets = Net Income/Average Assets

Return on Assets = $17,500/[($200,000 + $300,000)/2] Return on Assets = $17,500/$250,000 = 0.07 = 7.0%

1. Return on Assets = Net Income/Average Assets

Return on Assets = $17,500/[($200,000 + $300,000)/2] Return on Assets = $17,500/$250,000 = 0.07 = 7.0%

1. Return on Assets = Net Income/Average Assets

Return on Assets = $17,500/[($200,000 + $300,000)/2] Return on Assets = $17,500/$250,000 = 0.07 = 7.0%

1. Return on Assets = Net Income/Average Assets

Return on Assets = $17,500/[($200,000 + $300,000)/2] Return on Assets = $17,500/$250,000 = 0.07 = 7.0%

1. Return on Assets = Net Income/Average Assets

Return on Assets = $17,500/[($200,000 + $300,000)/2] Return on Assets = $17,500/$250,000 = 0.07 = 7.0%

Diff: 3

Topic: Return on Assets

Learning Objective: 01-A2 Compute and interpret return on assets. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

1. Dawson Electronic Services had revenues of $80,000 and expenses of $50,000 for the year. Its assets at the beginning of the year were $400,000. At the end of the year assets were worth

$450,000. Calculate its return on assets.

## A) 20.0%. B) 6.7%. C) 7.1%. D) 18.8%. E) 7.5%.

Answer: C

Explanation: A) Return on Assets = Net Income/Average Assets

Return on Assets = Revenues - Expenses/Average Assets

Return on Assets = ($80,000 - $50,000)/[($400,000 + $450,000)/2] Return on Assets = $30,000/$425,000 = 0.0705 = 7.1%

1. Return on Assets = Net Income/Average Assets

Return on Assets = Revenues - Expenses/Average Assets

Return on Assets = ($80,000 - $50,000)/[($400,000 + $450,000)/2] Return on Assets = $30,000/$425,000 = 0.0705 = 7.1%

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Return on Assets = Revenues - Expenses/Average Assets

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1. Return on Assets = Net Income/Average Assets

Return on Assets = Revenues - Expenses/Average Assets

Return on Assets = ($80,000 - $50,000)/[($400,000 + $450,000)/2] Return on Assets = $30,000/$425,000 = 0.0705 = 7.1%

Diff: 3

Topic: Return on Assets

Learning Objective: 01-A2 Compute and interpret return on assets. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: BB Resource Management; FN Measurement

1. Rico's Taqueria had cash inflows from operating activities of $27,000; cash outflows from investing activities of $22,000, and cash outflows from financing activities of $12,000. Calculate the net increase or decrease in cash.

## $37,000 increase.

* 1. $34,000 decrease.
  2. $61,000 increase.
  3. $7,000 increase.
  4. $7,000 decrease. Answer: E

Explanation: A) Net Increase/(Decrease) in Cash = Cash Flows from Operating Activities + Cash Flows from Investing Activities + Cash Flows from Financing Activities

Net Increase/(Decrease) in Cash = $27,000 + ($22,000) + ($12,000) Net Increase/(Decrease) in Cash = ($7,000)

* + 1. Net Increase/(Decrease) in Cash = Cash Flows from Operating Activities + Cash Flows from Investing Activities + Cash Flows from Financing Activities

Net Increase/(Decrease) in Cash = $27,000 + ($22,000) + ($12,000) Net Increase/(Decrease) in Cash = ($7,000)

* + 1. Net Increase/(Decrease) in Cash = Cash Flows from Operating Activities + Cash Flows from Investing Activities + Cash Flows from Financing Activities

Net Increase/(Decrease) in Cash = $27,000 + ($22,000) + ($12,000) Net Increase/(Decrease) in Cash = ($7,000)

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Net Increase/(Decrease) in Cash = $27,000 + ($22,000) + ($12,000) Net Increase/(Decrease) in Cash = ($7,000)

Diff: 3

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Charlie's Chocolates' owner made investments of $50,000 and withdrawals of $20,000. The company has revenues of $83,000 and expenses of $64,000. Calculate its net income.

## A) $49,000. B) $64,000. C) $19,000. D) $30,000. E) $83,000.

Answer: C

Explanation: A) Net Income = Revenues - Expenses

Net Income = $83,000 - $64,000; Net Income = $19,000

1. Net Income = Revenues - Expenses

Net Income = $83,000 - $64,000; Net Income = $19,000

1. Net Income = Revenues - Expenses

Net Income = $83,000 - $64,000; Net Income = $19,000

1. Net Income = Revenues - Expenses

Net Income = $83,000 - $64,000; Net Income = $19,000

1. Net Income = Revenues - Expenses

Net Income = $83,000 - $64,000; Net Income = $19,000

Diff: 3

Topic: Transaction Analysis; Financial Statements

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Savvy Sightseeing had beginning equity of $72,000; revenues of $90,000, expenses of $65,000, and withdrawals by owners of $9,000. Calculate the ending equity.

## A) $97,000. B) $38,000. C) $88,000. D) $47,000. E) $25,000.

Answer: C

Explanation: A) Ending Equity = Beginning Equity + Revenues - Expenses - Withdrawals by Owners

Ending Equity = $72,000 + $90,000 - $65,000 - $9,000 Ending Equity = $88,000

1. Ending Equity = Beginning Equity + Revenues - Expenses - Withdrawals by Owners

Ending Equity = $72,000 + $90,000 - $65,000 - $9,000 Ending Equity = $88,000

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1. Ending Equity = Beginning Equity + Revenues - Expenses - Withdrawals by Owners

Ending Equity = $72,000 + $90,000 - $65,000 - $9,000 Ending Equity = $88,000

Diff: 3

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. Doc's Ribhouse had beginning equity of $52,000; net income of $35,000, and withdrawals by the owner of $12,000. The owner made no investments during the year. Calculate the ending equity. A) $29,000. B) $(5,000). C) $75,000. D) $5,000. E) $99,000.

## Answer: C

Explanation: A) Ending Equity = Beginning Equity + Net Income - Withdrawals Ending Equity = $52,000 + $35,000 - $12,000 = $75,000

1. Ending Equity = Beginning Equity + Net Income - Withdrawals Ending Equity = $52,000 + $35,000 - $12,000 = $75,000
2. Ending Equity = Beginning Equity + Net Income - Withdrawals Ending Equity = $52,000 + $35,000 - $12,000 = $75,000
3. Ending Equity = Beginning Equity + Net Income - Withdrawals Ending Equity = $52,000 + $35,000 - $12,000 = $75,000
4. Ending Equity = Beginning Equity + Net Income - Withdrawals Ending Equity = $52,000 + $35,000 - $12,000 = $75,000

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. A company's balance sheet shows: cash $24,000, accounts receivable $30,000, equipment $50,000, and equity $72,000. What is the amount of liabilities?

## A) $176,000. B) $68,000. C) $32,000. D) $76,000. E) $104,000.

Answer: C

Explanation: A) Assets - Equity = Liabilities

Cash + Accounts Receivable + Equipment - Equity = Liabilities

$24,000 + $30,000 + $50,000 - $72,000 = $32,000

1. Assets - Equity = Liabilities

Cash + Accounts Receivable + Equipment - Equity = Liabilities

$24,000 + $30,000 + $50,000 - $72,000 = $32,000

1. Assets - Equity = Liabilities

Cash + Accounts Receivable + Equipment - Equity = Liabilities

$24,000 + $30,000 + $50,000 - $72,000 = $32,000

1. Assets - Equity = Liabilities

Cash + Accounts Receivable + Equipment - Equity = Liabilities

$24,000 + $30,000 + $50,000 - $72,000 = $32,000

1. Assets - Equity = Liabilities

Cash + Accounts Receivable + Equipment - Equity = Liabilities

$24,000 + $30,000 + $50,000 - $72,000 = $32,000

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking AICPA: BB Industry; FN Reporting

1. If a company has excess space in its building that it rents to another company for $700, what is the effect on the accounting equation during the first month?

## Liabilities would decrease $700 and equity would increase $700.

* 1. Assets would increase $700 and equity would increase $700.
  2. Assets would decrease $700 and equity would increase $700.
  3. Assets would increase $700 and equity would decrease $700.
  4. Assets would decrease $700 and liabilities would decrease $700. Answer: B

Explanation: A) Assets and equity both increase at the time the rent is earned.

