|  |
| --- |
| True / False |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. A merchandising business buys products from other businesses to sell to customers.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2. The role of accounting is to provide many different users with financial information to make economic decisions.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 3. Accounting information users need reports about the economic activities and condition of businesses.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 4. Managerial accounting information is used by external and internal users equally.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 5. Senior executives cannot be criminally prosecuted for the wrongdoings they commit on behalf of the companies where they work.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. Financial accounting provides information to all users, while the main focus for managerial accounting is to provide information to the management.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. Proper ethical conduct implies that you only consider what's in your best interest.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. Some of the major fraudulent acts committed by senior executives started as what they considered to be small ethical lapses that grew out of control.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. A business is an organization in which basic resources or inputs, such as materials and labor, are assembled and processed to provide outputs in the form of goods or services to customers.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. Two factors that typically lead to ethical violations are relevance and timeliness of accounting information.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. Financial accounting reports are relevant only to users within the business.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. The Sarbanes-Oxley Act established standards for corporate responsibility and disclosure.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. The main objective for all business is to maximize unrealized profits.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 14. The primary role of accounting is to determine the amount of taxes a business will be required to pay to taxing entities.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. The basic difference between manufacturing and merchandising companies is the completion level of the products they purchase for resale to customers.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 16. An example of an external user of accounting information is the federal government.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 17. Proprietorships are owned by one owner and provide only services to their customers.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 18. About 90% of the businesses in the United States are organized as corporations.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 19. The Financial Accounting Standards Board (FASB) is the authoritative body that has primary responsibility for developing accounting principles.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 20. The cost concept is the basis for entering the purchase price into the accounting records.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. The unit of measurement concept requires that economic data be recorded in dollars.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. If a building is appraised for $85,000, it is offered for sale at $90,000, and the buyer pays $80,000 cash for it, the buyer would record the building at $85,000.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. The financial statements of a proprietorship should include the owner's personal assets and liabilities.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. No significant differences exist between the accounting standards issued by the FASB and the IASB.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 25. Generally accepted accounting principles regulate how and what financial information is reported by businesses.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. The IASB maintains an electronic database, called the Accounting Standards Codification, which contains all of the accounting standards that make up GAAP.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. The accounting equation can be expressed as Assets – Liabilities = Owner's Equity.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. The rights or claims to the assets of a business may be subdivided into rights of creditors and rights of owners.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 29. The owner’s rights to the assets rank ahead of the creditors' rights to the assets.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 30. If the liabilities owed by a business total $300,000 and owner's equity is equal to $300,000, then the assets also total $300,000.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. If total assets decreased by $30,000 during a specific period and owner's equity decreased by $35,000 during the same period, the period's change in total liabilities was a $65,000 increase.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 32. If total assets increased by $190,000 during a specific period and liabilities decreased by $10,000 during the same period, the period's change in total owner's equity was a $200,000 increase.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. If net income for a proprietorship was $50,000, the owner withdrew $20,000 in cash, and the owner invested $10,000 in cash, the capital of the owner increased by $40,000.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 34. An account receivable is typically classified as a revenue.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 35. An account receivable is a claim against a customer resulting from a sale on account.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 36. Paying an account payable increases liabilities and decreases assets.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 37. Receiving payments on an account receivable increases both equity and assets.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 38. Cash withdrawals by owners decrease assets and increase equity.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 39. Purchasing supplies on account increases liabilities and decreases equity.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. Receiving a bill or otherwise being notified that an amount is owed is **not** recorded until the amount is paid.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. Revenue is earned only when money is received.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. Assets that are used up during the process of earning revenue are called expenses.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 43. The excess of revenue over the expenses incurred in earning the revenue is called capital.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. There are four primary financial statements of a proprietorship: the income statement, the statement of owner's equity, the balance sheet, and the statement of cash flows.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. An income statement is a summary of the revenues and expenses of a business as of a specific date.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 46. A statement of owner's equity reports the changes in the owner's equity for a period of time.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 47. The statement of cash flows consists of three sections: Cash Flows from (Used for) Operating Activities, Cash Flows from (Used for) Income Activities, and Cash Flows from (Used for) Equity Activities.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 48. The balance sheet represents the accounting equation.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 49. Net income and net profit do **not** mean the same thing.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 50. The higher the ratio of liabilities to owner’s equity, the better able a company is to withstand poor business conditions and to pay its obligations to creditors.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |
| --- |
| Multiple Choice |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 51. Profit is the difference between

|  |  |  |
| --- | --- | --- |
|   | a.  | assets and liabilities |
|   | b.  | the incoming cash and outgoing cash |
|   | c.  | the assets purchased with cash contributed by the owner and the cash spent to operate the business |
|   | d.  | the amounts received from customers for goods or services and the amounts paid forthe inputs used to provide the goods or services |

|  |  |
| --- | --- |
| *ANSWER:* | d |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 52. Two common areas of accounting that respectively provide information to internal and external users are

|  |  |  |
| --- | --- | --- |
|   | a.  | forensic accounting and financial accounting |
|   | b.  | managerial accounting and financial accounting |
|   | c.  | managerial accounting and environmental accounting |
|   | d.  | financial accounting and tax accounting systems |

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 53. Which of the following **best** describes accounting?

|  |  |  |
| --- | --- | --- |
|   | a.  | records economic data but does not communicate the data to users according to any specific rules |
|   | b.  | is an information system that provides reports to users regarding economic activities and condition of a business |
|   | c.  | is of no use by individuals outside of the business |
|   | d.  | is used only for filling out tax returns and for financial statements for various type of governmental reporting requirements |

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 54. Which type of accountant typically practices as an individual or as a member of a public accounting firm?

|  |  |  |
| --- | --- | --- |
|   | a.  | Certified Public Accountant |
|   | b.  | Certified Payroll Professional |
|   | c.  | Certified Internal Auditor |
|   | d.  | Certified Management Accountant |

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 55. Financial reports are used by

|  |  |  |
| --- | --- | --- |
|   | a.  | management |
|   | b.  | creditors |
|   | c.  | investors |
|   | d.  | All of these choices |

|  |  |
| --- | --- |
| *ANSWER:* | d |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 56. Which of the following is a manufacturing business?

|  |  |  |
| --- | --- | --- |
|   | a.  | General Motors |
|   | b.  | Facebook |
|   | c.  | American Airlines |
|   | d.  | Target |

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 57.  Which of the following is a service business?

|  |  |  |
| --- | --- | --- |
|   | a.  | Dell Inc. |
|   | b.  | Wal-Mart Stores, Inc. |
|   | c.  | Microsoft Corporation |
|   | d.  | Facebook, Inc. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 58. Which of the following groups of companies includes examples of merchandising businesses?

|  |  |  |
| --- | --- | --- |
|   | a.  | Delta Air Lines, Marriott, Gap Inc. |
|   | b.  | Gap Inc., Amazon, Nike Inc. |
|   | c.  | GameStop, Sony, Dell |
|   | d.  | GameStop, Best Buy, Gap Inc. |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 59. Which of the following groups is considered to be internal users of accounting information?

|  |  |  |
| --- | --- | --- |
|   | a.  | employees and customers |
|   | b.  | customers and vendors |
|   | c.  | employees and managers |
|   | d.  | government entities and banks |

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| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 60. The following are examples of external users of accounting information **except**

|  |  |  |
| --- | --- | --- |
|   | a.  | government entities |
|   | b.  | customers |
|   | c.  | creditors |
|   | d.  | managers |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 61. Which of the following is the **best** description of accounting’s role in business?

|  |  |  |
| --- | --- | --- |
|   | a.  | Accounting provides stockholders with information regarding the market value of the company’s stocks. |
|   | b.  | Accounting provides information to managers to operate the business and to other users to make decisions regarding the economic condition of the company. |
|   | c.  | Accounting helps in decreasing the credit risk of the company. |
|   | d.  | Accounting is not responsible for providing any form of information to users.  That is the role of the Information Systems Department. |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 62. Managerial accountants would be responsible for providing information regarding

|  |  |  |
| --- | --- | --- |
|   | a.  | tax reports to government agencies |
|   | b.  | profit reports to owners and management |
|   | c.  | expansion of a product line report to management |
|   | d.  | consumer reports to customers |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 63. Which of the following is **not** a certification for accountants?

|  |  |  |
| --- | --- | --- |
|   | a.  | CIA |
|   | b.  | CMA |
|   | c.  | CISA |
|   | d.  | IRS |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 64. Which of the following is **not** a role of accounting in business?

|  |  |  |
| --- | --- | --- |
|   | a.  | to provide reports to users about the economic activities and conditions of a business |
|   | b.  | to personally guarantee loans of the business |
|   | c.  | to provide information to external users to determine the economic performance and condition of the business |
|   | d.  | to assess the various informational needs of users and design an accounting system to meet those needs |

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| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 65. Which of the following is a guideline for behaving ethically?

|  |  |  |
| --- | --- | --- |
|   | I. | Identify the consequences of a decision and its effect on others. |
|   | II. | Consider your obligations and responsibilities to those affected by the decision. |
|   | III. | Identify your decision based on personal standards of honesty and fairness. |

|  |  |  |
| --- | --- | --- |
|   | a.  | I and II |
|   | b.  | II and III |
|   | c.  | I and III |
|   | d.  | I, II, and III |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 66. Which of the following would **not** normally operate as a service business?

|  |  |  |
| --- | --- | --- |
|   | a.  | pet groomer |
|   | b.  | grocer |
|   | c.  | lawn care company |
|   | d.  | styling salon |

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| --- | --- |
| *ANSWER:* | b |

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| 67. Most businesses in the United States are

|  |  |  |
| --- | --- | --- |
|   | a.  | proprietorships |
|   | b.  | partnerships |
|   | c.  | corporations |
|   | d.  | cooperatives |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 68. Which of the following is **not**a business entity?

|  |  |  |
| --- | --- | --- |
|   | a.  | entrepreneurship |
|   | b.  | proprietorship |
|   | c.  | partnership |
|   | d.  | corporation |

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| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 69. An entity that is organized according to state or federal statutes and in which ownership is divided into shares of stock is a

|  |  |  |
| --- | --- | --- |
|   | a.  | proprietorship |
|   | b.  | corporation |
|   | c.  | partnership |
|   | d.  | governmental unit |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 70. Which of the following is **true** regarding a limited liability company?

|  |  |  |
| --- | --- | --- |
|   | a.  | makes up 10% of business organizations in the United States |
|   | b.  | combines the attributes of a partnership and a corporation |
|   | c.  | provides tax and liability advantages to the owners |
|   | d.  | All of these choices |

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| *ANSWER:* | d |

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| 71. On May 20, White Repair Service extended an offer of $108,000 for land that had been priced for sale at $140,000. On May 30, White Repair Service accepted the seller’s counteroffer of $115,000. On June 20, the land was assessed at a value of $95,000 for property tax purposes. On July 4, White Repair Service was offered $150,000 for the land by a national retail chain. At what value should the land be recorded in White Repair Service’s records?

|  |  |  |
| --- | --- | --- |
|   | a.  | $108,000 |
|   | b.  | $95,000 |
|   | c.  | $140,000 |
|   | d.  | $115,000 |

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| --- | --- |
| *ANSWER:* | d |

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| 72. Which of the following is most likely to obtain large amounts of resources by issuing stock?

|  |  |  |
| --- | --- | --- |
|   | a.  | partnership |
|   | b.  | corporation |
|   | c.  | proprietorship |
|   | d.  | government entity |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 73. Which of the following is **not** a characteristic of a corporation?

|  |  |  |
| --- | --- | --- |
|   | a.  | Corporations are organized as a separate legal taxable entity. |
|   | b.  | Ownership is divided into shares of stock. |
|   | c.  | Corporations experience an ease in obtaining large amounts of resources by issuing stock. |
|   | d.  | A corporation’s resources are limited to its individual owners’ resources. |

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| --- | --- |
| *ANSWER:* | d |

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| 74. The initials GAAP stand for

|  |  |  |
| --- | --- | --- |
|   | a.  | general accounting procedures |
|   | b.  | generally accepted plans |
|   | c.  | generally accepted accounting principles |
|   | d.  | generally accepted accounting practices |

