Test Bank for Financial Accounting 17th Warren

Name:____ Class:_________________________ Date:_____________

Chapter 01: Introduction to Accounting and Business

1. A corporation is a business that is legally separate and distinct from its owners.
   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

3. Investing activities are those activities by which the company obtains funds to start and operate the business.
   a. True
   b. False

ANSWER: False

4. Managerial accounting information is used by external and internal users equally.
   a. True
   b. False

ANSWER: False

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 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 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

9. A business is an organization in which basic resources or inputs, like 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. Operating activities are those activities by which a company generates revenues from customers.

a. True

b. False

ANSWER: True

11. An example of a general-purpose financial statement would be a report about projected price increases related to transportation costs.

a. True

b. False

ANSWER: False

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

a. True

b. False

ANSWER: True

13. The main objective for all businesses 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

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

a. True

b. False

ANSWER: True

16. Proprietorships have one owner and provide only services to their customers.

a. True

b. False

ANSWER: False

17. About 90% of the businesses in the United States are organized as corporations.

a. True

b. False

ANSWER: False

18. An example of an external user of accounting information is the federal government.
    a. True
    b. False

ANSWER: True

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

20. The cost principle is the basis for entering the purchase price into the accounting records.
    a. True
    b. False

ANSWER: True

21. The monetary unit assumption requires that economic data be recorded in dollars for companies in the United States.
    a. True
    b. False

ANSWER: True

22. If a building is appraised for $85,000, 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

23. The financial statements of a proprietorship should include the owner's personal assets and liabilities.
    a. True
    b. False

ANSWER: False

24. No significant differences exist between the accounting standards issued by the FASB and the IASB.
    a. True
    b. False

ANSWER: False

25. Generally accepted accounting principles regulate how and what financial information is reported by businesses.
    a. True
    b. False

ANSWER: True

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

a. True

b. False

ANSWER: True

27. 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

28. The owner's rights to the assets rank ahead of the creditors' rights to the assets.

a. True

b. False

ANSWER: False

29. 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

30. 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

31. 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

32. If net income for a company was $50,000, $20,000 in owner withdrawals were made, and the owners invested an additional $10,000 in cash, the owners' equity increased by $40,000.

a. True

b. False

ANSWER: True

33. An account receivable is typically classified as a revenue.

a. True

b. False

ANSWER: False

34. An account receivable is a claim against a customer resulting from a sale on account.

a. True

b. False

ANSWER: True

35. Paying an account payable increases liabilities and decreases assets.
    a. True
    b. False

ANSWER: False

36. Receiving payments on an account receivable increases both equity and assets.
    a. True
    b. False

ANSWER: False

37. Withdrawals paid to owners decrease assets and increase equity.
    a. True
    b. False

ANSWER: False

38. Purchasing supplies on account increases liabilities and decreases equity.
    a. True
    b. False

ANSWER: False

39. 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

40. Revenue is earned only when money is received.
    a. True
    b. False

ANSWER: False

41. Assets that are used up during the process of earning revenue are called expenses.
    a. True
    b. False

ANSWER: True

42. The excess of revenue over the expenses incurred in earning the revenue is called capital.
    a. True
    b. False

ANSWER: False

43. The primary financial statements of a proprietorship are the income statement, the statement of owners' equity, the cash budget, and the balance sheet.

a. True

b. False

ANSWER: False

44. 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

45. A statement of owners' equity reports the changes in owner's equity for a period of time.

a. True

b. False

ANSWER: True

46. The statement of cash flows consists of three sections: cash flows from operating activities, cash flows from income activities, and cash flows from equity activities.

a. True

b. False

ANSWER: False

47. The balance sheet represents the accounting equation.

a. True

b. False

ANSWER: True

48. Net income and net profit do **not** mean the same thing.

a. True

b. False

ANSWER: False

49. Profit is the difference between

a. assets and liabilities

b. 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 for the inputs used to provide the goods or services

ANSWER: d

50. 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

51. 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 types of governmental reporting requirements

ANSWER: b

52. 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

53. Financial reports are used by
    a. managers
    b. creditors
    c. investors
    d. all of these choices

ANSWER: d

54. 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

55. Which of the following is a manufacturing business?
    a. General Motors
    b. Facebook
    c. American Airlines
    d. Target

ANSWER: a

56. Which of the following is a service business?
    a. Microsoft
    b. Dell Computers
    c. Facebook (Meta Platforms)
    d. Walmart