* + 1. Assets and equity both increase at the time the rent is earned.
    2. Assets and equity both increase at the time the rent is earned.
    3. Assets and equity both increase at the time the rent is earned.
    4. Assets and equity both increase at the time the rent is earned.

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

## All of the following are classified as assets *except*:

* 1. Accounts Payable.
  2. Land.
  3. Equipment.
  4. Accounts Receivable.
  5. Supplies.

Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. Which of the following accounts is not included in the calculation of a company's ending owner's equity?

## Cash.

* 1. Revenues.
  2. Expenses.
  3. Owner investments.
  4. Withdrawals.

Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## All of the following are classified as liabilities *except*:

* 1. Wages Payable.
  2. Accounts Payable.
  3. Taxes Payable.
  4. Notes Payable.
  5. Accounts Receivable. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. Billington Corp. borrows $80,000 cash from Second National Bank. How does this transaction affect the accounting equation for Billington?

## Assets would increase $80,000 and equity would decrease $80,000.

* 1. Assets would decrease $80,000 and equity would increase $80,000.
  2. Assets would decrease $80,000 and liabilities would decrease $80,000.
  3. Liabilities would decrease $80,000 and equity would increase $80,000.
  4. Assets would increase $80,000 and liabilities would increase $80,000. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. If the assets of a company increase by $55,000 during the year and its liabilities increase by

$25,000 during the same year, then the change in equity of the company during the year must have been:

## A decrease of $80,000.

* 1. An increase of $25,000.
  2. An increase of $30,000.
  3. A decrease of $30,000.
  4. An increase of $80,000. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

## All of the following are classified as assets *except*:

* 1. Prepaid Insurance.
  2. Accounts Receivable.
  3. Supplies.
  4. Accounts Payable.
  5. Cash.

Answer: D Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. Grandmark Printing pays $2,000 rent to the landlord of the building where its facilities are located. How does this transaction affect the accounting equation for Grandmark?

## Assets would increase $2,000 and equity would increase $2,000.

* 1. Liabilities would decrease $2,000 and equity would increase $2,000.
  2. Assets would decrease $2,000 and equity would decrease $2,000.
  3. Assets would increase $2,000 and liabilities would increase $2,000.
  4. Assets would decrease $2,000 and liabilities would decrease $2,000. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. Atkins Company collected $1,750 as payment for the amount owed by a customer from services provided the prior month on credit. How does this transaction affect the accounting equation for Atkins?

## Assets would increase $1,750 and equity would increase $1,750.

* 1. Liabilities would decrease $1,750 and equity would increase $1,750.
  2. One asset would increase $1,750 and a different asset would decrease $1,750, causing no net change in the accounting equation.

## Assets would decrease $1,750 and liabilities would decrease $1,750.

* 1. Assets would increase $1,750 and liabilities would increase $1,750. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. The accounting equation for Ying Company shows a decrease in its assets and a decrease in its equity. Which of the following transactions could have caused that effect?

## Cash was received from providing services to a customer.

* 1. A utility bill was received for the current month, to be paid in the following month.
  2. The company paid an amount due on credit.
  3. Equipment was purchased for cash.
  4. Advertising expense for the month was paid in cash. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

1. The accounting equation for Long Company shows an increase in its assets and an increase in its liabilities. Which of the following transactions could have caused that effect?

## Supplies were purchased for cash.

* 1. Cash was received from providing services to a customer.
  2. Cash was received as an owner investment.
  3. Equipment was purchased on credit.
  4. Advertising expense for the month was paid in cash. Answer: D

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytical Thinking

AICPA: FN Measurement; BB Industry

## The expense recognition principle, also called the matching principle:

* 1. Provides guidance on when a company must recognize revenue.
  2. Prescribes that a company report the details behind financial statements that would impact users' decisions.

## Prescribes that accounting information is based on actual cost.

* 1. Prescribes that a company record the expenses it incurred to generate the revenue reported.
  2. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

## Answer: D Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Legal

## The measurement principle, also called the cost principle:

* 1. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

## Prescribes that a company record the expenses it incurred to generate the revenue reported.

* 1. Prescribes that a company report the details behind financial statements that would impact users' decisions.

## Provides guidance on when a company must recognize revenue.

* 1. Prescribes that accounting information is based on actual cost. Answer: E

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Legal

## The revenue recognition principle:

* 1. Provides guidance on when a company must recognize revenue.
  2. Prescribes that a company record the expenses it incurred to generate the revenue reported.
  3. Prescribes that a company report the details behind financial statements that would impact users' decisions.

## Prescribes that accounting information is based on actual cost.

* 1. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

## Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Legal

## The full disclosure principle:

* 1. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

## Prescribes that a company record the expenses it incurred to generate the revenue reported.

* 1. Prescribes that a company report the details behind financial statements that would impact users' decisions.

## Prescribes that accounting information is based on actual cost.

* 1. Provides guidance on when a company must recognize revenue. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Legal

## The materiality constraint:

* 1. Prescribes that only information that would influence the decisions of a reasonable person need be disclosed.
  2. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

## Provides guidance on when a company must recognize revenue.

* 1. Prescribes that accounting information is based on actual cost.
  2. Prescribes that a company record the expenses it incurred to generate the revenue reported. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Legal

## The going concern assumption:

* 1. Means that we can express transactions and events in monetary, or money, units.
  2. Means that a business is accounted for separately from other business entities, including its owner.
  3. Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.

## Prescribes that a company record the expenses it incurred to generate the revenue reported.

* 1. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

## Answer: E Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Legal

## The monetary assumption:

* 1. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.
  2. Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.

## Means that we can express transactions and events in monetary, or money, units.

* 1. Prescribes that a company record the expenses it incurred to generate the revenue reported.
  2. Means that a business is accounted for separately from other business entities, including its owner.

## Answer: C Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Legal

## The time period assumption:

* 1. Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
  2. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

## Means that we can express transactions and events in monetary, or money, units.

* 1. Means that a business is accounted for separately from other business entities, including its owner.

## Prescribes that a company record the expenses it incurred to generate the revenue reported. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Legal

## The business entity assumption:

* 1. Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.

## Means that we can express transactions and events in monetary, or money, units.

* 1. Means that a business is accounted for separately from other business entities, including its owner.

## Prescribes that a company record the expenses it incurred to generate the revenue reported.

* 1. Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

## Answer: C Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: FN Measurement; BB Industry; BB Legal

1. Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (or Dodd-Frank) to:

## Protect the taxpayer by ending bailouts.

* 1. Promote accountability and transparency in the financial system.
  2. All of the above.
  3. Put an end to the notion of "too big to fail."
  4. Protect consumers from abusive financial services. Answer: C

Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Generally Accepted Accounting Principles; Ethics

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Ethics

AICPA: FN Reporting; BB Legal

## Which of the following accounts is not included in the asset section of the balance sheet?

* 1. Services revenue.
  2. Accounts receivable.
  3. Supplies.
  4. Cash.
  5. Land.

Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## Which of the following accounts is not included in the asset section of the balance sheet?

* 1. Wages expense.
  2. Land.
  3. Buildings.
  4. Furniture.
  5. Supplies.

Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## Which of the following accounts is not included in the liability section of the balance sheet?

* 1. Accounts receivable.
  2. Notes payable.
  3. Wages payable.
  4. Accounts payable.
  5. Taxes payable.

Answer: A Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## Which of the following accounts is not included in the calculation of net income?

* 1. Rent expense.
  2. Cash.
  3. Rent revenue.
  4. Services revenue.
  5. Wages expense.

Answer: B Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## Which of the following combinations results in a net loss reported on the income statement?

* 1. Total revenues of $70,000 and total expenses of $74,000.
  2. Total revenues of $80,000 and total expenses of $74,000.
  3. Total revenues of $40,000 and total expenses of $31,000.
  4. Total revenues of $20,000 and total expenses of $16,000.
  5. Total revenues of $60,000 and total expenses of $52,000. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication; Reflective Thinking AICPA: BB Industry; FN Reporting

1. Which of the following combinations results does not result in the same amount of net income reported on the income statement?