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| --- | --- |
| *ANSWER:* | c |

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| 75. Within the United States, the dominant body in the primary development of accounting principles is the

|  |  |  |
| --- | --- | --- |
|   | a.  | American Institute of Certified Public Accountants (AICPA) |
|   | b.  | American Accounting Association (AAA) |
|   | c.  | Financial Accounting Standards Board (FASB) |
|   | d.  | Institute of Management Accountants (IMA) |

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| --- | --- |
| *ANSWER:* | c |

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| 76. The business entity concept means that

|  |  |  |
| --- | --- | --- |
|   | a.  | the owner is part of the business entity |
|   | b.  | an entity is organized according to state or federal statutes |
|   | c.  | an entity is organized according to the rules set by the FASB |
|   | d.  | the entity is an individual economic unit for which data are recorded, analyzed, and reported |

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| *ANSWER:* | d |

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| 77. For accounting purposes, the business entity should be considered separate from its owners if the entity is

|  |  |  |
| --- | --- | --- |
|   | a.  | a corporation |
|   | b.  | a proprietorship |
|   | c.  | a partnership |
|   | d.  | All of these choices |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 78. The objectivity concept requires that

|  |  |  |
| --- | --- | --- |
|   | a.  | business transactions be consistent with the objectives of the entity |
|   | b.  | the Financial Accounting Standards Board be fair and unbiased in its deliberations over new accounting standards |
|   | c.  | accounting principles meet the objectives of the Securities and Exchange Commission |
|   | d.  | amounts recorded in the financial statements be based on independently verifiable evidence |

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| --- | --- |
| *ANSWER:* | d |

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| 79. Karen Meyer owns and operates Crystal Cleaning Company. Recently, Meyer withdrew $10,000 from Crystal Cleaning, and she contributed $6,000, in her name, to the American Red Cross. The contribution of the $6,000 should be recorded on the accounting records of which of the following entities?

|  |  |  |
| --- | --- | --- |
|   | a.  | Crystal Cleaning and the American Red Cross |
|   | b.  | Karen Meyer's personal records and the American Red Cross |
|   | c.  | Karen Meyer's personal records and Crystal Cleaning |
|   | d.  | Karen Meyer's personal records, Crystal Cleaning, and the American Red Cross |

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| --- | --- |
| *ANSWER:* | b |

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| 80. Equipment with an estimated market value of $30,000 is offered for sale at $45,000. The equipment is acquired for $15,000 in cash and a note payable of $20,000 due in 30 days. The amount used in the buyer's accounting records to record this acquisition is

|  |  |  |
| --- | --- | --- |
|   | a.  | $30,000 |
|   | b.  | $35,000 |
|   | c.  | $15,000 |
|   | d.  | $45,000 |

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| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 81. Which of the following is the authoritative body in the United States that has the primary responsibility for developing accounting principles?

|  |  |  |
| --- | --- | --- |
|   | a.  | FASB |
|   | b.  | IRS |
|   | c.  | SEC |
|   | d.  | AICPA |

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| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 82. Which of the following concepts relates to separating the reporting of business and personal economic transactions?

|  |  |  |
| --- | --- | --- |
|   | a.  | cost concept |
|   | b.  | unit of measure concept |
|   | c.  | business entity concept |
|   | d.  | objectivity concept |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 83. Donner Company is selling a piece of land adjacent to its business premises. An appraisal reported the market value of the land to be $220,000.  Focus Company initially offered to buy the land for $177,000. The companies settled on a purchase price of $212,000. On the same day, another piece of land on the same block sold for $232,000. Under the cost concept, at what amount should the land be recorded in the accounting records of Focus Company?

|  |  |  |
| --- | --- | --- |
|   | a.  | $177,000 |
|   | b.  | $212,000 |
|   | c.  | $220,000 |
|   | d.  | $232,000 |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 84. Many countries outside the United States use financial accounting standards issued by the

|  |  |  |
| --- | --- | --- |
|   | a.  | AICPA |
|   | b.  | SEC |
|   | c.  | IASB |
|   | d.  | FASB |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 85. The unit of measure concept

|  |  |  |
| --- | --- | --- |
|   | a.  | is only used in the financial statements of manufacturing companies |
|   | b.  | is not important when applying the cost concept |
|   | c.  | requires that different units be used for assets and liabilities |
|   | d.  | requires that economic data be reported in yen in Japan or dollars in the United States |

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| --- | --- |
| *ANSWER:* | d |

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| 86. Which of the following is **not** true of accounting principles?

|  |  |  |
| --- | --- | --- |
|   | a.  | Financial accountants follow generally accepted accounting principles (GAAP). |
|   | b.  | Following GAAP allows accounting information users to compare one company to another. |
|   | c.  | A new accounting principle can be adopted with stockholders' approval. |
|   | d.  | The Financial Accounting Standards Board (FASB) has primary responsibility for developing accounting principles. |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 87. The \_\_\_\_\_ concept requires a company to report its economic activities on a regular basis for a specific period.

|  |  |  |
| --- | --- | --- |
|   | a.  | cost |
|   | b.  | matching |
|   | c.  | objectivity |
|   | d.  | time period |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 88. The annual accounting period adopted by a company is called its

|  |  |  |
| --- | --- | --- |
|   | a.  | calendar year |
|   | b.  | fiscal year |
|   | c.  | natural business year |
|   | d.  | natural calendar year |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 89. The natural business year for most retail businesses ends on

|  |  |  |
| --- | --- | --- |
|   | a.  | January 31 |
|   | b.  | March 31 |
|   | c.  | August 31 |
|   | d.  | December 31 |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 90. Which of the following is **not** a characteristic of a corporation?

|  |  |  |
| --- | --- | --- |
|   | a.  | Corporations are organized as a separate legal taxable entity. |
|   | b.  | Ownership is divided into shares of stock. |
|   | c.  | Corporations experience an ease in obtaining large amounts of resources by issuing stock. |
|   | d.  | A corporation’s resources are limited to its individual owners’ resources. |

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| --- | --- |
| *ANSWER:* | d |

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| 91. On May 7, Carpet Barn Company offered to pay $83,000 for land that had a selling price of $105,000. On May 15, Carpet Barn accepted a counteroffer of $95,000. On June 5, the land was assessed at a value of $115,000 for property tax purposes. On December 10, Carpet Barn Company was offered $135,000 for the land by another company. At what value should the land be recorded in Carpet Barn Company’s records?

|  |  |  |
| --- | --- | --- |
|   | a.  | $95,000 |
|   | b.  | $105,000 |
|   | c.  | $115,000 |
|   | d.  | $135,000 |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 92. Donner Company is selling a piece of land adjacent to its business. An appraisal reported the market value of the land to be $120,000. Focus Company initially offered to buy the land for $107,000. The companies settled on a purchase price of $115,000. On the same day, another piece of land on the same block sold for $122,000. Under the cost concept, what amount will be used to record this transaction in Focus Company’s accounting records?

|  |  |  |
| --- | --- | --- |
|   | a.  | $107,000 |
|   | b.  | $115,000 |
|   | c.  | $120,000 |
|   | d.  | $122,000 |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 93. Assets are

|  |  |  |
| --- | --- | --- |
|   | a.  | always lower than liabilities |
|   | b.  | equal to liabilities less owner’s equity |
|   | c.  | the same as expenses because they are acquired with cash |
|   | d.  | financed by the owner and/or creditors |

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| --- | --- |
| *ANSWER:* | d |

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| 94. Debts owed by a business are referred to as

|  |  |  |
| --- | --- | --- |
|   | a.  | accounts receivable |
|   | b.  | expenses |
|   | c.  | owner’s equity |
|   | d.  | liabilities |

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| --- | --- |
| *ANSWER:* | d |

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| 95. The accounting equation may be expressed as

|  |  |  |
| --- | --- | --- |
|   | a.  | Assets = Equities − Liabilities |
|   | b.  | Assets + Liabilities = Owner's Equity |
|   | c.  | Assets = Revenues − Liabilities |
|   | d.  | Assets − Liabilities = Owner's Equity |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 96. Which of the following is **not** an asset?

|  |  |  |
| --- | --- | --- |
|   | a.  | investments |
|   | b.  | cash |
|   | c.  | inventory |
|   | d.  | owner’s equity |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 97. The assets and liabilities of a company are $128,000 and $84,000, respectively. Owner’s equity should equal

|  |  |  |
| --- | --- | --- |
|   | a.  | $212,000 |
|   | b.  | $44,000 |
|   | c.  | $128,000 |
|   | d.  | $84,000 |

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| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 98. If total liabilities decreased by $46,000 during a period of time and owner's equity increased by $60,000 during the same period, the amount and direction (increase or decrease) of the period's change in total assets would be a

|  |  |  |
| --- | --- | --- |
|   | a.  | $106,000 increase |
|   | b.  | $14,000 increase |
|   | c.  | $14,000 decrease |
|   | d.  | $106,000 decrease |

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| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 99. Which of the following is **not** a business transaction?

|  |  |  |
| --- | --- | --- |
|   | a.  | make a sales offer |
|   | b.  | sell goods for cash |
|   | c.  | receive cash for services to be rendered later |
|   | d.  | pay for supplies |

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| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 100. A business paid $7,000 to a creditor in payment of an amount owed. The effect of the transaction on the accounting equation was to

|  |  |  |
| --- | --- | --- |
|   | a.  | increase an asset, decrease another asset |
|   | b.  | decrease an asset, decrease a liability |
|   | c.  | increase an asset, increase a liability |
|   | d.  | increase an asset, increase owner's equity |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 101. Earning revenue

|  |  |  |
| --- | --- | --- |
|   | a.  | increases assets, increases owner’s equity |
|   | b.  | increases assets, decreases owner's equity |
|   | c.  | increases one asset, decreases another asset |
|   | d.  | decreases assets, increases liabilities |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 102. The monetary value charged to customers for the performance of services sold is called a(n)

|  |  |  |
| --- | --- | --- |
|   | a.  | asset |
|   | b.  | net income |
|   | c.  | capital |
|   | d.  | revenue |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 103. Revenues are reported when

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| --- | --- | --- |
|   | a.  | a contract is signed |
|   | b.  | cash is received from the customer |
|   | c.  | work is begun on the job |
|   | d.  | work is completed on the job |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 104. Expenses are recorded when

|  |  |  |
| --- | --- | --- |
|   | a.  | cash is paid for services rendered |
|   | b.  | a bill is received in advance of services rendered |
|   | c.  | assets are used in the process of earning revenue |
|   | d.  | assets are purchased |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 105. Goods purchased on account for future use in the business, such as supplies, are called

|  |  |  |
| --- | --- | --- |
|   | a.  | prepaid liabilities |
|   | b.  | revenues |
|   | c.  | prepaid expenses |
|   | d.  | liabilities |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 106. The asset created by a business when it makes a sale on account is termed

|  |  |  |
| --- | --- | --- |
|   | a.  | accounts payable |
|   | b.  | prepaid expense |
|   | c.  | unearned revenue |
|   | d.  | accounts receivable |

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| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 107. The debt created by a business when it makes a purchase on account is referred to as an

|  |  |  |
| --- | --- | --- |
|   | a.  | account payable |
|   | b.  | account receivable |
|   | c.  | asset |
|   | d.  | expense payable |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| 108. If total assets decreased by $88,000 during a period of time and owner's equity increased by $71,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total liabilities would be a(n)

|  |  |  |
| --- | --- | --- |
|   | a.  | $17,000 increase |
|   | b.  | $88,000 decrease |
|   | c.  | $159,000 increase |
|   | d.  | $159,000 decrease |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 109. Owner's withdrawals

|  |  |  |
| --- | --- | --- |
|   | a.  | increase expenses |
|   | b.  | decrease expenses |
|   | c.  | increase cash |
|   | d.  | decrease owner's equity |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 110. How does paying a liability in cash affect the accounting equation?