ANSWER: c

Chapter 01: Introduction to Accounting and Business

57. Which of the following groups of companies are all examples of a retail business?
    a. Delta Air Lines, Marriott, Gap
    b. Gap, Amazon.com, Delta Air Lines
    c. GameStop, Sony, Dell
    d. GameStop, Best Buy, Gap

ANSWER: d

58. Which of the following groups are 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

ANSWER: c

59. All of the following are examples of external users of accounting information **except**
    a. government entities
    b. customers
    c. creditors
    d. managers

ANSWER: d

60. Which of the following is the **best** description of accounting's role in business?
    a. Accounting provides owners with information regarding the market value of the company.
    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

61. Managerial accountants would be responsible for providing
    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

62. Which of the following is **not** a certification for accountants?
    a. CIA
    b. CMA
    c. CISA
    d. CPI

ANSWER: d

63. Which of the following is a role of accounting in business?
   a. to provide reports to users about the economic activities and conditions of a business
   b. all of these choices
   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 a business' accounting system to meet those needs

ANSWER: b

64. Which of the following are guidelines 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 your decision.
   III. Identify an ethical decision by using your personal ethical standards of honesty and fairness.

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

ANSWER: d

65. Which of the following would **not** normally operate as a service business?
   a. pet groomer
   b. grocery store
   c. lawn care company
   d. styling salon

ANSWER: b

66. Most businesses in the United States are
   a. proprietorships
   b. partnerships
   c. corporations
   d. cooperatives

ANSWER: a

67. Which of the following is **not** a business entity?
   a. entrepreneurship
   b. proprietorship
   c. partnership
   d. corporation

ANSWER: a

68. 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

69. 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 legal liability advantages to the owners

d. all of these choices

ANSWER: d

70. 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

ANSWER: d

71. Which type of business is most likely to obtain large amounts of resources by issuing stock?

a. partnership

b. corporation

c. proprietorship

d. government entity

ANSWER: b

72. 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.

ANSWER: d

73. 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)

ANSWER: c

74. The business entity assumption 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 business is an economic entity separate from its owners.

ANSWER: d

75. For accounting purposes, a 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

76. The measurement principle 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

ANSWER: d

77. 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 Company
d. Karen Meyer's personal records, Crystal Cleaning Company, and the American Red Cross

ANSWER: b

78. Which of the following is an authoritative body in the United States that has the primary responsibility for developing accounting principles?
a. FASB
b. IRS
c. SEC
d. AICPA

ANSWER: a

79. Which of the following items relates to separating the reporting of business and personal economic transactions?
a. cost principle
b. monetary unit assumption
c. business entity assumption
d. measurement principle

ANSWER: c

80. 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 principle, 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

81. Many countries outside of the United States use financial accounting standards issued by the

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

ANSWER: c

82. The monetary unit assumption

a. is only used in the financial statements of manufacturing companies
b. is not important when applying the cost principle
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

ANSWER: d

83. Which of the following is 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. All of these choices.
d. The Financial Accounting Standards Board (FASB) has primary responsibility for developing accounting principles.

ANSWER: c

84. The initials GAAP stand for

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

ANSWER: c

85. 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 owners and/or creditors

ANSWER: d

86. Debts owed by a business are referred to as
    a. accounts receivable
    b. expenses
    c. owner's equity
    d. liabilities

ANSWER: d

87. The accounting equation may be expressed as
    a. Assets = Expenses − Liabilities
    b. Assets + Liabilities = Owner's Equity
    c. Assets = Revenues − Liabilities
    d. Assets − Liabilities = Owner's Equity

ANSWER: d

88. 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

ANSWER: b

89. 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 is a
    a. $106,000 increase
    b. $14,000 increase
    c. $14,000 decrease
    d. $106,000 decrease

ANSWER: b

90. 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

ANSWER: a

91. A business paid $7,000 to a creditor for 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

92. 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

93. The monetary value earned for selling goods or services to customers is called
    a. net profit
    b. net income
    c. capital
    d. revenue

ANSWER: d

94. Items 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

95. The asset created by a business when it makes a sale on account is termed
    a. accounts payable
    b. prepaid expense
    c. interest revenue
    d. accounts receivable

ANSWER: d

96. The debt created by a business when it makes a purchase on account is called an
    a. account payable
    b. account receivable
    c. asset
    d. expense payable

ANSWER: a

97. 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 is
    a. a $17,000 increase
    b. an $88,000 decrease
    c. a $159,000 increase
    d. a $159,000 decrease