## Total revenues of $70,000 and total expenses of $60,000.

* 1. Total revenues of $40,000 and total expenses of $20,000.
  2. Total revenues of $80,000 and total expenses of $60,000.
  3. Total revenues of $60,000 and total expenses of $40,000.
  4. Total revenues of $170,000 and total expenses of $150,000. Answer: A

Explanation: A)

B)

C)

D)

E)

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

# SHORT ANSWER QUESTIONS

1. Match the following terms with the appropriate definition.
2. Financial accounting
3. Ethics
4. Recordkeeping
5. Internal users
6. Accounting
7. Certified Public Accountant (CPA)
8. Fraud triangle
9. Managerial accounting
10. External users

1. An information and measurement system that identifies, records and communicates relevant reliable and comparable information about an organization's business activities.

\_\_\_\_ 2. The part of accounting that involves recording transactions and events, either electronically or manually.

\_\_\_\_ 3. Persons using accounting information who are not directly involved in running the organization.

\_\_\_\_ 4. Persons using accounting information who are directly involved in managing and operating the organization.

5. The area of accounting that serves the decision-making needs of internal users.

\_\_\_\_ 6. The area of accounting aimed at serving external users by providing them with

general-purpose financial statements.

7. Accounting specialists that have met educational and experience requirements, passed an examination and exhibit ethical characteristics to achieve a professional certification.

\_\_\_\_ 8. Beliefs that distinguish right from wrong, considered accepted standards of good and bad behavior.

\_\_\_\_ 9. A model that asserts the factors that must exist for a person to commit fraud.

## Answer: 1. E; 2. C; 3. I; 4. D; 5. H; 6. A; 7. F; 8. B; 9. G

Explanation:

Diff: 1

Topic: Importance of Accounting; Users of Accounting Information; Ethics

Learning Objective: 01-C1 Explain the purpose and importance of accounting.; 01-C2 Identify users and uses of, and opportunities in, accounting.; 01-C3 Explain why ethics are crucial to accounting.

Bloom's: Remember

AACSB: Communication; Ethics

AICPA: BB Industry; BB Legal; FN Reporting

1. Match each of the following terms with the most appropriate definition.
2. Return on assets
3. Assets
4. Expenses
5. Risk
6. Liabilities
7. Owner withdrawals
8. Accounting equation
9. Owner capital

1. The uncertainty about the return to be earned.

\_\_\_\_ 2. Resources such as cash that an owner puts into the company.

\_\_\_\_ 3. A financial ratio stated as income divided by assets invested.

\_\_\_\_ 4. Creditor's claims on a company's assets.

\_\_\_\_ 5. Decreases in equity from costs of providing products or services to customers.

\_\_\_\_ 6. Resources such as cash that an owner takes from the company for personal use.

\_\_\_\_ 7.Resources a company owns or controls that are expected to yield future benefit.

8. Expresses the relation of assets, liabilities and equity in a company, comparing the resources the company owns to the sources of funds to acquire the resources.

## Answer: 1. D; 2. H; 3. A; 4. E; 5. C; 6. F; 7. B; 8. G

Explanation:

Diff: 1

Topic: The Accounting Equation; Return on Assets; Return and Risk Analysis

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components.; 01-A2 Compute and interpret return on assets.; 01-A3 Appendix 1A-Explain the relation between return and risk.

Bloom's: Remember AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

1. The following is a list of selected users of accounting information. Match the appropriate user to the following decisions they make with accounting information.
2. Suppliers
3. Lenders
4. Shareholders
5. Purchasing Managers
6. Regulators

\_\_\_\_ 1. Know what, when, and how much to purchase.

\_\_\_\_ 2. Judge the soundness of a customer before making sales on credit.

3. Assess whether a company has paid all required taxes and complied with securities rules.

\_\_\_\_ 4. Assess whether an organization is likely to repay its loans with interest.

\_\_\_\_ 5. Decide whether to buy, hold, or sell a company's stock.

## Answer: 1. D; 2. A; 3. E; 4. B; 5. C

Explanation:

Diff: 1

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Risk Analysis

1. Match the following definitions with terms 1 through 8. Place the letter that identifies the best definition in the blank space next to the term.

\_ \_ 1. Generally accepted accounting principles

\_\_\_\_ 2. Time period assumption

\_\_\_\_ 3. Statement of owner's equity.

\_\_\_\_ 4. Balance sheet

\_\_\_\_ 5. Objectivity principle

\_\_\_\_ 6. Measurement (Cost) principle

\_\_\_\_ 7. Securities and Exchange Commission

\_\_\_\_ 8. IASB

\_\_\_\_ 9. Full disclosure principle

10. Statement of cash flows

1. Prescribes that assets and services to be recorded initially on a cash or equal-to-cash basis.
2. A principle that requires the information in financial statements to be supported by independent unbiased evidence.
3. An independent group consisting of individuals from many countries that identify preferred accounting practices.
4. Presumes that the life of a company can be divided into periods for reporting purposes.
5. The concepts and rules that govern financial accounting.
6. A financial statement that reports the changes in equity over the reporting period; including increases such as owner investment and net income and for decreases such as owner withdrawals or net loss.
7. A report that identifies cash receipts and cash payments over a period of time.
8. Prescribes that a company report the details behind financial statements that would impact user decisions.
9. The governmental agency that has the legal authority to establish accounting rules.
10. A report that describes a company's financial position at a point in time.

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

Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Remember AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

1. Match the following definitions with the terms 1 through 9. Place the letter that identifies the best definition in the blank space next to the term.

1. Statement of cash flows

\_\_\_\_ 2. Events

3. Monetary unit principle

\_\_\_\_ 4. Business entity principle

\_\_\_\_ 5. Revenue recognition principle

\_\_\_\_ 6. Accounting equation

7. Income statement

\_\_\_\_ 8. Expenses

9. Liabilities

1. The relation between a company's assets, liabilities, and equity.
2. Happenings, such as changes in market value, that effect the accounting equation and are reliably measured.
3. The principle that assumes transactions and events can be expressed in money units.
4. Describes a company's revenues and expenses along with the resulting net income or loss over a period of time.
5. A financial statement that lists cash inflows (receipts) and cash outflows (payments); the cash flows are arranged by operating, investing, and financing activities.
6. Creditor's claims on assets.
7. The cost of assets or services used to earn revenue.
8. The principle that requires a business to be accounted for separately from its owners.
9. The principle that revenue is recorded when earned through providing goods or services.

## Answer: 1. E; 2. B; 3. C; 4. H; 5. I; 6. A; 7. D; 8. G; 9. F

## Explanation:

Diff: 2

Topic: Generally Accepted Accounting Principles; Business Activities and the Accounting Equation; The Accounting Equation; Financial Statements

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.;

01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-A1 Define and interpret the accounting equation and each of its components.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Understand AACSB: Communication

AICPA: BB Industry; BB Legal; FN Reporting; FN Measurement

1. Identify each of the following business activities 1 through 6 into the appropriate category a, b, and c.
2. Operating
3. Investing
4. Financing

\_\_\_\_ 1. Paid utilities expenses.

\_\_\_\_ 2. Withdrawal of funds by owners.

\_\_\_\_ 3. Purchase of land.

\_\_\_\_ 4. Sale of used equipment.

5. Borrowed money from a bank on a long-term note.

6. Paid employee wages.

\_\_\_\_ 7. Received investment from owner.

\_\_\_\_ 8. Paid an amount due on a long-term bank loan.

## Answer: 1. A; 2. C; 3. B; 4. B; 5. C; 6. A; 7. C; 8. C

Explanation:

Diff: 3

Topic: Business Activities and the Accounting Equation

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations. Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. Match each of the following items 1 through 8 with the financial statement a through d in which each item would most likely appear. An item may appear on more than one statement.
2. Income statement
3. Statement of owner's equity
4. Balance sheet
5. Statement of cash flows

\_\_\_\_\_1. Assets.

\_\_\_\_\_2. Withdrawals.

\_\_\_\_\_3. Revenues.

\_\_\_\_\_4. Cash from investing activities.

\_\_\_\_\_5. Expenses.

\_\_\_\_\_6. Liabilities.

7. Cash from operating activities.

8. Cash from financing activities.

## Answer: 1. C; 2. B; 3. A; 4. D; 5. A; 6. C; 7. D; 8. D

Explanation:

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. Classify the following activities according to the appropriate section of the statement of cash flows.
2. Operating activity
3. Investing activity
4. Financing activity

1. Cash received from a one-time sale of used office equipment.

\_\_\_\_ 2. Cash paid for withdrawals by owners.

\_\_\_\_ 3. Cash received from customers.