|  |  |  |
| --- | --- | --- |
|   | a.  | assets increase; liabilities decrease |
|   | b.  | assets increase; liabilities increase |
|   | c.  | assets decrease; liabilities decrease |
|   | d.  | liabilities decrease; owner's equity increases |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 111. How does receiving a bill to be paid next month for services received affect the accounting equation?

|  |  |  |
| --- | --- | --- |
|   | a.  | assets decrease; owner's equity decreases |
|   | b.  | assets increase; liabilities increase |
|   | c.  | liabilities increase; owner's equity increases |
|   | d.  | liabilities increase; owner's equity decreases |

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| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 112. How does the purchase of equipment by signing a note affect the accounting equation?

|  |  |  |
| --- | --- | --- |
|   | a.  | assets increase; assets decrease |
|   | b.  | assets increase; liabilities decrease |
|   | c.  | assets increase; liabilities increase |
|   | d.  | assets increase; owner's equity increases |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 113. Land originally purchased for $30,000 is sold for $62,000 in cash. What is the effect of the sale on the accounting equation?

|  |  |  |
| --- | --- | --- |
|   | a.  | assets increase by $62,000; owner's equity increases by $62,000 |
|   | b.  | assets increase by $32,000; owner's equity increases by $32,000 |
|   | c.  | assets increase by $62,000; liabilities decrease by $30,000; owner's equity increases by $32,000 |
|   | d.  | assets increase by $30,000; no change in liabilities; owner's equity increases by $62,000 |

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| --- | --- |
| *ANSWER:* | b |

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| 114. Which of the following accounts is a liability?

|  |  |  |
| --- | --- | --- |
|   | a.  | Accounts Payable |
|   | b.  | Accounts Receivable |
|   | c.  | Wages Expense |
|   | d.  | Service Revenue |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| 115. Abbie Marson is the sole owner and operator of Great Plains Company. As of the end of its accounting period, December 31, Year 1, Great Plains Company has assets of $940,000 and liabilities of $300,000. During Year 2, Marson invested an additional $73,000 and withdrew $33,000 from the business. What is the amount of net income during Year 2, assuming that as of December 31, Year 2, assets were $995,000 and liabilities were $270,000?

|  |  |  |
| --- | --- | --- |
|   | a.  | $45,000 |
|   | b.  | $50,000 |
|   | c.  | $106,000 |
|   | d.  | $370,000 |

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| --- | --- |
| *ANSWER:* | a |

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| 116. Which of the following asset accounts is increased when a receivable is collected?

|  |  |  |
| --- | --- | --- |
|   | a.  | Accounts Receivable |
|   | b.  | Supplies |
|   | c.  | Accounts Payable |
|   | d.  | Cash |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 117. Transactions affecting owner's equity include

|  |  |  |
| --- | --- | --- |
|   | a.  | owner's investments and payment of liabilities |
|   | b.  | owner's investments, owner's withdrawals, earning of revenues, and incurrence of expenses |
|   | c.  | owner's investments, earning of revenues, incurrence of expenses, and collection of accounts receivable |
|   | d.  | owner's withdrawals, earning of revenues, incurrence of expenses, and purchase of supplies on account |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 118. Michael Anderson is starting a computer programming business and has deposited an initial investment of $15,000 into the business cash account.  Identify how the accounting equation will be affected.

|  |  |  |
| --- | --- | --- |
|   | a.  | increase in assets (Cash) and increase in liabilities (Accounts Payable) |
|   | b.  | increase in assets (Cash) and increase in owner’s equity (Michael Anderson, Capital) |
|   | c.  | increase in assets (Accounts Receivable) and decrease in liabilities (Accounts Payable) |
|   | d.  | increase in assets (Cash) and increase in assets (Accounts Receivable) |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 119. Gomez Service Company paid its first installment on a note payable of $2,000. How will this transaction affect the accounting equation?

|  |  |  |
| --- | --- | --- |
|   | a.  | increase in liabilities (Notes Payable) and decrease in assets (Cash) |
|   | b.  | decrease in assets (Cash) and decrease in owner’s equity (Note Payable Expense) |
|   | c.  | decrease in assets (Cash) and decrease in assets (Notes Receivable) |
|   | d.  | decrease in assets (Cash) and decrease in liabilities (Notes Payable) |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 120. Ramon Ramos has withdrawn $750 from Ramos Repair Company’s cash account to deposit in his personal account. How does this transaction affect Ramos Repair Company’s accounting equation?

|  |  |  |
| --- | --- | --- |
|   | a.  | increase in assets (Accounts Receivable) and decrease in assets (Cash) |
|   | b.  | decrease in assets (Cash) and decrease in owner’s equity (Owner’s Withdrawal) |
|   | c.  | decrease in assets (Cash) and decrease in liabilities (Accounts Payable) |
|   | d.  | increase in assets (Cash) and decrease in owner’s equity (Owner’s Withdrawal) |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 121. Which of the following is **not** a business transaction?

|  |  |  |
| --- | --- | --- |
|   | a.  | Erin deposits $15,000 in a bank account in the name of Erin’s Lawn Service. |
|   | b.  | Erin provided services to customers earning fees of $600. |
|   | c.  | Erin purchased hedge trimmers for her lawn service agreeing to pay the supplier next month. |
|   | d.  | Erin pays her monthly personal credit card bill. |

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| --- | --- |
| *ANSWER:* | d |

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| 122. Which of the following is a business transaction?

|  |  |  |
| --- | --- | --- |
|   | a.  | purchase inventory on account |
|   | b.  | plan advertising for upcoming sale |
|   | c.  | give employees a raise beginning next month |
|   | d.  | submit estimate for construction project |

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| --- | --- |
| *ANSWER:* | a |

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| 123. The financial statement that presents a summary of the revenues and expenses of a business for a specific period of time, such as a month or year, is called a(n)

|  |  |  |
| --- | --- | --- |
|   | a.  | statement of cash flows |
|   | b.  | statement of owner's equity |
|   | c.  | income statement |
|   | d.  | balance sheet |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 124. Which of the following financial statements reports information as of a specific date?

|  |  |  |
| --- | --- | --- |
|   | a.  | income statement |
|   | b.  | statement of owner's equity |
|   | c.  | statement of cash flows |
|   | d.  | balance sheet |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| 125. Four financial statements are usually prepared for a business. The statement of cash flows is usually prepared last. The statement of owner's equity (OE), the balance sheet (B), and the income statement (I) are prepared in a certain order to obtain information needed for the next statement. In what order are these three statements prepared?

|  |  |  |
| --- | --- | --- |
|   | a.  | I,OE, B |
|   | b.  | B, I, OE |
|   | c.  | OE, I, B |
|   | d.  | B,OE, I |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 126. Liabilities are reported on the

|  |  |  |
| --- | --- | --- |
|   | a.  | income statement |
|   | b.  | statement of owner's equity |
|   | c.  | statement of cash flows |
|   | d.  | balance sheet |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 127. Cash investments made by the owner to the business are reported on the statement of cash flows in the

|  |  |  |
| --- | --- | --- |
|   | a.  | financing activities section |
|   | b.  | investing activities section |
|   | c.  | operating activities section |
|   | d.  | supplemental statement |

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| --- | --- |
| *ANSWER:* | a |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 128. The year-end balance of the owner's capital account appears on

|  |  |  |
| --- | --- | --- |
|   | a.  | both the statement of owner's equity and the income statement |
|   | b.  | only the statement of owner's equity |
|   | c.  | both the statement of owner's equity and the balance sheet |
|   | d.  | both the statement of owner's equity and the statement of cash flows |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 129. A financial statement user would determine if a company was profitable or not during a specific period of time by reviewing the

|  |  |  |
| --- | --- | --- |
|   | a.  | income statement |
|   | b.  | balance sheet |
|   | c.  | statement of cash flows |
|   | d.  | statement of retained earnings |

|  |  |
| --- | --- |
| *ANSWER:* | a |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| 130. If an owner wanted to know how money flowed into and out of the company, which financial statement would the owner use?

|  |  |  |
| --- | --- | --- |
|   | a.  | income statement |
|   | b.  | statement of cash flows |
|   | c.  | balance sheet |
|   | d.  | statement of retained earnings |

|  |  |
| --- | --- |
| *ANSWER:* | b |

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| 131. The Assets section of the balance sheet normally presents assets in

|  |  |  |
| --- | --- | --- |
|   | a.  | alphabetical order |
|   | b.  | the order of largest to smallest dollar amounts |
|   | c.  | the order in which they will be converted into cash or used in operations |
|   | d.  | the order of smallest to largest dollar amounts |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 132. All of the following are general-purpose financial statements **except** a(n)

|  |  |  |
| --- | --- | --- |
|   | a.  | balance sheet |
|   | b.  | income statement |
|   | c.  | statement of owner’s equity |
|   | d.  | cash budget |

|  |  |
| --- | --- |
| *ANSWER:* | d |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 133. All of the following statements regarding the ratio of liabilities to owner’s equity are true **except**

|  |  |  |
| --- | --- | --- |
|   | a.  | a ratio of 1 indicates that liabilities equal owner’s equity |
|   | b.  | corporations can use this ratio but substitute total stockholders’ equity for total owner’s equity |
|   | c.  | the higher this ratio, the better able a business is to withstand poor business conditions and pay creditors |
|   | d.  | the lower this ratio, the better able a business is to withstand poor business conditions and pay creditors |

|  |  |
| --- | --- |
| *ANSWER:* | c |

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| 134. Given the following data:  Dec. 31,Year 2       Dec. 31,Year 1Total liabilities            $128,250                 $120,000Total owner’s equity       95,000                     80,000Compute the ratio of liabilities to owner’s equity for each year.  Round to two decimal places.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | a.  | 1.50 and 1.07, respectively | b.  | 1.35 and 1.50, respectively |
|   | c.  | 1.07 and 1.19, respectively | d.  | 1.19 and 1.35, respectively |

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |
| --- |
| Matching |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *Match each of the following businesses with the type of business that best describes it. Each letter may be used more than once.*

|  |  |
| --- | --- |
| a.  | Service business |
| b.  | Manufacturing business |
| c.  | Merchandising business |

 |

|  |  |  |
| --- | --- | --- |
| 135. A hospital

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 136. A dressmaking company

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 137. A supermarket

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 138. A modular homebuilder

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 139. A health club and spa

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 140. A tax preparation firm

|  |  |
| --- | --- |
| *ANSWER:* | a |

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|  |  |  |
| --- | --- | --- |
| 141. A law firm

|  |  |
| --- | --- |
| *ANSWER:* | a |

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|  |  |  |
| --- | --- | --- |
| 142. A men’s clothing store

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 143. A book publisher

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 144. An automobile dealer

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *Match each of the following companies with the type of business that best describes it. Each letter may be used more than once.*

|  |  |
| --- | --- |
| a.  | Service business |
| b.  | Merchandising business |
| c.  | Manufacturing business |

 |

|  |  |  |
| --- | --- | --- |
| 145. Dillard's

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 146. Time Warner Cable

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 147. General Motors

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 148. Redbox

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 149. American Airlines

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 150. Sony

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 151. Best Buy

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 152. Banana Republic

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 153. H&R Block

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Match each of the following users of accounting information to the type of user: internal or external. Each letter may be used more than once.*

|  |  |
| --- | --- |
| a.  | Internal user |
| b.  | External user |

 |

|  |  |  |
| --- | --- | --- |
| 154. Payroll manager

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 155. Bank

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 156. President’s secretary

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 157. Internal Revenue Service

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 158. Raw material vendors

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 159. Social Security Administration

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 160. Health insurance provider

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 161. Managerial accountant

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *Match each of the following characteristics with the form of business entity that it best describes. Each letter may be used more than once.*

|  |  |
| --- | --- |
| a.  | Proprietorship |
| b.  | Partnership |
| c.  | Corporation |
| d.  | Limited liability company (LLC) |

 |

|  |  |  |
| --- | --- | --- |
| 162. Comprises 70% of business entities in the United States

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 163. Generates 90% of business revenues

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 164. Owned by two or more individuals

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 165. Organized as a separate legal taxable entity

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 166. Easy and cheap to organize

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 167. Often used as an alternative to a partnership

|  |  |
| --- | --- |
| *ANSWER:* | d |

 |

|  |  |  |
| --- | --- | --- |
| 168. Used by large business

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 169. Has the ability to obtain large amounts of resources

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 170. Offers tax and legal liability advantages for owners

|  |  |
| --- | --- |
| *ANSWER:* | d |

 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *Match each of the following accounts with the account type that best describes it. Each letter may be used more than once.*

|  |  |
| --- | --- |
| a.  | Asset |
| b.  | Liability |
| c.  | Owner's equity |

 |

|  |  |  |
| --- | --- | --- |
| 171. Accounts payable

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 172. Wages expense

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 173. Joan Smith, Capital

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 174. Accounts Receivable

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 175. Joan Smith, Drawing

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 176. Land

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *Match each transaction with its effect on the accounting equation. Each letter may be used more than once.*

|  |  |
| --- | --- |
| a.  | Increase assets, increase liabilities |
| b.  | Increase liabilities, decrease owner’s equity |
| c.  | Increase assets, increase owner’s equity |
| d.  | No effect |
| e.  | Decrease assets, decrease liabilities |
| f.  | Decrease assets, decrease owner’s equity |

 |

|  |  |  |
| --- | --- | --- |
| 177. Received cash for services provided

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 178. Paid the utility bill

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 179. Investment of land by owner

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 180. Paid part of an amount owed to a creditor

|  |  |
| --- | --- |
| *ANSWER:* | e |

 |

|  |  |  |
| --- | --- | --- |
| 181. Paid cash for the purchase of a one-year insurance policy

|  |  |
| --- | --- |
| *ANSWER:* | d |

 |

|  |  |  |
| --- | --- | --- |
| 182. Received payment from a customer on account

|  |  |
| --- | --- |
| *ANSWER:* | d |

 |

|  |  |  |
| --- | --- | --- |
| 183. Cash withdrawal by owner

|  |  |
| --- | --- |
| *ANSWER:* | f |

 |

|  |  |  |
| --- | --- | --- |
| 184. Provided a service to a customer on account

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 185. Purchased supplies on credit

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 186. Paid wages

|  |  |
| --- | --- |
| *ANSWER:* | f |

 |

|  |  |  |
| --- | --- | --- |
| 187. Cash investment by owner

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 188. Borrowed money from a bank

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 189. Purchased equipment for cash

|  |  |
| --- | --- |
| *ANSWER:* | d |

 |

|  |  |  |
| --- | --- | --- |
| 190. Received cash for providing services to customers

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 191. Used up supplies that were already on hand

|  |  |
| --- | --- |
| *ANSWER:* | f |

 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Match each of the following items to its effect on owner’s equity.  Each letter may be used more than once.*

|  |  |
| --- | --- |
| a.  | Increases owner’s equity |
| b.  | Decreases owner’s equity |

 |

|  |  |  |
| --- | --- | --- |
| 192. Fees earned

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 193. Wages expense

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 194. Withdrawals

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 195. Lawn care revenue

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 196. Additional investment in the business

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 197. Supplies expense

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *Match each of the following characteristics with the financial statement that it best describes. Each letter may be used more than once.*

|  |  |
| --- | --- |
| a.  | Income statement |
| b.  | Balance sheet |
| c.  | Statement of owner’s equity |
| d.  | Statement of cash flows |

 |

|  |  |  |
| --- | --- | --- |
| 198. Reports as of a specific date

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 199. The first statement prepared

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 200. Has three sections: operating, investing, and financing

|  |  |
| --- | --- |
| *ANSWER:* | d |

 |

|  |  |  |
| --- | --- | --- |
| 201. Reports only revenues and expenses

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 202. The second statement prepared

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 203. A formal presentation of the accounting equation

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 204. The connecting link between the income statement and balance sheet

|  |  |
| --- | --- |
| *ANSWER:* | c |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *Match each of the following items to the financial statement(s) where it can be found. Each letter may be used more than once.*

|  |  |
| --- | --- |
| a.  | Balance sheet |
| b.  | Income statement |
| c.  | Statement of cash flows |
| d.  | Statement of owner’s equity |

 |

|  |  |  |
| --- | --- | --- |
| 205. Increase in owner's equity

|  |  |
| --- | --- |
| *ANSWER:* | d |

 |

|  |  |  |
| --- | --- | --- |
| 206. Revenues

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 207. Supplies

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 208. Land

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 209. Accounts payable

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 210. Accounts receivable

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 211. Operating activities

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 212. Wages expense

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 213. Fees earned

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 214. Net increase in cash

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *Match each of the following activities to the section in which it would be reported on the statement of cash flows. Each letter may be used more than once.*

|  |  |
| --- | --- |
| a.  | Cash Flows from (Used for) Operating Activities |
| b.  | Cash Flows from (Used for) Investing Activities |
| c.  | Cash Flows from (Used for) Financing Activities |
| d.  | Does not appear on the statement of cash flows |

 |

|  |  |  |
| --- | --- | --- |
| 215. Cash paid for building

|  |  |
| --- | --- |
| *ANSWER:* | b |

 |

|  |  |  |
| --- | --- | --- |
| 216. Cash paid to suppliers

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 217. Cash paid to owner for personal use

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 218. Cash received from customers

|  |  |
| --- | --- |
| *ANSWER:* | a |

 |

|  |  |  |
| --- | --- | --- |
| 219. Cash received from owner as additional investment in the business

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |  |  |
| --- | --- | --- |
| 220. Cash received from sale of a building

|  |  |
| --- | --- |
| *ANSWER:* | b |

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|  |  |  |
| --- | --- | --- |
| 221. Borrowed cash from a bank

|  |  |
| --- | --- |
| *ANSWER:* | c |

 |

|  |
| --- |
| Subjective Short Answer |

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| --- | --- | --- |
| 222. Discuss internal and external users of accounting information. What areas of accounting provide them with information? Give an example of the type of report each type of user might use.

|  |  |
| --- | --- |
| *ANSWER:* | Internal users of accounting information include managers and employees. The area of accounting that provides internal users with information is called managerial accounting or management accounting. An example of a report that might be used internally is a customer profitability report.​External users of accounting information include customers, creditors, banks, and government entities. These users are not directly involved in managing or operating the business. The area of accounting that provides external users with information is called financial accounting. General-purpose financial statements are one type of financial accounting report that is distributed to external users. |

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| --- | --- | --- |
| 223. Companies like Enron, WorldCom, and Tyco International, Ltd. have been caught in the midst of ethical lapses that led to fines, firings, and criminal and/or civil prosecution. List and briefly describe three factors that are responsible for what went wrong in these companies.

|  |  |
| --- | --- |
| *ANSWER:* | The three factors are: (1) individual character, (2) firm culture, and (3) lack of laws and enforcement. Honesty, integrity, and fairness in the face of pressure to hide the truth are important characteristics of an ethical businessperson. The behavior and attitude of senior management set the firm’s culture. In firms like Enron, senior managers created a culture of greed and indifference to the truth. That culture flowed down to lower-level managers, who took shortcuts and lied to cover financial frauds. The lack of laws and enforcement has been blamed as a contributing factor to financial reporting abuses. As a result, new laws such as the Sarbanes-Oxley Act (SOX) established a new oversight body for the accounting profession, known as the Public Company Accounting Oversight Board (PCAOB), and established standards to enhance corporate accountability, financial disclosures, and independence. |

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| --- | --- | --- |
| 224. List the five steps in the process by which accounting provides information to users.

|  |  |
| --- | --- |
| *ANSWER:* | 1. Identify users.2. Assess users’ information needs.3. Design the accounting information system to meet users’ needs.4. Record economic data about business activities and events.5. Prepare accounting reports for users. |

 |

|  |  |  |
| --- | --- | --- |
| 225. What is the major difference between the objective of financial accounting and the objective of managerial accounting?

|  |  |
| --- | --- |
| *ANSWER:* | The objective of financial accounting is to provide information for the decision-making needs of external users. The objective of managerial accounting is to provide information for internal users. |

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|  |  |  |
| --- | --- | --- |
| 226. Give the major disadvantage of disregarding the cost concept and constantly revaluing assets based on appraisals and opinions.

|  |  |
| --- | --- |
| *ANSWER:* | Accounting reports would become unstable and unreliable. |

 |

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| --- | --- | --- |
| 227. Explain the meaning of the business entity concept.

|  |  |
| --- | --- |
| *ANSWER:* | The business entity concept limits the economic data in an accounting system to data related directly to the activities of the business. In other words, the business is viewed as an entity separate from its owners, creditors, or other businesses. |

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| --- | --- | --- |
| 228. Darnell Company purchased $88,000 of computer equipment from Joseph Company. Darnell Company paid for the equipment using cash that had been obtained from the initial investment by Donnie Darnell.​Which entity or entities (Darnell Company, Joseph Company, and Donnie Darnell) should record the transaction involving the computer equipment on their accounting records?

|  |  |
| --- | --- |
| *ANSWER:* | Darnell Company and Joseph Company |

 |

|  |  |  |
| --- | --- | --- |
| 229. Bob Johnson is the sole owner of Johnson’s Carpet Cleaning Service. Bob purchased a personal automobile for $10,000 cash plus he took out a loan for $20,000 in his name. Describe how this transaction is related to the business entity concept.

|  |  |
| --- | --- |
| *ANSWER:* | Under the business entity concept, economic data are limited to the direct activities of the business. The business is viewed as separate from its owner. Therefore, when Bob buys a personal automobile, it is not listed on the books of Johnson’s Carpet Cleaning Service, unless Bob invests it in the business. In this case, the loan is a personal debt and not a liability of the company, and the cash is from Bob’s personal account and not the company’s account. |

 |

|  |  |  |
| --- | --- | --- |
| 230. Discuss the characteristics of a limited liability company (LLC).

|  |  |
| --- | --- |
| *ANSWER:* | A limited liability company (LLC) combines the attributes of a partnership and a corporation. It is often used as an alternative to a partnership because it has tax and legal liability advantages for owners. |

 |

|  |  |  |
| --- | --- | --- |
| 231. Explain the meaning of:(a) the objectivity concept(b) the unit of measure concept

|  |  |
| --- | --- |
| *ANSWER:* | (a)  The objectivity concept requires that the amounts recorded in the accounting records be based on objective evidence. In exchanges between a buyer and a seller, both try to get the best price. Only the final agreed-upon amount is objective enough to be recorded in the accounting records.(b) The unit of measure concept requires that economic data be recorded in dollars. Money is a common unit of measurement for entering financial data and preparing reports. |

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| --- | --- | --- | --- | --- | --- | --- |
| 232. Dave Ryan is the owner and operator of Ryan's Arcade. At the end of its accounting period, December 31, Ryan’s Arcade has assets of $450,000 and liabilities of $125,000. Using the accounting equation, determine the following amounts:

|  |  |
| --- | --- |
| (a) | owner’s equity as of December 31 of the current year |
| (b) | owner’s equity as of December 31 at the end of the next year, assuming that assets increased by $65,000 and liabilities increased by $35,000 during the year |

|  |  |
| --- | --- |
| *ANSWER:* | (a) $325,000 ($450,000 − $125,000**)**(b) $355,000 [($450,000 + $65,000) − ($125,000 + $35,000)] |

 |

|  |  |  |
| --- | --- | --- |
| 233. Krammer Company has liabilities equal to one-fourth of the total assets. Krammer’s owner’s equity is $45,000. Using the accounting equation, what is the amount of liabilities for Krammer?

|  |  |
| --- | --- |
| *ANSWER:* | Assets = Liabilities + Owner’s Equity4x = x + $45,0003x = $45,000x = $15,000 in liabilities |

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| 234. Determine the missing amount for each of the following:

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| --- | --- | --- |
|   Assets | Liabilities | Owner's Equity |
|      (a) | $38,000 | $45,000 |
| $30,000 | (b) |   22,000 |
|  53,000 |   32,000 | (c) |

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| *ANSWER:* |

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| (a) | $83,000 ($38,000 + $45,000) |
| (b) | $8,000 ($30,000 – $22,000) |
| (c) | $21,000 ($53,000 – $32,000) |

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| 235. Determine the missing amount designated with an “X” for each of the following:

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| Assets | Liabilities | Owner’s Equity |
| (a)             $78,500 | $37,600 |                           X |
| (b)                       X |  53,280 |               $145,000 |
| (c)               49,500 |                           X |                   34,000 |

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| *ANSWER:* | (a)  $40,900 ($78,500 − $37,600)(b)  $198,280 ($53,280 + $145,000)(c)  $15,500 ($49,500 − $34,000) |

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| 236. Use the accounting equation to answer each of the following independent questions.​(a) At the beginning of the year, Norton Company's assets were $75,000 and its owner’s equity was $38,000. During     the year, assets increased by $18,000 and liabilities increased by $4,000. What was the owner’s equity at the     end of the year?​(b)  At the beginning of the year, Turpin Industries had liabilities of $44,000 and owner’s equity of $66,000. If assets      increased by $10,000 and liabilities decreased by $5,000, what was the owner’s equity at the end of the year?