\_\_\_\_ 4. Cash received from owner contributions.

\_\_\_\_ 5. Cash paid for utilities.

\_\_\_\_ 6. Cash paid for a delivery van to be used in the business.

## Answer: 1. B; 2. C; 3. A; 4. C; 5. A; 6. B

Explanation:

Diff: 3

Topic: Business Activities and the Accounting Equation; Financial Statements

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply

AACSB: Communication

AICPA: BB Industry; FN Reporting

# ESSAY QUESTIONS

## Explain the role of accounting in the information age.

Answer: Accounting is an information and measurement system. It identifies, records, and communicates relevant, reliable and comparable information about business activities. Accounting also includes the crucial process of analysis and interpretation. It is part of our everyday lives, through such activities as banking, paying taxes, and receiving payroll checks. Technology plays a major role in accounting by reducing the time effort and cost or recordkeeping while improving clerical accuracy.

Diff: 2

Topic: Importance of Accounting

Learning Objective: 01-C1 Explain the purpose and importance of accounting. Bloom's: Understand

AACSB: Communication; Technology AICPA: BB Industry; FN Reporting

## What is the balance sheet? What is its purpose?

Answer: The balance sheet is one of the four required financial statements a company prepares periodically. It describes a company's financial position by listing the types and amounts of assets, liabilities, and equity of a business at a specified point in time. The statement's purpose is to provide information that helps users assess the financial condition of the business.

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

## Identify the users and uses of accounting information.

Answer: There are two general types of users of accounting information. Internal users are managers and officers of businesses. They require information about business activities in order to make decisions about planning, monitoring, and control. External users rely on financial statements to make business decisions. These users include lenders, and shareholders.

Lenders need information for measuring the risk and return of loans. Shareholders need information for assessing the risk and return in owning shares.

Diff: 2

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Decision Making

1. Identify several opportunities in accounting and distinguish between private accounting and public accounting.

Answer: The four broad areas of accounting are financial accounting, managerial accounting, taxation and other accounting related employment. The majority of the employment opportunities are in private accounting where employees work for businesses. Private sector jobs would include general accounting, taxation, budgeting, and cost accounting activities. Public accounting offers opportunities to perform work such as auditing, tax services, and consulting.

Diff: 2

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Decision Making

## Explain why ethics are an integral part of accounting.

Answer: The purpose of accounting is to provide useful information for decision makers. For information to be useful, it must be trusted. This requires ethical behavior by accountants and managers in all phases of gathering, analyzing and reporting financial information so that good decisions are made.

Diff: 2

Topic: Ethics

Learning Objective: 01-C3 Explain why ethics are crucial to accounting. Bloom's: Understand

AACSB: Communication; Ethics

AICPA: BB Industry; FN Decision Making

## Describe the three important guidelines for revenue recognition.

Answer: The three important guidelines for revenue recognition include: (1) Revenue is recognized when earned. (2) Assets received from selling products and services do not need to be in cash. (3) Revenue recognized is measured by cash received plus the cash equivalent of other assets received.

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

## Identify the three basic forms of business organizations and their key attributes.

Answer: The three basic forms of business organizations are sole proprietorships, partnerships, and corporations. Sole proprietorships are businesses owned by one person. They are separate entities for accounting purposes, but are not separate from the owner legally or for tax purposes. Partnerships are businesses owned by two or more people who are jointly liable for tax and other obligations. Corporations are businesses legally separate from their owners, making them responsible for their own acts and own debts. They conduct business with the rights, duties and responsibilities of a person.

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication AICPA: BB Industry; FN Legal

## How does the objectivity principle support ethical behavior?

Answer: The objectivity principle supports ethical behavior since it requires that financial information be documented by independent, unbiased evidence. Consequently, the impact of belief and opinions on the recording and reporting of business transactions and events is lessened.

Diff: 2

Topic: Generally Accepted Accounting Principles; Ethics

Learning Objective: 01-C3 Explain why ethics are crucial to accounting.; 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles.

Bloom's: Understand

AACSB: Communication; Ethics

AICPA: BB Industry; FN Decision Making

1. Identify and describe the two main groups involved in establishing generally accepted accounting principles.

Answer: The Financial Accounting Standards Board (FASB) is the private-sector group that has been delegated the task to set both the broad and specific principles of GAAP. The Securities and Exchange Commission (SEC) is a government agency that has the legal authority to set GAAP and oversees proper use of GAAP by companies that issue stock and debt to the public.

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication AICPA: BB Legal; FN Reporting

## How does the going-concern principle affect reporting asset values of a business?

Answer: The going-concern principle means that financial statements reflect an assumption that the business continues in operation instead of being closed or sold. Assets are therefore reported at cost rather than at liquidation value.

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

1. Describe the income statement and the relation between revenues, expenses, and net income or loss.

Answer: The income statement describes a company's revenues and expenses along with the resulting net income or loss over a period of time due to earnings activities. Revenues are the increases in equity from sales of products and services to customers. Expenses are the costs of providing products and services to customers. When revenues exceed expenses, net income occurs. When expenses exceed revenues, a net loss occurs.

Diff: 2

Topic: Financial Statements; The Accounting Equation

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.; 01-A1 Define and interpret the accounting equation and each of its components.

Bloom's: Understand AACSB: Communication

AICPA: BB Industry; FN Measurement

## Explain the accounting equation and define its terms.

Answer: The accounting equation is stated as: Assets = Liabilities + Equity. Assets are resources owned or controlled by a business that are expected to provide future benefit. Creditors' claims on assets are called liabilities. The owner's claim on assets is called equity. The accounting equation shows that the resources (assets) of the business equal the source of funds to acquire and the claims against those resources.

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

## What distinguishes liabilities from equity?

Answer: Liabilities are creditors' claims on assets. They reflect obligations to transfer assets or provide products or services to others in a future outflow of resources. Equity is owner's claim to assets. It includes the investments of the owner and what the company earns on the owner's behalf. Equity is also called net assets or residual interest.

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Measurement

## What is the purpose of return on assets as an analytical tool?

Answer: Return on assets is useful in evaluating management, analyzing and forecasting profits, and planning activities. It shows the effectiveness of using assets to earn profit.

Diff: 2

Topic: Return on Assets

Learning Objective: 01-A2 Compute and interpret return on assets. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; BB Resource Management; FN Measurement

## Define risk and return and discuss the relation between them.

Answer: Net income is often related to return, which is what is earned from investments. Risk is the uncertainty about the return that will be earned. All investments involve risk, but risk and return vary among investment opportunities. In general, the lower the risk of an investment; the lower the expected return. Higher return is expected in exchange for accepting higher risk.

Diff: 2

Topic: Return and Risk Analysis

Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk. Bloom's: Understand

AACSB: Communication; Reflective Thinking AICPA: BB Critical Thinking; FN Risk Analysis

## Describe the three types of activities reported on the statement of cash flows.

Answer: The three types of activities reported in the statement of cash flows are (1) operating, which involve using cash to research, develop, purchase, produce, distribute, and market products and services as well as receiving cash from selling products and services; (2) financing, which are the cash inflows and cash outflows related to owner investments and withdrawal and long-term borrowing and repaying cash from lending and (3) investing, which represent the cash inflows and outflows from the purchase and sale of long-term assets.

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

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## Identify and describe the four basic financial statements:

Answer: The four basic financial statements are the balance sheet, income statement, statement of owner's equity, and statement of cash flows. The balance sheet describes the company's financial position and lists the types and amounts of assets, liabilities, and equity at a point in time. The income statement describes the company's revenues, expenses, and net income over a period of time. The statement of owner's equity explains changes in equity from net income or loss, and from owner investments and withdrawals over a period of time. The statement of cash flows reports on cash flows for operating, investing, and financing activities over a period of time.