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| *ANSWER:* | (a)  $75,000 − $38,000 = $37,000 beginning of year liabilities     ($75,000 + $18,000) − ($37,000 + $4,000) = $52,000 end-of-year owner’s equity​(b)  $44,000 + $66,000 = $110,000 beginning of year assets     ($110,000 + $10,000) − ($44,000 − $5,000) = $81,000 end-of-year owner’s equity |

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| The accountant for Scott Industries prepared the following list of accounting equation element balances from the company’s records for the year ended December 31:

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| --- | --- | --- | --- | --- | --- |
|   | Fees earned | $165,000 |   | Cash | $30,000 |
|   | Accounts receivable | 14,000 |   | Selling expenses | 44,000 |
|   | Equipment | 64,000 |   | Scott, capital | 27,000 |
|   | Accounts payable | 12,000 |   | Interest revenue | 3,000 |
|   | Salaries and wages expense | 40,000 |   | Prepaid rent | 2,000 |
|   | Income tax payable | 5,000 |   | Income tax expense | 18,000 |
|   | Notes payable | 20,000 |   | Rent expense | 20,000 |

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| 237. Determine the total assets at the end of the current year for Scott Industries.

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| *ANSWER:* | $110,000($30,000 Cash + $14,000 Accounts Receivable + $64,000 Equipment + $2,000 Prepaid Rent = $110,000) |

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| 238. Determine the total liabilities at the end of the current year for Scott Industries.

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| *ANSWER:* | $37,000($12,000 Accounts Payable + $5,000 Income Taxes Payable + $20,000 Notes Payable = $37,000) |

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| 239. Based on the information for Scott Industries, is it profitable?  Explain your answer.

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| *ANSWER:* | Yes, Scott Industries is profitable.($165,000 Fees Earned + $3,000 Interest Revenue) − ($40,000 Salaries and Wages Expense + $44,000 Selling Expenses + $18,000 Income Tax Expense + $20,000 Rent Expense) = $46,000 Net IncomeScott Industries had net income for the period of $46,000. Since revenues exceeded expenses for the period, the company would be considered profitable. |

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| 240. On July 1 of the current year, the assets and liabilities of John Wong, DVM, are as follows: Cash, $27,000; Accounts Receivable, $12,300; Supplies, $3,100; Land, $35,000; Accounts Payable, $13,900. What is the amount of owner's equity (John Wong’s capital) as of July 1 of the current year?

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| *ANSWER:* | $63,500($27,000 Cash + $12,300 Accounts Receivable + $3,100 Supplies + $35,000 Land − $13,900 Accounts Payable = $63,500) |

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| 241. Ting Hsu is the owner of Hsu’s Financial Services. At the end of its accounting period, December 31, of Year 1, Hsu’s has assets of $575,000 and owner’s equity of $335,000. Using the accounting equation and considering each case independently, determine the following amounts:​(a) Hsu’s liabilities as of December 31 of Year 1.(b) Hsu’s liabilities as of December 31 of Year 2, assuming that assets increased by $56,000 and                             owner’s equity decreased by $32,000.(c) Net income or net loss during Year 2, assuming that as of December 31, Year 2, assets were $592,000,     liabilities were $450,000, and there were no additional investments or withdrawals.

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| *ANSWER:* | (a) $575,000 − $335,000 = $240,000(b) ($575,000 + $56,000) − ($335,000 − $32,000) = $328,000(c) $592,000 − $450,000 = $142,000 owner's equity (Year 2)     $335,000 − $142,000 = $193,000 net loss  |

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| 242. Martin Blair is the owner and operator of Martin Consultants. At December 31 of the current year, Martin Consultants has assets of $430,000 and liabilities of $205,000. Using the accounting equation and considering each case independently, determine the following:​(a) Martin Blair, capital, as of December 31.(b) Martin Blair, capital, as of December 31 of the next year, assuming that assets increased by $12,000    and liabilities increased by $15,000.(c) Martin Blair, capital, as of December 31 of the next year, assuming that assets decreased by $8,000    and liabilities increased by $14,000.

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| *ANSWER:* | (a)  $430,000 − $205,000 = $225,000(b)  ($430,000 + $12,000) − ($205,000 + $15,000) = $222,000(c)  ($430,000 − $8,000) − ($205,000 + $14,000) = $203,000 |

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| 243. Daniels Company is owned and operated by Thomas Daniels. The following selected transactions were completed by Daniels Company during May:

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| --- | --- |
| 1. | Received cash from owner as additional investment, $55,000. |
| 2. | Paid creditors on account, $7,000. |
| 3. | Billed customers for services on account, $2,565. |
| 4. | Received cash from customers on account, $8,450. |
| 5. | Paid cash to owner for personal use, $2,500. |
| 6. | Paid the utility bill, $160. |

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| Indicate the effect of each transaction on the accounting equation by: |
| (a) | Accounting equation element type: (A) assets, (L) liabilities, (OE) owner’s equity, (R) revenue, and (E) expense |
| b) | Name of accounting equation element |
| c) | The amount of the transaction |
| d) | The direction of change (increase or decrease) in the account affected |

*Note*:  Each transaction has two entries.

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| **Entry** | **Entry** |
|   | **Accounting Equation Element Type** **(a)** | **Name of Accounting Equation Element****(b)** | ​**Amount****(c)** | **Increase or Decrease****(d)** | **Accounting Equation Element  Type(a)** | **Name of Accounting Equation Element****(b)** | ​**Amount(c)** | **Increase or Decrease****(d)** |
| 1 |   |   |   |   |   |   |   |   |
| 2 |   |   |   |   |   |   |   |   |
| 3 |   |   |   |   |   |   |   |   |
| 4 |   |   |   |   |   |   |   |   |
| 5 |   |   |   |   |   |   |   |   |
| 6 |   |   |   |   |   |   |   |   |

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| *ANSWER:* | ​

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| --- | --- |
| **Entry** | **Entry** |
|   | **Accounting Equation Element****Type****(a)** | **Name of Accounting Equation Element****(b)** | ​**Amount****(c)** | **Increase or Decrease****(d)** | **Accounting Equation Element  Type(a)** | **Name of Accounting Equation Element****(b)** | ​**Amount(c)** | **Increase or Decrease****(d)** |
| 1 | A | Cash | $55,000 | Increase | OE | Capital | $55,000 | Increase |
| 2 | A | Cash | $7,000 | Decrease | L | Accounts Payable | $7,000 | Decrease |
| 3 | A | Accounts Receivable | $2,565 | Increase | R | Fees Earned | $2,565 | Increase |
| 4 | A | Cash | $8,450 | Increase | A | Accounts Receivable | $8,450 | Decrease |
| 5 | A | Cash | $2,500 | Decrease | OE | Drawing | $2,500 | Increase |
| 6 | A | Cash | $160 | Decrease | E | Utilities Expense | $160 | Increase |

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| 244. Collins Landscape Company purchased various landscaping supplies on account to be used for landscape designs for its customers. How will this business transaction affect the accounting equation?

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| *ANSWER:* | Increase assets (Supplies) and increase liabilities (Accounts Payable) |

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| 245. Shiny Kar Company had the following transactions. For each transaction, show the effect on the accounting equation by putting the amount and direction (+, –, or NC for no change) in each box of the following table.

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| --- | --- | --- | --- |
|   | **Assets** | **Liabilities** | **Owner’s Equity** |
| (a)  Shiny Kar withdrew $500 cash for food |   |   |   |
| (b)  Shiny Kar Company sold 2 cars for a total of $55,000 on account |   |   |   |
| (c)  The cost of the cars sold in (b) above was $40,000 |   |   |   |
| (d)  Shiny Kar received a $35,000 payment for a car     previously sold on account |   |   |   |
| (e)  Shiny Kar paid $450 for advertising |   |   |   |
| (f)  Shiny Kar purchased $150 of cleaning supplies on account |   |   |   |

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| *ANSWER:* |

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| --- | --- | --- | --- |
|   | **Assets** | **Liabilities** | **Owner’s Equity** |
| (a) |  −$500 |               NC |   −$500 |
| (b) |      +$55,000 |               NC |     +$55,000 |
| (c) | −$40,000 |               NC |  −$40,000 |
| (d) |                NC |               NC |               NC |
| (e) |  −$450 |               NC |   −$450 |
| (f) |           +$150 |          +$150 |               NC |

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| 246. Ramirez Company received its first electric bill in the amount of $60 which will be paid next month. How will this transaction affect the accounting equation?

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| *ANSWER:* | Increase liabilities (Accounts Payable) and decrease owner’s equity (Utilities Expense) |

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| 247. Simpson Auto Body Repair purchased $20,000 of machinery. The company paid $8,000 in cash at the time of the purchase and signed a promissory note for the remainder to be paid in four monthly installments.  ​(a) How will the purchase affect the accounting equation?(b) How will the payment of the first monthly installment affect the accounting equation (ignore interest)?

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| *ANSWER:* | (a)  Increase total assets by a net amount of $12,000 (increase Machinery,      $20,000 and decrease Cash, $8,000) and increase liabilities by $12,000 (Notes      Payable, $12,000)(b)  Decrease assets by $3,000 (decrease Cash,$3,000) and decrease liabilities by      $3,000 (Notes Payable,$3,000) |

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| 248. Indicate how the following transactions affect the accounting equation.​(a) The purchase of supplies on account(b) The purchase of supplies for cash(c) A withdrawal by the owner to pay personal expenses(d) Revenues received in cash(e) Sale made on account

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| *ANSWER:* | (a) Assets increase; liabilities increase(b) No effect(c) Assets decrease; owner's equity decreases(d) Assets increase; owner’s equity increases(e) Assets increase; owner’s equity increases |

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| 249. (a) A vacant lot acquired for $83,000 cash is sold for $127,000 in cash. What is the effect of the sale on the     total amount of the seller’s (1) assets, (2) liabilities, and (3) owner’s equity?​(b) Assume that the seller owes $52,000 for the land. After receiving the $127,000 cash in (a), the     seller pays the $52,000 owed. What is the effect of the payment on the total amount of the seller’s (1) assets,     (2) liabilities, and (3) owner’s equity?

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| *ANSWER:* | (a) (1) Total assets increased $44,000     (2) No change in liabilities     (3) Owner’s equity increased $44,000​(b) (1) Total assets decreased $52,000      (2) Total liabilities decreased $52,000      (3) No change in owner’s equity |

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| 250. Austin Land Company sold land for $85,000 in cash. The land was originally purchased for $65,000.  At the time of the sale, $40,000 was still owed to Regions Bank. After the sale, Austin Land Company paid off the loan. Explain the effect of the sale and the payoff of the loan on the accounting equation.

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| *ANSWER:* | Total assets decrease $20,000 (Cash increases by $45,000;  Land decreases by $65,000)Total liabilities decrease $40,000 (Note payoff to Regions)Owner's equity increases $20,000 (Sales price − Cost of the land) |

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| 251. There are four transactions that affect owner’s equity.  ​(a) What are the two types of transactions that increase owner’s equity?(b) What are the two types of transactions that decrease owner’s equity?

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| *ANSWER:* | (a) Additional investment by the owner and increase in revenues(b) Withdrawal made by the owner and increase in expenses |

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| 252. Given the following:​Beginning capital          $58,000Ending capital                 30,000Owner's withdrawals       25,000​Determine net income or net loss.

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| *ANSWER:* |

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| Ending capital         | $ 30,000 |
| Beginning capital   |    58,000 |
| Decrease in capital | $(28,000) |
| Withdrawals |   (25,000) |
| Net loss | $  (3,000) |

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| 253. The following selected transactions are completed by a proprietorship. Indicate the effects of each transaction on assets, liabilities, and owner's equity by inserting "+" for increase and "−" for decrease in the appropriate columns at the right. If appropriate, you may insert more than one symbol in a column.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   |   | A | L | OE |
| (a) | Received cash from owner as an additional investment | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (b) | Purchased supplies on account | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (c) | Paid rent for the current month | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (d) | Received cash for services sold to customers | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (e) | Paid cash to creditor for purchases in (b) | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (f) | Billed customers for services sold on account | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (g) | Received cash on account from customers | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (h) | Owner withdrew cash for personal use | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (i) | Recorded the cost of supplies used during the year | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (j) | Paid wages | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (k) | Purchased a truck for cash | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |

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| *ANSWER:* |

|  |  |  |  |
| --- | --- | --- | --- |
|   | A | L | OE |
| (a) | + |   | + |
| (b) | + | + |   |
| (c) | − |   | − |
| (d) | + |   | + |
| (e) | − | − |   |
| (f) | + |   | + |
| (g) | +,− |   |   |
| (h) | − |   | − |
| (i) | − |   | − |
| (j) | − |   | − |
| (k) | +,− |   |   |

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| 254. The following selected transactions are completed by a proprietorship. Indicate the effects of each transaction on assets, liabilities, and owner's equity by inserting "+" for increase and "−" for decrease in the appropriate columns at the right.  If appropriate, you may insert more than one symbol in a column.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   |   | A | L | OE |
| (a) | Received cash from owner as initial investment | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (b) | Purchased supplies, paying cash | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (c) | Paid creditors on account | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (d) | Received cash from customers on account | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (e) | Paid utilities expense | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |

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| *ANSWER:* |

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| --- | --- | --- | --- |
|   | A | L | OE |
| (a) | + |   | + |
| (b) | +,− | ​ |   |
| (c) | − | −  |   |
| (d) | −,+ |   | ​ |
| (e) | − |   | −  |

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| 255. The following selected transactions are completed by a proprietorship.  Indicate the effects of each transaction on assets, liabilities, and owner's equity by inserting "+" for increase and "−" for decrease in the appropriate columns at the right.  If appropriate, you may insert more than one symbol in a column.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   |   | A | L | OE |
| (a) | Paid rent expense | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (b) | Purchased supplies on account | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (c) | Received cash for providing services to customers | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (d) | Billed customers for services on account | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (e) | Paid cash to owner for personal use | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |

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| *ANSWER:* |

|  |  |  |  |
| --- | --- | --- | --- |
|   | A | L | OE |
| (a) | − |   | − |
| (b) | + | + |   |
| (c) | + |   | + |
| (d) | + |   | + |
| (e) | − |   | −  |

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| 256. The following selected transactions are completed by a proprietorship. Indicate the effects of each transaction on assets, liabilities, and owner's equity by inserting "+" for increase and "−" for decrease in the appropriate columns at the right. If appropriate, you may insert more than one symbol in a column.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   |   | A | L | OE |
| (a) | Purchased land with cash | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (b) | Received cash from customers on account | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (c) | Determined the amount of supplies used this month | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (d) | Received cash from owner as additional investment | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |
| (e) | Paid miscellaneous expense | \_\_\_\_\_ | \_\_\_\_\_ | \_\_\_\_\_ |

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| *ANSWER:* |

|  |  |  |  |
| --- | --- | --- | --- |
|   | A | L | OE |
| (a) | −, + |   | − |
| (b) | +, − | ​ |   |
| (c) | − |   | − |
| (d) | + |   | + |
| (e) | − |   |  −  |

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| 257. Use the following data for Flagger Company to prepare an income statement for the year ended December 31:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|   | Fees earned | $168,000 |   | Cash | $30,000 |
|   | Accounts receivable | 14,000 |   | Selling expenses | 44,000 |
|   | Equipment | 42,000 |   | Flagger, capital | 36,000 |
|   | Accounts payable | 12,000 |   | Rent expense | 51,000 |
|   | Salaries and wages expense | 40,000 |   | Prepaid rent | 2,000 |
|   | Income tax payable | 5,000 |   | Income tax expense | 18,000 |
|   | Notes payable | 20,000 |   |   | ​ |

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| *ANSWER:* |

|  |
| --- |
| Flagger Company |
| Income Statement |
| For the Year Ended December 31 |
| Fees earned | ​ | $168,000  |
| Expenses: |   |   |
|  Rent expense | $51,000 |   |
|  Selling expenses | 44,000 |   |
|  Salary and wages expense | 40,000 |   |
|  Income tax expense |  18,000 |  |
|                  Total expenses |   |   153,000 |
| Net income |   |   | $  15,000 |

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| The assets and liabilities of Thompson Computer Services at March 31, the end of the current year, and its revenue and expenses for the year follow. The capital of the owner was $180,000 at April 1, the beginning of the current year. Mr. Thompson invested an additional $25,000 in the business during the year.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Accounts payable | $   2,000 |   | Miscellaneous expense | $  1,030 |
| Accounts receivable | 10,340 |   | Office expense | 1,240 |
| Cash | 21,420 |   | Supplies | 1,670 |
| Fees earned | 73,450 |   | Wages expense | 23,550 |
| Land | 47,000 |   | Drawing | 16,570 |
| Building | 157,630 |   |   |   |

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| 258. Prepare an income statement for the current year ended March 31.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | ​

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| --- |
| Thompson Computer ServicesIncome StatementFor the Year Ended March 31 |
|  Fees earned |   | $73,450 |
|  Expenses: |   |   |
|      Wages expense | $23,550 |   |
|      Office expense | 1,240 |   |
|      Miscellaneous expense |          1,030 |   |
|        Total expenses |   |   25,820 |
|  Net income |   | $47,630 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 259. Prepare a statement of owner’s equity for Thompson Computer Services for the current year ended March 31.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | ​

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| --- |
| Thompson Computer ServicesStatement of Owner’s EquityFor the Year Ended March 31 |
| Thompson, capital, April 1 |   |  $180,000 |
| Additional investment by owner during year |    $25,000  |   |
| Net income for the year |   47,630  |   |
| Withdrawals |   (16,570) |   |
| Increase in owner’s equity | ​ |    56,060 |
| Thompson, capital, March 31 |   | $236,060 |

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| 260. Prepare a balance sheet for Thompson Computer Services for the current year ended March 31.

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| *ANSWER:* | ​

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| --- |
| Thompson Computer ServicesBalance SheetMarch 31 |
| **Assets** |   | **Liabilities** |   |
| Cash | $ 21,420 |      Accounts payable | $   2,000 |
| Accounts receivable | 10,340 |  |   |
| Supplies | 1,670 |   |   |
| Land | 47,000 | **Owner’s Equity** |   |
| Building |  157,630 |      Thompson capital |  236,060 |
| ​Total assets | ​$238,060 |      Total liabilities and        owner’s equity | ​$238,060 |

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| 261. A summary of cash flows for Linda's Design Services for the year ended December 31 is as follows:

|  |  |
| --- | --- |
| Cash receipts: |   |
|      Cash received from customers | $83,990 |
|      Cash received from additional investment by owner | 25,000 |

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|  |  |
| --- | --- |
| Cash payments: |   |
|      Cash paid for expenses and supplies | $27,410 |
|      Cash paid for land | 47,000 |
|      Cash paid to owner for personal use | 5,000 |
|   |   |
| Cash balance as of January 1 | $40,600 |

​Prepare a statement of cash flows for Linda's Design Services for the year ended December 31.​

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* | ​

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| --- |
| Linda's Design ServicesStatement of Cash FlowsFor the Year Ended December 31 |
| Cash flows from (used for) operating activities: |
| Cash received from customers | $83,990 |
| Cash paid for expenses and supplies | (27,410) |
| Net cash flows from operating activities | $ 56,580 |
| Cash flows from (used for) investing activities: |   |
| Cash paid for land |  (47,000) |
|  Cash flows from (used for) financing activities: |   |
| Cash received from owner as investment | $25,000 |
| Cash withdrawal by owner |   (5,000) |
| Net cash flows from financing activities |       20,000 |
| Net increase in cash |  $29,580 |
| Cash balance,  January 1 |         40,600 |
| Cash balance, December 31 | $70,180 |

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| 262. What information does the income statement give to business users?

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| --- | --- |
| *ANSWER:* | The income statement reports the revenues and expenses for a period of time. The result is either a net income or a net loss. |

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| 263. What are the three sections of the statement of cash flows?

|  |  |
| --- | --- |
| *ANSWER:* | Cash Flows from (Used for) Operating Activities, Cash Flows from (Used for) Investing Activities, and Cash Flows from (Used for) Financing Activities |

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| 264. Name and describe the four primary financial statements for a proprietorship.

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| --- | --- |
| *ANSWER:* | 1. Income statement: A summary of the revenue and expenses *for a specific    period of time*, such as a month or a year.​2. Statement of owner’s equity: A summary of the changes in the owner’s    equity that have occurred *during a specific period of time* such as a    month or a year.​3. Balance sheet: A list of the assets, liabilities, and owner’s equity *as of a    specific date*, usually at the close of the last day of a month or a year.​4. Statement of cash flows: A summary of the cash receipts and cash payments    for a *specific period of time*, such as a month or a year. |

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| 265. A summary of cash flows for Evelyn's Event Planning for the year ended December 31 is as follows:

|  |  |
| --- | --- |
| Cash receipts: |   |
|      Cash received from customers | $57,360 |
|      Cash received from bank loan | 15,000 |

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|  |  |
| --- | --- |
| Cash payments: |   |
|      Cash paid for expenses and supplies | $21,600 |
|      Cash paid for equipment | 18,070 |
|      Cash paid to the owner for personal use | 12,000 |
|   |   |
| Cash balance as of January 1 | $15,580 |

​Prepare a statement of cash flows for Evelyn's Event Planning for the year ended December 31.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* | ​

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| --- |
| Evelyn's Event PlanningStatement of Cash FlowsFor the Year Ended December 31 |
| Cash flows from (used for) operating activities: |
| Cash received from customers | $57,360 |
| Cash paid for expenses and supplies | (21,600) |
| Net cash flows from operating activities | $35,760 |
|   |   |
| Cash flows from (used for) investing activities: |   |
| Cash paid for equipment | (18,070) |
|   |   |
| Cash flows from (used for) financing activities: |
| Cash received from bank loan | $15,000 |
| Cash withdrawals by owner | (12,000) |
|           Net cash flows from financing activities |     3,000 |
| Net increase in cash |  $20,690 |
| Cash balance, January 1 |     15,580 |
| Cash balance, December 31 | $36,270 |

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| 266. The assets and liabilities of Rocky's Day Spa at December 31 and its expenses for the year follow. The capital of the owner was $68,000 at January 1. The owner invested an additional $10,000 during the year. Net income for the year is $45,625.

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $  4,375 |  Spa operating expense | $23,760 |
| Accounts receivable | 8,490 |  Office expense | 2,470 |
| Cash | 13,980 |  Spa supplies | 9,230 |
| Fees earned | ??? |  Wages expense | 26,580 |
| Spa furniture and equipment | 56,000 |  Drawing | 38,170 |
| Computers | 2,130 |   |   |

​Prepare an income statement for the current year ended December 31.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | ​

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| --- |
| Rocky's Day SpaIncome StatementFor the Year Ended December 31 |
|  Fees earned |   | $98,435 |
|  Expenses: |   |   |
|      Wages expense | $26,580 |   |
|      Spa operating expense | 23,760 |   |
|      Office expense |    2,470 |   |
| Total expenses |   |   52,810 |
|  Net income |   | $45,625 |

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| 267. The assets and liabilities of Rocky's Day Spa on December 31 and its revenue and expenses for the year follow. The capital of the owner was $68,000 on January 1. The owner invested an additional $10,000 during the year.