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. The characteristics below apply to at least one of the forms of business organization.
2. Is a separate legal entity.
3. Is allowed to be owned by one person only.
4. Owner or owners are personally liable for debts of the business.
5. Is a separately taxable entity.
6. Is a business entity.
7. May have a contract specifying the division of profits among the owners.
8. Has an unlimited life

Use the following format to indicate (with a "yes" or "no") whether or not a characteristic applies to each type of business organization.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Proprietorship | Partnership | Corporation |
| a. |  |  |  |
| b. |  |  |  |
| c. |  |  |  |
| d. |  |  |  |
| e. |  |  |  |
| f. |  |  |  |
| g. |  |  |  |

## Answer:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Proprietorship | Partnership | Corporation |
| a. | no | no | yes |
| b. | yes | no | yes |
| c. | yes | yes | no |
| d. | no | no | yes |
| e. | yes | yes  119 | yes |

## Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| e. | yes | yes | yes |
| f. | no | yes | no |
| g. | no | no | yes |

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Communication

AICPA: BB Legal; FN Decision Making

1. A parcel of land is offered for sale at $600,000, is assessed for tax purposes at $500,000, is recognized by its purchasers as easily being worth $575,000, and is sold for $570,000. At what amount should the land be recorded in the purchaser's books? What accounting principle supports your answer?

Answer: $570,000. The Measurement (Cost) principle requires the acquisition of an asset to be recorded in the accounting records at cost.

Diff: 2

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Understand

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. You are reviewing the accounting records of Buddy's Foreign Automotive, owned by Bruce Jones. You have uncovered the following situations. List the appropriate accounting principle related to each independent scenario and suggest a correct action for each.
2. In August, a check for $500 was written to Community Sports. This amount represents soccer camp for his daughter Cassie.
3. Bruce plans a Going Out of Business Sale for June, since he will be closing the business for a month-long vacation in July. He plans to reopen August 1 and will continue operating Buddy's Foreign Automotive indefinitely.
4. Buddy received a shipment of tools from Ontario, Canada. The invoice was stated in Canadian dollars.
5. Sandy Lane paid $1,500 for a major repair services. The amount was recorded as revenue. The parts for the repair must be ordered from overseas and the service won't be complete until the following month.

Answer: 1. Business entity assumption. Buddy should refund the $500 to the business or record it as a withdrawal. In the future, he should use a personal check to pay for soccer camp.

* 1. Going-concern assumption. Buddy's Foreign Automotive is not going out of business. The business is just closing for vacation. He could hold an appropriate sale to generate extra business before going on vacation.
  2. Monetary unit assumption. The invoice should be restated in U.S. dollars for accounting purposes.
  3. Revenue recognition principle. Since the service has not been completed, revenue should not be recognized. The $1,500 should be placed in an account such as Deposits Received from Customers (a type of unearned revenue) until the service is completed.

Diff: 3

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; BB Legal; FN Measurement

# SHORT ANSWER QUESTIONS

1. At the beginning of the year, a company had $120,000 worth of liabilities. During the year, assets increased by $160,000 and at year-end they equaled $360,000. Liabilities decreased $20,000 during the year. Calculate the beginning and ending values of equity.

Answer: Beginning equity = $80,000; Ending equity = $260,000 Explanation: Beginning Assets = Beginning Liabilities + Beginning Equity

$200,000 = $120,000 + $80,000

Diff: 3

Ending Assets = Ending Liabilities + Ending Equity

$360,000 = $100,000 + $260,000

Topic: Financial Statements; The Accounting Equation

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate.; 01-A1 Define and interpret the accounting equation and each of its components.

Bloom's: Apply AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. At the beginning of the period, a company had $350,000 worth of assets, $110,000 worth of liabilities, and $240,000 worth of equity. Assume the only change during the period was a $30,000 purchase of equipment by issuing a note payable. Show the accounting equation with the appropriate amounts at the end of the period.

## Answer: $380,000 = $140,000 + $240,000

Explanation: Ending assets = $350,000 + $30,000 Ending liabilities = $110,000 + $30,000 Ending equity = $240,000 (no change)

Diff: 2

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. The accounts of Odie Company with the increases or decreases that occurred during the past year are as follows:

|  |  |  |
| --- | --- | --- |
| Account | Increase | Decrease |
| Cash  Accounts receivable | $25,000 | $(5,000) |
| Accounts payable Notes payable | 16,000 | (11,000) |

Except for net income, an investment of $3,000 by the owner, and a withdrawal of $11,000 by the owner, no other items affected owner's equity. Using the balance sheet equation, compute net income for the past year.

## Answer: $23,000

Explanation: Assets = Liabilities + Owner's Equity

Assets Increased by $20,000; Liabilities Increased by $5,000; Therefore, Equity needs to Increase by $15,000.

Diff: 3

Change in Equity = Investment + Net Income — Withdrawals Increase of $15,000 = $3,000 + Net Income — $11,000

$15,000 = Net Income — $8,000 Net Income = $23,000

Topic: Transaction Analysis; Financial Statements

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. The accounts of Mason Company at the end of the past year report the following amounts:

|  |  |
| --- | --- |
| Accounts | Amount |
| Owner Withdrawals, G. Mason……. | $15,500 |
| Revenues…………………………… | $97,000 |
| Expenses…………………………… | $43,800 |
| Owner investments………………… | 2,000 |

If the beginning equity for the year was $173,000, calculate the ending equity for Mason Company.

## Answer: $212,700

Explanation: ............Beginning Equity + Owner Investments — Owner Withdrawals + Revenues — Expenses = Ending Equity

............$173,000 + $2,000 — $15,500 + $97,000 — $43,800 = $212,700

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. Cornelia's Closet has the following account balances for the dates given:

October 1 October 31

Cash……………………………………… $40,000 60,000

Accounts Receivable……………………… 40,000 38,000 Accounts payable………………………… 6,000 ?

Also, its net income, for October 1 through October 31 was $20,000 and there were no investments or withdrawals by the owner. Determine the equity at both October 1 and October 31.

## Answer: October 1st Equity = $74,000; October 31st Equity = $94,000

Explanation: Total assets:

|  |  |
| --- | --- |
| October 1 | October 31 |
| Cash.....................................$40,000 | 60,000 |
| Accounts Receivable .............40,000 | 38,000 |
| Total assets..........................$80,000 | $98,000 |

|  |  |
| --- | --- |
| At October 1:  Assets = Liabilities + Equity  $80,000 = $6,000 + Equity Equity = $74,000 |  |
| At October 31:  Equity, September 1 | $74,000 |
| Plus September net income | 20,000 |
| Equity, September 30 | $94,000 |

Diff: 3

or:

October 1 Equity + Net Income + October 31 Equity

$74,000 + $20,000 = $94,000

Topic: Transaction Analysis; Financial Statements

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. If the liabilities of a company increased $92,000 during a period of time and equity in the business decreased $30,000 during the same period, did the assets of the company increase or decrease? By what amount?

Answer: Assets increased by $62,000. Explanation: Assets = Liabilities + Equity

$62,000 = $92,000 — $30,000

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

# ESSAY QUESTIONS

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1. Soo Lin began an Internet Consulting practice and completed these transactions during April of the current year:

|  |  |  |
| --- | --- | --- |
| April. | 1 | Invested $100,000 of her personal savings into a checking |
|  |  | account opened in the name of the business. |
|  | 2 | Rented office space and paid $1,200 cash for the month of |
|  |  | September. |
|  | 3 | Purchased office equipment for $30,000, paying $8,000 cash |
|  |  | and agreeing to pay the balance in one year. |
|  | 4 | Purchased office supplies for $750 cash. |
|  | 8 | Completed work for a client and immediately collected $2,700 |
|  |  | cash for the services. |
|  | 15 | Completed $3,600 services for a client on credit. |
|  | 20 | Received $3,600 from a client for the work completed on |
|  |  | September 15. |
|  | 30 | Paid the office secretary's monthly salary, $3,000 cash. |
|  | 30 | Lin withdrew $2,000 for personal use. |

Show the effects of the above transactions on the accounting equation of Soo Lin, Consultant. Use the following format for your answers. The first item is shown as an example.