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable | $  4,375 |  Spa operating expense | $23,760 |
| Accounts receivable | 8,490 |  Office expense | 2,470 |
| Cash | ??? |  Spa supplies | 9,230 |
| Fees earned | 98,435 |  Wages expense | 26,580 |
| Spa furniture and equipment | 56,000 |  Drawing | 38,170 |
| Computers | 2,130 |   |   |

​Prepare a balance sheet for the year ended December 31.​

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *ANSWER:* | ​

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| --- |
| Rocky's Day SpaBalance SheetDecember 31 |
| **Assets** |   | **Liabilities** |   |
| Cash | $13,980 |      Accounts payable | $ 4,375 |
| Accounts receivable | 8,490 |   |   |
| Spa supplies | 9,230 |   |   |
| Computers | 2,130 | **Owner’s Equity** |   |
| Spa furniture and equipment |   56,000 |      Owner's capital |   85,455 |
| Total assets |   $89,830 |      Total liabilities and       owner’s equity | $89,830 |

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| 268. The assets and liabilities of Rocky's Day Spa on December 31 and its revenue and expenses for the year follow. The capital of the owner is $68,000 on January 1. The owner invested an additional $10,000 during the year.

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| --- | --- | --- | --- |
| Accounts payable | $  4,375 |  Spa operating expense | $23,760 |
| Accounts receivable | 8,490 |  Office expense | 2,470 |
| Cash | 13,980 |  Spa supplies | 9,230 |
| Fees earned | 98,435 |  Wages expense | 26,580 |
| Spa furniture and equipment | 56,000 |  Drawing | 38,170 |
| Computers | 2,130 |   |   |

​Prepare a statement of owner’s equity for the current year ended December 31.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* | ​

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| --- |
| Rocky's Day SpaStatement of Owner’s EquityFor the Year Ended December 31 |
| Owner's capital, January 1 |   | $68,000 |
| Additional investment by owner during year | $ 10,000 |   |
| Net income for the year |   45,625 |   |
| Withdrawals |   (38,170) |   |
| Increase in owner’s equity | ​ |   17,455 |
| Owner's capital, December 31 |   | $85,455 |

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| 269. Explain the interrelationship between the balance sheet and the statement of cash flows.

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| *ANSWER:* | The cash reported on the balance sheet is also reported as the end-of-period cash on the statement of cash flows. |

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| 270. From the following list of items taken from Lamar’s accounting records, identify those that would appear on the income statement.

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| --- | --- |
| (a) | Rent expense |
| (b) | Land |
| (c) | Capital |
| (d) | Fees earned |
| (e) | Withdrawal |
| (f) | Wages expense |
| (g) | Investment |

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| *ANSWER:* | (a), (d), (f) |

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| 271. Identify which of the following items would appear on a balance sheet.

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| --- | --- |
| (a) | Cash |
| (b) | Fees earned |
| (c) | Joe Brown, capital |
| (d) | Wages payable |
| (e) | Rent expense |
| (f) | Prepaid advertising |
| (g) | Land |

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| --- | --- |
| *ANSWER:* | (a), (c), (d), (f), (g) |

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| 272. For each of the following, determine the amount of net income or net loss for the year.

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| --- | --- |
| (a) | Revenues for the year totaled $71,300 and expenses totaled $35,500. The owner made an additional investment of $15,000 during the year. |
| (b) | Revenues for the year totaled $220,500 and expenses totaled $175,000. The owner withdrew $40,000 during the year. |
| (c) | Revenues for the year totaled $149,000 and expenses totaled $172,000. The owner invested an additional $12,000 and withdrew $16,000 during the year. |
| (d) | Revenues for the year totaled $198,150 and expenses totaled $174,200. The owner withdrew $35,000 during the year. |

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| *ANSWER:* |

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| --- | --- |
| (a) | $35,800 net income ($71,300 − $35,500) |
| (b) | $45,500 net income ($220,500 − $175,000) |
| (c) | $(23,000) net loss ($149,000 − $172,000) |
| (d) | $23,950 net income ($198,150 − $174,200) |

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| 273. The total assets and total liabilities of Paul’s Pools, a proprietorship, at the beginning and at the end of the current fiscal year are as follows:

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| --- | --- | --- |
|   | January 1 | December 31 |
| Total assets | $280,000 | $475,000 |
| Total liabilities | 205,000 | 130,000 |

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| (a) | Determine the amount of net income earned during the year. The owner did not invest any additional assets in the business during the year and made no withdrawals. |
| (b) | Determine the amount of net income during the year. The assets and liabilities at the beginning and end of the year are unchanged from the given amounts. However, the owner withdrew $53,000 in cash during the year (no additional investments). |
| (c) | Determine the amount of net income earned during the year. The assets and liabilities at the beginning and end of the year are unchanged from the given amounts. However, the owner invested an additional $35,000 in cash in the business in June of the current fiscal year (no withdrawals). |
| (d) | Determine the amount of net income earned during the year. The assets and liabilities at the beginning and end of the year are unchanged from the given amounts. However, the owner invested an additional $12,000 in cash in August of the current fiscal year and made 12 monthly cash withdrawals of $1,500 each during the year. |

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| *ANSWER:* |

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| (a) | Owner's equity at end of year ($475,000 − $130,000) | $345,000 |
|   | Owner's equity at beginning of year ($280,000 − $205,000) | ​   75,000 |
|   | Net income | $270,000 |

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| (b) | Increase in owner's equity as in (a) | $270,000 |
|   | Add withdrawals |    53,000 |
|   | Net income | $323,000 |

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| (c) | Increase in owner's equity as in (a) | $270,000 |
|   | Deduct additional investment |    35,000 |
|   | Net income | $235,000 |

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| --- | --- | --- |
| (d) | Increase in owner's equity as in (a) | $270,000 |
|   | Add withdrawals ($1,500 × 12) |    18,000 |
|   | Deduct additional investment |  (12,000) |
|   | Net income | $276,000 |

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| 274. The following selected transaction data of a business are for September. Determine the following amounts for September: (a) total revenue, (b) total expenses, (c) net income.

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| --- | --- |
| Service sales charged to customers on account during September | $33,000 |
| Cash received from cash customers for services performed in September | 28,000 |
| Cash received from customers on account during September: |   |
|      Services performed and charged to customers prior to September | 13,000 |
|      Services performed and charged to customers during September | 18,000 |
| Expenses incurred prior to September and paid during September | 6,500 |
| Expenses incurred and paid in September | 36,250 |
| Expenses incurred in September but not paid in September | 5,000 |
| Expenses for supplies used and insurance (not given)   applicable to September | 2,000 |

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| *ANSWER:* |

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| --- | --- |
| (a) | $61,000 ($33,000 + $28,000) |
| (b) | $43,250 ($36,250 + $5,000 + $2,000) |
| (c) | $17,750 ($61,000 − $43,250) |

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| 275. On March 1, the amount of Richard Cook's capital in Richard’s Catering Company was $150,000. During March, he withdrew $31,000 from the business. The amounts of the various assets, liabilities, revenues, and expenses are as follows:

|  |  |
| --- | --- |
| Accounts payable | $10,250 |
| Accounts receivable | 45,950 |
| Cash | 23,840 |
| Fees earned | 64,950 |
| Insurance expense | 1,275 |
| Land | 85,400 |
| Miscellaneous expense | 1,210 |
| Prepaid insurance | 3,000 |
| Rent expense | 9,000 |
| Salary expense | 20,300 |
| Supplies | 900 |
| Supplies expense | 525 |
| Utilities expense | 2,800 |

​Prepare (a) an income statement for March, (b) a statement of owner's equity for March, and (c) a balance sheet as of March 31.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| *ANSWER:* |

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| --- | --- |
| (a) |   |
| Richard’s Catering CompanyIncome StatementFor the Month Ended March 31 |
| Fees earned | ​ | $64,950 |
| Expenses: |   |   |
|    Salary expense | $20,300 |   |
|    Rent expense | 9,000 |   |
|    Utilities expense | 2,800 |   |
|    Insurance expense | 1,275 |   |
|    Supplies expense | 525 |   |
|    Miscellaneous expense |    1,210 |   |
|          Total expenses |   |     35,110 |
| Net income |  | $29,840 |

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| (b) |
| Richard’s Catering CompanyStatement of Owner's EquityFor the Month Ended March 31 |
| Richard Cook, capital, March 1 |   | $150,000 |
| Net income for the month | $29,840 | ​ |
| Withdrawals | (31,000) |  |
| Decrease in owner's equity |   |    (1,160) |
| Richard Cook, capital, March 31 |   | $148,840 |

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| --- |
| (c) |
| Richard’s Catering CompanyBalance SheetMarch 31 |
| **Assets** |   |   | **Liabilities** |   |
| Cash | $  23,840 |   | Accounts payable | $ 10,250 |
| Accounts receivable | 45,950 |   |   |   |
| Prepaid insurance | 3,000 |   | **Owner's Equity** |   |
| Supplies | 900 |   | Richard Cook, capital |   148,840 |
| Land |    85,400 |   | Total liabilities and |   |
| Total assets | $159,090 |   |   owner's equity | $159,090 |

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| 276. Harris Designers began operations on April 1. The following financial statements are for Harris Designers for the month ended April 30 (the first month of operations). Determine the missing amounts for letters (a) through (o).

|  |
| --- |
| Harris DesignersIncome StatementFor the Month Ended April 30 |
| Fees earned |   | $27,000 |
| Expenses: |   |   |
|    Wages expense | $5,250 |   |
|    Rent expense | (a) |   |
|    Supplies expense | 4,600 |   |
|    Utilities expense | 400 |   |
|    Miscellaneous expense |   1,250 |   |
|         Total expenses |   |        (b) |
| Net income |   | $     (c) |

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| --- |
| Harris DesignersStatement of Owner's EquityFor the Month Ended April 30 |
| Lori Harris, capital, April 1 |   | $        0 |
| Investment on April 1 | $35,000 |   |
| Net income for April |        (d) |   |
| Withdrawals |  (6,000) |   |
| Increase in owner's equity |   |         (e) |
| Lori Harris, capital, April 30 |   | $38,100 |

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| Harris DesignersBalance SheetApril 30 |
| **Assets** |   |   | **Liabilities** |   |
| Cash | $     (f) |   | Accounts payable | $(h) |
| Supplies | 8,100 |   | **Owner's Equity** |   |
| Land |        (g) |   | Lori Harris, capital |    (i) |
|  |  |   | Total liabilities and |   |
| Total assets | $55,900 |   |   owner's equity | $(j) |

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| --- |
| Harris DesignersStatement of Cash FlowsFor the Month Ended April 30 |
| Cash flows from (used for) operating activities: |   |   |
|    Cash received from customers | $23,000 |   |
|    Cash paid for expenses and to |  (4,200) |   |
|    Net cash flows from operating activities |   | $18,800 |
| Cash flows from (used for) investing activities: |   |   |
|     Cash paid for acquisition of land |   | (17,000) |
| Cash flows from (used for) financing activities: |   |   |
|     Cash received as owner's investment | $      (k) |   |
|     Cash withdrawal by owner |         (l) |   |
|     Net cash flows from financing activities |   |         (m) |
| Net increase in cash |   | $        (n) |
| Cash balance, April 1 |   |             0 |
| Cash balance, April 30 |   | $        (n) |

​Hint: Use the interrelationships among the financial statements to solve this problem.