Increase = I Decrease = D No effect = N

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Assets | Liabilities | Equity |
| **Example:** |  |  |  |
| April 1 | I | N | I |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

## Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Assets | Liabilities | Equity |
| April 1 | I | N | I |
| April 2 | D | N | D |
| April 3 | I,D | I | N |
| April 4 | I,D | N | N |
| April 8 | I | N | I |
| April 15 | I | N | I |
| April 20 | I,D | N | N |
| April 30 | D | 12N6 | D |

## Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| April 30 | D | N | D |
| April 30 | D | N | D |

Diff: 3

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. For each of the following transactions, identify the effects as reflected in the accounting equation. Use "+" to indicate an increase and "-" to indicate a decrease. Use "A", "L", and "E" to indicate assets, liabilities, and equity, respectively. Part A has been completed as an example.

|  |  |  |  |
| --- | --- | --- | --- |
| a. | L. Chester invested $100,000 in a sole  proprietorship | +A | +E |
| b. | Land was purchased for $50,000.  A down payment of $15,000 cash was made and a note was signed for the balance. |  |  |
| c. | Services were rendered to customers for  cash. |  |  |
| d. | A building was purchased for cash. |  |  |
| e. | Supplies were purchased for cash. |  |  |
| f. | Paid the office secretary’s salary. |  |  |
| g. | The amount owed on the land from Part  (b) was paid. |  |  |

Answer: a. +A +E

b. +A +L

c. +A +E

d. +A —A

e. +A —A

* 1. -A —E
  2. —A —L

Diff: 3

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. The following schedule reflects shows the first month's transactions of the Green Construction Company, owned by Jennifer Green:

**Accounts Accounts**

**Cash** + **Receivable** + **Supplies** + **Equipment** = **Payable** + 1. +20,000

2. -5,000 +5,000

3. +$1,500 +1,500

4. +3,000

5. +1,000 +1,500

6. -750 -750

7. +500 -500

8. -400

9. -2,000

Provide descriptions for each transaction.

Answer: 1. Investment of cash in business by owner *or* performed services for cash.

1. Purchased equipment for cash.
2. Purchased supplies on credit.
3. Performed services for cash *or* investment of cash in business by owner.
4. Performed services for both cash and on credit.
5. Paid accounts payable.
6. Received cash for an account receivable.
7. Used supplies in business.
8. Withdrawal of cash from business by owner for personal use *or* paid expense of business.

Diff: 3

Topic: Transaction Analysis; Accounting Equation

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply

AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. The accountant of Action Adventure Games prepared a balance sheet after every 10 day period. The only resources invested by the owner were at the start of the company on June 1. During June, the first month of operation, the following balance sheets were prepared:

ACTION ADVENTURE GAMES

Balance Sheet June 10

|  |  |  |  |
| --- | --- | --- | --- |
| Assets |  | Equity |  |
| Cash…………………….. | $60,000 | Owner, Capital…………….. | $60,000 |
| Total assets……………… | $60,000 | Total liabilities  and equity…………………  ….. | $60,000 |

ACTION ADVENTURE GAMES

Balance Sheet June 20

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets |  | Liabilities |  | |
| Cash……………………. | $48,000 | Notes payable……. | $18,000 | |
| Land……………………. | 10,000 | Equity |  | |
| Building………………… | 20,000 | Owner, Capital….. | 60,000 | |
| Total assets………….. | $78,000 | Total liabilities and  equity…………….. | $78,000 |  |
|  | |

ACTION ADVENTURE GAMES

Balance Sheet June 30

|  |  |  |  |
| --- | --- | --- | --- |
| Assets |  | Liabilities |  |
| Cash……………………. | $51,000 | Accounts payable…. | $2,000 |
| Office supplies………… | 2,000 | Notes payable……. | 18,000 |
| Land……………………. | 10,000 | Equity |  |
| Building………………… | 20,000 | Owner, Capital….. | 63,000 |
| Total assets………….. | $83,000 | Total liabilities and  equity…………….. | $83,000 |

Required: Describe the nature of each of the four transactions that took place between the balance sheet dates shown. Assume only one transaction affected each account.

June

10

20

30

Answer: June 10 The owner invested $60,000 cash in the company.

Land and building were purchased for $12,000 cash and an

20 $18,000 note payable.

Office supplies were purchased for $2,000 on account.

30 Cash was received for $3,000 of services provided.

Diff: 3

Topic: Accounting Equation; Transaction Analysis; Financial Statements

Learning Objective: 01-P1 Analyze business transactions using the accounting equation.; 01-P2 Identify and prepare basic financial statements and explain how they interrelate.

Bloom's: Apply AACSB: Analytic

AICPA: BB Industry; FN Measurement

1. Identify the risk and the return in each of the following examples.
2. Investing $500 in a certificate of deposit at 4.5% interest.
3. Placing a $100 bet on an NBA game.
4. Investing $10,000 in Microsoft stock.
5. Borrowing $20,000 in student loans.

Answer: a. The risk involved is that the investor may need the money in the CD before the CD matures and would have to give up the interest. The return is the 4.5% interest on the $500 invested in the CD.

* 1. The risk is that the team bet on may not beat the point spread and the bet would be lost. The return would be any winnings based on the odds.
  2. The risk is that the value of Microsoft stock could go down. The return would come from increase in the value of the stock.
  3. The risk is that the student might not be able to find a job that pays enough to live on and allow for loan payments with interest. The return is that the student would be able to finance an education and earn higher wages.

Diff: 3

Topic: Return and Risk Analysis

Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk. Bloom's: Apply

AACSB: Reflective Thinking

AICPA: BB Industry; BB Critical Thinking; FN Risk Analysis

1. Prepare a April 30 balance sheet in proper form for Two Rivers Vending Service from the following alphabetical list of the accounts at April 30:

|  |  |
| --- | --- |
| Accounts receivable………………………. | $10,000 |
| Accounts payable………………………….. | 18,000 |
| Building…………………………………….... | 28,000 |
| Cash………………………….…………….... | 10,000 |
| Notes payable………………………………. | 47,000 |
| Office equipment……………...…………….. | 12,000 |
| K. Fields, Capital……………………………. | ? |
| Trucks……………………………………….. | 55,000 |

Answer: TWO RIVERS VENDING SERVICE

Balance Sheet April 30

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|  |  |  |  |
| --- | --- | --- | --- |
| Assets |  | Liabilities |  |
| Cash…………………….. | $ 10,000 | Accounts payable……… | $ 18,000 |
| Accounts receivable…… | 10,000 | Notes payable………….. | 47,000 |
| Office equipment………. | 12,000 | Total liabilities…………… | $ 63,000 |
| Building…………………. | 28,000 |  |  |
| Trucks………………….. | 55,000 | Equity |  |
|  |  | K. Fields, Capital…….. | 50,000 |

## Answer:

Total assets…………….

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | K. Fields, Capital…….. | 50,000 |
|  | $115,000 | Total liabilities and equity……………………. | $115,000 |
|  |

Diff: 3

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

1. Prepare a December 31 balance sheet in proper form for Smokey River Supplies from the following list of the accounts:

|  |  |
| --- | --- |
| Cash………………………….……………......... | $10,000 |
| Accounts receivable…………………………….. | 8,000 |
| Supplies…………………………………………. | 12,000 |
| Equipment…………………………………….. | 35,000 |
| Land…………………………………….............. | 18,000 |
| Accounts payable…………………………….. | 13,000 |
| Notes payable……………………………….…. | 41,000 |
| L. Marks, Capital………………………….….. | 29,000 |

Answer: SMOKEY RIVER SUPPLIES

Balance Sheet December 31

|  |  |  |  |
| --- | --- | --- | --- |
| Assets |  | Liabilities |  |
| Cash…………………….. | $10,000 | Accounts payable……… | $13,000 |
| Accounts receivable…… | 8,000 | Notes payable………….. | 41,000 |
| Supplies……………….... | 12,000 | Total liabilities…………… | $54,000 |
| Equipment………………. | 35,000 |  |  |
| Land…………………….. | 18,000 | Equity |  |
|  |  | L. Marks, Capital…….. | 29,000 |
| Total assets……………. | $83,000 | Total liabilities and  equity……………………. | $83,000 |
|  |  |

Diff: 2

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

1. Prepare a December 31 balance sheet in proper form for Cane Property Management using the following accounts and amounts:

|  |  |
| --- | --- |
| Commissions earned……............ | $40,000 |
| Accounts payable……………… | 3,500 |
| Accounts receivable…………… | 5,000 |
| M. Bruno, Capital……………… | 104,500 |
| Office equipment………………. | 10,000 |
| Advertising expense…………. … | 3,200 |
| Cash……………………………. | 7,500 |
| Land............................................... | 35,000 |
|  | 132 |

|  |  |
| --- | --- |
| Note payable................................. | 50,000 |
| Office supplies.............................. | 1,500 |
| Salaries expense........................... | 12,000 |
| Salaries payable........................... | 1,000 |
| Building......................................... | 100,000 |

Answer: CANE PROPERTY MANAGEMENT

Balance Sheet December 31

|  |  |  |  |
| --- | --- | --- | --- |
| Assets |  | Liabilities |  |
| Cash…………………….. | $ 7,500 | Accounts payable……….. | $ 3,500 |
| Accounts receivable…… | 5,000 | Salaries payable………….. | 1,000 |
| Office supplies…………. | 1,500 | Note payable……………… | 50,000 |
| Land…………………….. | 35,000 | Total liabilities…………….. | $ 54,500 |
| Building…………………. | 100,000 | Equity |  |
| Office equipment………. | 10,000 | M. Bruno, Capital………… | 104,500 |
| Total assets……………. | \_\_\_\_\_\_\_\_\_\_  $159,000 | Total liabilities and Equity…………………….. | $159,000 |
|  |  |

Diff: 3

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

1. From the information given below, prepare a November income statement, a November statement of owner's equity, and a November 30 balance sheet. On November 1 of the current year, Victoria Garza began Garza Décor with an initial investment of $50,000 cash. On November 30, her records showed the following (alphabetically arranged) items and amounts.