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| *ANSWER:* |

|  |  |
| --- | --- |
| (a) | $6,400 |
| (b) | $17,900 |
| (c) | $9,100 |
| (d) | $9,100 |
| (e) | $38,100 |
| (f) | $30,800 |
| (g) | $17,000 |
| (h) | $17,800 |
| (i) | $38,100 |
| (j) | $55,900 |
| (k) | $35,000 |
| (l) | $6,000 |
| (m) | $29,000 |
| (n) | $30,800 |

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| 277. Using the following data for Heavenly Futures Company, prepare an income statement for the month ended August 31.​

|  |  |
| --- | --- |
| Telephone expense | $  1,150 |
| Cash | 3,000 |
| Accounts payable | 1,540 |
| Jason Heavenly, drawing | 800 |
| Fees earned | 15,700 |
| Rent expense | 1,400 |
| Supplies | 140 |
| Accounts receivable | 1,500 |
| Computer equipment | 20,000 |
| Jason Heavenly, capital (August 1) | 14,320 |
| Wages expense | 4,800 |
| Utilities expense | 750 |
| Notes payable | 2,400 |
| Office expense | 420 |

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| *ANSWER:* | ​

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| --- |
| Heavenly Futures CompanyIncome StatementFor the Month Ended August 31 |
| Fees earned | $15,700 |
| Expenses: |   |
|        Wages expense | $4,800 |   |
|         Rent expense | 1,400 |   |
|         Telephone expense | 1,150 |   |
|         Utilities expense | 750 |   |
|         Office expense |     420 |   |
|             Total expenses |    8,520 |
| Net income | $ 7,180 |

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| 278. Using the following data for Bright Futures Company, prepare a statement of owner’s equity for the month ended August 31.

|  |  |
| --- | --- |
| Telephone expense | $  1,150 |
| Cash | 3,000 |
| Accounts payable | 1,540 |
| Jason Bright, drawing | 800 |
| Fees earned | 15,700 |
| Rent expense | 1,400 |
| Supplies | 140 |
| Accounts receivable | 1,500 |
| Computer equipment | 20,000 |
| Jason Bright, capital (August 1) | 14,320 |
| Wages expense | 4,800 |
| Utilities expense | 750 |
| Notes payable | 2,400 |
| Office expense | 420 |

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| *ANSWER:* | ​

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| --- |
| Bright Futures CompanyStatement of Owner’s EquityFor the Month Ended August 31 |
| Jason Bright, capital, August 1 |   | $14,320 |
| Net income for August |  $7,180 | ​ |
| Withdrawals |     (800) |   |
| Increase in owner’s equity |   |    6,380 |
| Jason Bright, capital, August 31 |   | $20,700 |

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| 279. Eric Wood, CPA, was organized on January 1 as a proprietorship. List the errors that you find in the following financial statements and prepare corrected statements.

|  |
| --- |
| Eric Wood, CPAIncome StatementFor the Three Months Ended March 31 |
| Fees earned |   | $42,000 |
| Expenses: |   |   |
|    Salary expense | $9,735 |   |
|    Rent expense | 5,200 |   |
|    Advertising expense | 3,950 |   |
|    Utilities expense | 3,225 |   |
|    Miscellaneous expense | 4,000 |   |
|    Answering service expense | 2,550 |   |
|    Supplies expense |         4,000 |   |
|         Total expenses |   |   28,000 |
| Net income |   | $14,000 |

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| Eric Wood, CPAStatement of Owner's EquityMarch 31 |
| Eric Wood, capital, January 1 |   | $       0 |
| Investment on January 1 | $20,000 |   |
| Net income for the three months |   14,000 |   |
| Withdrawals |  (5,000) |   |
| Increase in owner's equity |   |   31,000 |
| Eric Wood, capital, March 31 |   | $31,000 |

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| Balance SheetFor the Three Months Ended March 31 |
| **Assets** |   | **Owner's Equity** |   |
| Land | $13,000   |   Eric Wood, capital | $31,000 |
| Cash | 10,860   | **Liabilities** |   |
| Accounts payable | 2,670   |   Accounts receivable |    2,225 |
| Supplies |       925   |    |   |
| Total assets | $33,225   | Total liabilities and owner's equity | $33,225 |
|   |   |   |   |

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| *ANSWER:* | Errors in the Eric Wood, CPA, financial statements include the following:

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| (1) | Miscellaneous expense is incorrectly listed after utilities expense on the income statement. Miscellaneous expense should be listed as the last expense, regardless of the amount. |
| (2) | The operating expenses are incorrectly added. Instead of $28,000, the total should be $32,660. |
| (3) | Because operating expenses are incorrectly added, the net income is incorrect. It should be listed as $9,340. |
| (4) | The statement of owner's equity should be for a period of time instead of a specific date. That is, the statement of owner's equity should be reported "For the Three Months Ended March 31." |
| (5) | Because the net income was incorrect, the increase in owners' equity and the balance in Eric Wood, Capital are incorrect. They should both be shown as $24,340. |
| (6) | The name of the company is missing from the balance sheet heading. |
| (7) | The balance sheet should be as of "March 31," not "For the Three Months Ended March 31." |
| (8) | Cash, not land, should be the first asset listed on the balance sheet. |
| (9) | Accounts payable is incorrectly listed as an asset on the balance sheet. Accounts payable should be listed as a liability. |
| (10) | Liabilities should be listed on the balance sheet ahead of owner's equity. |
| (11) | Accounts receivable is incorrectly listed as a liability on the balance sheet. Accounts receivable should be listed as an asset. |
| (12) | The assets do not total to $33,225 as shown, making the balance sheet out of balance.  |

Correctly prepared financial statements for Eric Wood, CPA, are as follows:

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| --- |
| Eric Wood, CPAIncome StatementFor the Three Months Ended March 31 |
| Fees earned |   | $42,000 |
| Expenses: |   |   |
|    Salary expense | $9,735 |   |
|    Rent expense | 5,200 |   |
|    Supplies expense | 4,000 |   |
|    Advertising expense | 3,950 |   |
|    Utilities expense | 3,225 |   |
|    Answering service expense | 2,550 |   |
|    Miscellaneous expense |   4,000 |   |
|        Total expenses |   |   32,660 |
| Net income |   | $  9,340 |

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| Eric Wood, CPAStatement of Owner's EquityFor the Three Months Ended March 31 |
| Eric Wood, capital, January 1 |   | $       0 |  |
| Investment on January 1 | $20,000 |  |  |
| Net income for three months |     9,340 |  |  |
| Withdrawals |  (5,000) |  |  |
| Increase in owner's equity |   |   24,340 |  |
| Eric Wood, capital, March 31 |   | $24,340 |  |
| Eric Wood, CPABalance SheetMarch 31 |
| **Assets** |   |   | **Liabilities** |   |
| Cash |  $10,860 |   | Accounts payable | $  2,670 |
| Accounts receivable | 2,225 |   | **Owner's Equity** |  |
| Supplies | 925 |   | Eric Wood, capital |   24,340 |
| Land |   13,000 |   |  |  |
| Total assets | $27,010 |   | Total liabilities and owner's equity | $27,010 |

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| 280. Using the following data for Bright Futures Company, prepare a balance sheet in report form as of August 31.

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| --- | --- |
| Telephone expense | $  1,150 |
| Cash | 3,000 |
| Accounts payable | 1,540 |
| Jason Bright, drawing | 800 |
| Fees earned | 15,700 |
| Rent expense | 1,400 |
| Supplies | 140 |
| Accounts receivable | 1,500 |
| Computer equipment | 20,000 |
| Jason Bright, capital (August 1) | 14,320 |
| Wages expense | 4,800 |
| Utilities expense | 750 |
| Notes payable | 2,400 |
| Office expense | 420 |

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| *ANSWER:* | ​

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| Bright Futures CompanyBalance SheetAugust 31 |
| **Assets** |   |
| Cash | $  3,000 |
| Accounts receivable | 1,500 |
| Supplies | 140 |
| Computer equipment |   20,000 |
| Total assets | $24,640 |
|   |   |
| **Liabilities** |   |
| Accounts payable | $  1,540 |
| Notes payable |     2,400 |
| Total liabilities | $  3,940 |
| **Owner's Equity** |   |
| Jason Bright, capital |   20,700 |
| Total liabilities and owner’s equity | $24,640 |

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| 281. Using the following data for Awesome Travel Services, prepare an income statement, a statement of owner’s equity, and a balance sheet for the year ended (or as of) December 31.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Accounts payable | $12,000 |   | J. Trendsetter, capital (January 1) | $10,000 |
| Accounts receivable | 14,000 |   | Supplies | 1,000 |
| Cash | 18,000 |   | Income tax expense | 1,300 |
| Computer equipment | 21,000 |   | Utilities expense | 8,000 |
| Fees earned | 78,000 |   | Wages expense | 25,000 |
| Rent expense | 10,000 |   | Supplies expense | 1,700 |

​There were no additional investments or withdrawals by J. Trendsetter during the year.

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| *ANSWER:* |

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| --- |
| Awesome Travel ServicesIncome StatementFor the Year Ended December 31 |
|   |  Fees earned |   |   | $78,000 |
|   | Expenses: |   |   |   |
|   |  Expenses: |   |   |   |
|   |     Wages expense |   | $25,000 |   |
|   |     Rent expense |   | 10,000 |   |
|   |     Utilities expense |   | 8,000 |   |
|   |     Supplies expense |   | 1,700 |   |
|   |     Income tax expense |   |   1,300 |   |
|   |         Total expenses |   46,000 |
|   |  Net income |   |   | $32,000 |

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| Awesome Travel ServicesStatement of Owner’s EquityFor the Year Ended December 31 |
| J. Trendsetter, capital, January 1 |   | $10,000 |
| Net income for the year |   |   32,000 |
| J. Trendsetter, capital, December 31 |   | $42,000 |

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| Awesome Travel ServicesBalance SheetDecember 31 |
| **Assets** |   |   | **Liabilities** |   |
| Cash | $18,000 |   | Accounts payable | $12,000 |
| Accounts receivable | 14,000 |   |  | ​ |
| Supplies | 1,000 |   | **Owner’s Equity** |   |
| Computer equipment |  21,000 |   | J. Trendsetter, capital |  42,000 |
| Total assets | $54,000 |   | Total liabilities and  owner’s equity | $54,000 |
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| 282. Given the following data:  Dec. 31,Year 2        Dec. 31,Year 1Total liabilities                  $128,250                 $120,000Total owner’s equity             95,000                     80,000(a) Compute the ratio of liabilities to owner’s equity for each year.(b) Has the creditors’ risk increased or decreased from December 31, Year 1, to December 31, Year 2?

|  |  |
| --- | --- |
| *ANSWER:* | (a)Dec. 31, Year 2                 Dec. 31,Year 1Total liabilities                                   $128,250                             $120,000Total owner’s equity                              95,000                                 80,000Ratio of liabilities to owner’s equity         1.35                                     1.50           ($128,250/$95,000)         ($120,000/$80,000)​(b) Decreased |

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| 283. Company G has a ratio of liabilities to stockholders’ equity of 0.12 and 0.28 for Year 1 and Year 2, respectively. In contrast, Company M has a ratio of liabilities to stockholders’ equity of 1.13 and 1.29 for the same period.​REQUIRED:Based on this information, which company's creditors are more at risk and why? Should the creditors of either company fear the risk of nonpayment?

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| *ANSWER:* | Company M’s creditors are more at risk than are Company G’s creditors. The lower the ratio of liabilities to stockholders' equity, the better able the company is to withstand poor business conditions and pay its obligations to creditors. Without additional information, it appears that the creditors of either company are well protected against the risk of nonpayment, because the ratios are relatively low for both. However, the fact that both ratios are increasing over the period should be monitored for downturns in business conditions. |

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| 284. The following data were taken from Miller Company’s balance sheet:​Dec. 31, Year 2         Dec. 31, Year 1Total liabilities                         $150,000                     $105,000Total owner’s equity                   75,000                         60,000​(a) Compute the ratio of liabilities to owner’s equity. Round your answer to one decimal place.(b) Has the creditors’ risk increased or decreased from December 31, Year 1, to December 31, Year 2?

|  |  |
| --- | --- |
| *ANSWER:* | (a) Dec. 31, Year 2: $150,000/$75,000 = 2.0     Dec. 31, Year 1: $105,000/$60,000 = 1.8(b) Increased |

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