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable……………. | $12,000 | Office furnishings……….. | $40,000 |
| Accounts receivable………. | 19,000 | Owner’s withdrawals……. | 6,000 |
| Cash……………………… | 21,200 | Rent expense…………… | 9,600 |
| Fees earned………………. | 34,000 | Salaries expense………. | 4,200 |
| Notes payable………………… | 4,250 | Telephone expense……. | 250 |

Answer: GARZA DÉCOR

Income Statement

For Month Ended November 30

|  |  |  |
| --- | --- | --- |
| Revenue: |  |  |
| Fees earned……………………….. |  | $34,000 |
| Operating expenses: 133 |  |  |

## Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| Operating expenses: |  |  | |
| Rent expense……………………………. | $9,600 |  | |
| Salaries expense………………………… | 4,200 |  | |
| Telephone expense……………………… | 250 | 14,050 | |
| Net income…………………………………….. |  | $19,950 |  |

GARZA DÉCOR

Statement of Owner’s Equity For Month Ended November 30

|  |  |  |  |
| --- | --- | --- | --- |
| V. Garza, Capital, November 1……………………….. | | $ 0 | |
| Plus: Investments by owner……………………………. | $50,000 |  | |
| Net income………………………………. | 19,950 | 69,950 | |
|  |  | 69,950 | |
| Less withdrawals by owner……………………. |  | (6,000) | |
| V. Garza, Capital, November 30………………. |  | $63,950 |  |

GARZA DECOR

Balance Sheet November 30

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets |  | Liabilities |  | |
| Cash…………………….. | $21,200 | Accounts payable…… | $12,000 | |
| Accounts receivable…… | 19,000 | Notes payable……… | 4,250 | |
| Office furnishings……….. | 40,000 | Total liabilities……… | $16,250 | |
|  |  | Equity |  | |
|  |  | V, Garza, capital…… | 63,950 | |
| Total assets……………. | $80,200 | Total liabilities and  equity………………… | $80,200 |  |
|  |  |  | |

Diff: 3

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

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1. Data for Kennedy Realty are as follows:

|  |  |
| --- | --- |
| Total assets at January 1 | $100,000 |
| Total liabilities at January 1 | 35,000 |
| Total revenues for the year | 79,000 |
| Total expenses for the year | 47,000 |

The owner, Finn Kennedy, withdrew a total of $30,000 for personal use during the year. Using the above data, prepare Kennedy Realty's Statement of Owner's Equity for the year ended December 31.

Answer: KENNEDY REALTY

Statement of Owner’s Equity For year Ended December 31

|  |  |  |
| --- | --- | --- |
| Finn Kennedy, Capital, January 1\* | $ 65,000 | \* |
| Plus Net income | 32,000 |  |
|  | $ 97,000 |  |
| Less Withdrawals by owner | (30,000 | ) |
| Finn Kennedy, Capital, December 31 | $ 67,000 |  |
|  |  |  |
| \*Total assets at January 1 | $100,000 |  |
| Less total liabilities at January 1 | 35,000 |  |
| Total owner’s equity at January 1 | $ 65,000 |  |
|  |
|  |  |  |

Diff: 3

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

1. Jet Styling has the following beginning cash balance and cash transactions for the month of January. Using this information prepare a statement of cash flows.

|  |  |  |
| --- | --- | --- |
| a. | Beginning cash balance…………….. | $ 3,200 |
| b. | Cash investment by owner………….. | 15,000 |
| c. | Cash payment toward long-term loan | 1,000 |
| d. | Cash payment of rent……………….. | 1,800 |
| e. | Purchased equipment for cash…….. | 7,500 |
| f. | Purchased store supplies for cash… | 1,500 |
| g. | Cash collected from customers……. | 7,750 |
| h. | Cash withdrawal by owner………….. | 2,000 |
| i. | Cash payment of wages…………….  135 | 4,000 |

i. Cash payment of wages……………. 4,000

Answer: Jet Styling

Statement of Cash Flows For Month Ended January 31

|  |  |  |  |
| --- | --- | --- | --- |
| Cash flows from operating activities: |  |  | |
| Cash collected from customers………………… | $ 7,750 |  | |
| Cash paid for supplies…………………………… | (1,500) |  | |
| Cash paid for rent………………………………… | (1,800) |  | |
| Cash paid for wages…………………………….. | (4,000) |  | |
| Cash flows from operating activities………………… |  | $ 450 | |
| Cash flows from investing activities: |  |  | |
| Purchase of equipment…………………………. |  | (7,500) | |
| Cash flows from financing activities: |  |  | |
| Investment by owner……………………………. | 15,000 |  | |
| Withdrawal by owner…………………………… | (2,000) |  | |
| Payment of loan………………………………… | (1,000) |  | |
| Cash flows from financing activities……………….. |  | 12,000 | |
| Net increase in cash………………………………… |  | $ 4,950 |  |
|  |
| Beginning cash balance……………………………. |  | 3,200 | |
| Ending cash balance……………………………….. |  | $ 8,150 |  |

Diff: 3

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

1. The records of Roadmaster Auto Rentals show the following information as of December 31. The owner, Rob Fletcher withdrew $52,000 during the year for personal expenses. Prepare a December income statement, a December statement of owner's equity, and a December 30 balance sheet.

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $36,000 | Wages expense | $75,000 |
| Insurance expense | 2,000 | Advertising expense | 22,000 |
| Accounts receivable | 24,000 | Cash | 11,000 |
| R Fletcher, Capital, |  |  |  |
| January 1 | 150,000 | Office Furniture | 15,000 |
| Airplanes | 150,000 | Maintenance expense | 39,000 |
| Notes payable | 47,000 | Revenues | 217,000 |
| Hangar | 60,000 |  |  |

## Answer:

Answer: ROADMASTER AUTO RENTALS

Income Statement

For Year Ended December 31

|  |  |  |
| --- | --- | --- |
| Revenues |  | $ 217,000 |
| Expenses: |  |  |
| Insurance expense | $ 2,000 |  |
| Wages expense | 75,000 |  |
| Advertising expense | 22,000 |  |
| Maintenance expense | 39,000 |  |
| Total expenses |  | $ 138,000 |
| Net income |  | $ 79,000 |
|  |  |  |

ROADMASTER AUTO RENTALS

Statement of Owner’s Equity For Year Ended December 31

)

|  |  |
| --- | --- |
| R. Fletcher, Capital, January 1 | $150,000 |
| Add: Net income | 79,000 |
| Less: Withdrawals | (52,000 |
| R. Fletcher, Capital, December 31 | $177,000 |
|  |
|  |  |

ROADMASTER AUTO RENTALS

Balance Sheet December 31

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets |  |  | Liabilities |  |
| Cash | $ 11,000 |  | Accounts payable | $ 36,000 |
| Accounts receivable | 24,000 |  | Notes payable | 47,000 |
| Airplanes | 150,000 |  | Total liabilities | $ 83,000 |
| Hangar | 60,000 |  | Equity |  |
| Office furniture | 15,000 |  | R. Fletcher, Capital | 177,000 |
|  | \_\_\_\_\_\_\_ |  | Total liabilities and |  |
| Total assets | $260,000 |  | equity | $260,000 |

Diff: 3

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Create

AACSB: Analytic

AICPA: BB Industry; FN Reporting

1. Verity Siding Company, owned by S. Verity, began operations in May and completed the following transactions during that first month of operations. Show the effects of the transactions on the accounts of the accounting equation by recording increases and decreases in the appropriate columns in the table below. Do not determine new account balances after each transaction. Determine the final total for each account and verify that the equation is in balance.

.

|  |  |  |
| --- | --- | --- |
| May | 1 | S. Verity invested $90,000 cash in the company. |
|  | 2 | The company purchased $25,000 in office equipment. It paid $10,000 in cash and signed a note payable promising to pay the $15,000 over the next three years. |
|  | 2 | The company rented office space and paid $3,000 for the May rent. |
|  | 6 | The company installed new vinyl siding for a customer and immediately  collected $5,000. |
|  | 7 | The company paid a supplier $2,000 for siding materials used on the May 6 job. |
|  | 8 | The company purchased a $2,500 copy machine for office use on credit. |
|  | 9 | The company completed work for additional customers on credit in the amount  of $16,000. |
|  | 15 | The company paid its employees' salaries $2,300 for the first half of the month. |
|  | 17 | The company installed new siding for a customer and immediately collected  $2,400. |
|  | 20 | The company received $10,000 in payments from the customers billed on May 9 |
|  | 28 | The company paid $1,500 on the copy machine purchased on May 8. It will pay  the remaining balance in June. |
|  | 31 | The company paid its employees' salaries $2,400 for the second half of the  month. |
|  | 31 | The company paid a supplier $5,300 for siding materials used on the remaining  jobs completed during May. |
|  | 31 | The company paid $450 for this month's utility bill. |

## Answer:

Diff: 3

Topic: Transaction Analysis

Learning Objective: 01-P1 Analyze business transactions using the accounting equation. Bloom's: Apply; Analyze

AACSB: Analytic

AICPA: BB Industry; FN Reporting

# SHORT ANSWER QUESTIONS

1. \_\_\_\_\_\_\_\_ is an information and measurement system that identifies, records and communicates relevant, reliable and comparable information about an organization's economic activities.

## Answer: Accounting Explanation:

Diff: 1

Topic: Importance of Accounting

Learning Objective: 01-C1 Explain the purpose and importance of accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. A \_\_\_\_\_\_\_\_ is a business that is owned by only one person.

## Answer: Sole proprietorship Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

## \_\_\_\_\_\_\_\_ users of accounting information are not directly involved in running the organization. Answer: External

Explanation:

Diff: 1

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. \_\_\_\_\_\_\_\_ is the area of accounting aimed at serving external users by providing them with general-purpose financial statements.

## Answer: Financial accounting Explanation:

Diff: 1

Topic: Users of Accounting Information

Learning Objective: 01-C2 Identify users and uses of, and opportunities in, accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. Congress passed the \_\_\_\_\_\_\_\_ to help curb financial abuses at companies that issue their stock to the public.

Answer: Answer: Sarbanes-Oxley Act

## Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication; Ethics AICPA: BB Legal; FN Reporting

1. \_\_\_\_\_\_\_\_ are beliefs that separate right from wrong and are considered accepted standards of good and bad behavior.

## Answer: Ethics Explanation:

Diff: 1

Topic: Ethics

Learning Objective: 01-C3 Explain why ethics are crucial to accounting. Bloom's: Remember

AACSB: Communication; Ethics

AICPA: BB Industry; FN Decision Making

1. The assumption that requires that a business be accounted for separately from its owners is the

\_\_\_\_\_\_\_\_ assumption.

## Answer: business entity Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. The \_\_\_\_\_\_\_\_ principle requires that financial information is supported by independent, unbiased evidence.

## Answer: objectivity Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

1. The \_\_\_\_\_\_\_\_ assumption assumes that a business will continue operating indefinitely instead of being closed or sold.

## Answer: going-concern Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

1. The \_\_\_\_\_\_\_\_ assumption states that transactions and events are expressed in money units.

## Answer: monetary unit Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

1. In accounting, the rule that requires that assets, services, and liabilities be recorded initially at the cash or cash-equivalent value of what was given up or of the item received is called the \_\_\_\_\_\_\_\_.

## Answer: Measurement (Cost) principle Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Measurement

1. A disadvantage of a sole proprietorship is the fact that the owner has \_\_\_\_\_\_\_\_.

## Answer: unlimited liability Explanation:

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

1. There are at least three types of partnerships that limit the partners' liability. They are 1)\_\_\_\_\_\_\_\_, 2) \_\_\_\_\_\_\_\_, and 3)\_\_\_\_\_\_\_\_.

Answer: limited partnership, limited liability partnership, limited liability company Explanation: answers can appear in any order

Diff: 1

Topic: Generally Accepted Accounting Principles

Learning Objective: 01-C4 Explain generally accepted accounting principles and define and apply several accounting principles. Bloom's: Remember

AACSB: Communication

AICPA: BB Legal; FN Decision Making

1. There are three major types of business activities. \_\_\_\_\_\_\_\_ activities are the means organizations use to pay for resources such as land, building, and equipment to carry out plans.

## Answer: Financing Explanation:

Diff: 1

Topic: Business Activities and the Accounting Equation

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. There are three major types of business activities. \_\_\_\_\_\_\_\_ activities involve the acquisition and disposal of resources that an organization uses to acquire and sell its products or services.

## Answer: Investing Explanation:

Diff: 1

Topic: Business Activities and the Accounting Equation

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. There are three major types of business activities. \_\_\_\_\_\_\_\_ activities involve using resources to research, develop, purchase, produce, distribute, and market products and services and receiving amounts from selling products and services.

## Answer: Operating Explanation:

Diff: 1

Topic: Business Activities and the Accounting Equation

Learning Objective: 01-C5 Appendix 1B-Identify and describe the three major activities of organizations. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. Resources such as cash removed from the business by the business owner for personal use are called \_\_\_\_\_\_\_\_.

## Answer: withdrawals Explanation:

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## \_\_\_\_\_\_\_\_ are the increases in equity from a company's sales of products and services to customers. Answer: Revenues

Explanation:

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. A common characteristic of \_\_\_\_\_\_\_\_ is their ability to yield expected future benefits to a business.

## Answer: assets Explanation:

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. Creditors' claims on assets that reflect company obligations to provide assets, products, or services to others are called \_\_\_\_\_\_\_\_.

## Answer: liabilities Explanation:

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## The owner's claim on assets, also known as net assets, is called \_\_\_\_\_\_\_\_. Answer: equity

Explanation:

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## The accounting equation is \_\_\_\_\_\_\_\_.

Answer: Assets = Liabilities + Owner's Equity Explanation:

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## The term \_\_\_\_\_\_\_\_ refers to a liability that promises a future outflow of resources. Answer: payable

Explanation:

Diff: 1

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. Using the accounting equation, equity is equal to \_\_\_\_\_\_\_\_.

## Answer: assets minus liabilities Explanation:

Diff: 2

Topic: The Accounting Equation

Learning Objective: 01-A1 Define and interpret the accounting equation and each of its components. Bloom's: Understand

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. \_\_\_\_\_\_\_\_, which is one part of accounting, is the recording of transactions and events, either manually or electronically.

## Answer: Record-keeping or Bookkeeping Explanation:

Diff: 1

Topic: Importance of Accounting

Learning Objective: 01-C1 Explain the purpose and importance of accounting. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## \_\_\_\_\_\_\_\_ is net income divided by average total assets. Answer: Return on assets

Explanation:

Diff: 1

Topic: Return on Assets

Learning Objective: 01-A2 Compute and interpret return on assets. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

## Risk is the \_\_\_\_\_\_\_\_ about the return an investor expects to earn. Answer: uncertainty

Explanation:

Diff: 1

Topic: Return and Risk Analysis

Learning Objective: 01-A3 Appendix 1A-Explain the relation between return and risk. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Risk Analysis

1. \_\_\_\_\_\_\_\_ explains changes in the owner's claim on the business's assets from net income or loss, owner investments, and owner withdrawals over a period of time.

## Answer: The statement of owner's equity Explanation:

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting

1. The \_\_\_\_\_\_\_\_ describes a company's revenues and expenses along with the resulting net income or net loss over a period of time due to earnings activities.

## Answer: income statement Explanation:

Diff: 1

Topic: Financial Statements

Learning Objective: 01-P2 Identify and prepare basic financial statements and explain how they interrelate. Bloom's: Remember

AACSB: Communication

AICPA: BB Industry; FN Reporting