ANSWER: d

98. Cash withdrawals made by the owner for personal use

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

ANSWER: d

99. 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

100. 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

ANSWER: d

101. How does the payment of rent for equipment affect the accounting equation?
a. assets increase; assets decrease
b. assets decrease; owner's equity decreases
c. assets decrease; liabilities increase
d. assets increase; owner's equity increases

ANSWER: b

102. 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

ANSWER: b

103. Which of the following accounts is a liability?
a. Accounts Payable
b. Accounts Receivable
c. Wages Expense
d. Service Revenue

ANSWER: a

104. 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, owners invested an additional $73,000 and made $33,000 in owner withdrawals

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

ANSWER: a

105. 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

106. Transactions affecting owner's equity include

a. owner investments and payment of liabilities

b. owner investments, owner withdrawals, earning of revenues, and incurrence of expenses

c. owner investments, earning of revenues, incurrence of expenses, and collection of accounts receivable

d. owner withdrawals, earning of revenues, incurrence of expenses, and purchase of supplies on account

ANSWER: b

107. Juan Chavez is starting a computer programming business and has invested \$15,000. Identify how the accounting equation will be affected by the owner's investment.

a. increase in assets (Cash) and increase in liabilities (Accounts Payable)

b. increase in assets (Cash) and increase in owner's equity (Juan Chavez, 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

108. R. Ramos, the owner of Ramos Repair Services, is withdrawing cash from the business for personal use. How does this transaction affect the accounting equation?

a. increase in assets (Accounts Receivable) and decrease in assets (Cash)

b. decrease in assets (Cash) and decrease in owner's equity (R. Ramos, Drawing)

c. decrease in assets (Cash) and decrease in liabilities (Accounts Payable)

d. increase in assets (Cash) and decrease in owner's equity (R. Ramos, Drawing)

ANSWER: b

109. Which of the following transactions would be omitted from the books of Bobby's Lawn Service?

a. Roberta, the owner, deposits \$15,000 in a bank account in the name of Bobby's Lawn Service.

b. Roberta provides services to customers, earning fees of \$600.

c. Roberta purchased hedge trimmers for Bobby's Lawn Service, agreeing to pay the supplier next month.

d. Roberta pays her monthly personal credit card bill.

ANSWER: d

110. Which of the following is a business transaction?
   a. purchase supplies on account
   b. plan advertising for upcoming sale
   c. give employees a raise beginning next month
   d. submit estimate for construction project

ANSWER: a

111. 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. prior period statement
   b. statement of owner's equity
   c. income statement
   d. balance sheet

ANSWER: c

112. 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

113. Four financial statements are usually prepared for a business. The statement of cash flows is usually prepared last. The statement of owner's equity (SOE), 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, SOE, B
   b. B, I, SOE
   c. SOE, I, B
   d. B, SOE, I

ANSWER: a

114. Liabilities are reported on the
   a. income statement
   b. statement of owner's equity
   c. statement of cash flows
   d. balance sheet

ANSWER: d

115. Cash investments made by the owner in 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 schedule

ANSWER: a

Chapter 01: Introduction to Accounting and Business

116. The ending balance of the owner's capital account appears in
   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

117. 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 owner's equity

ANSWER: a

118. If the 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 owner's equity

ANSWER: b

119. 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

120. Which of the following statements regarding the ratio of liabilities to stockholders' equity is **not** true?
   a. A ratio of 1 indicates that liabilities equal stockholders' equity.
   b. Sole proprietorships can use this ratio but substitute total owner's equity for total stockholders' 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

121. A company had the following data for two recent years:

	Dec. 31, Year 2	Dec. 31, Year 1
Total liabilities	$128,250	$120,000
Total stockholders' equity	95,000	$80,000

Compute the ratio of liabilities to stockholders' 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

122. Which of the following is **not** an example of a service business?
    a. tax preparation firm
    b. law firm
    c. health club and spa
    d. automobile dealer

ANSWER: d

123. Which of the following is an example of a retail business?
    a. book publisher
    b. hospital
    c. supermarket
    d. modular homebuilder

ANSWER: c

124. Which of the following is **not** an example of a manufacturing business?
    a. book printer
    b. men's clothing store
    c. dressmaking company
    d. modular homebuilder

ANSWER: b

125. Which of the following comprises 70% of business entities in the United States?
    a. proprietorships
    b. partnerships
    c. corporations
    d. limited liability companies (LLCs)

ANSWER: a

126. Which of the following generates 90% of business revenues in the United States?
    a. proprietorships
    b. partnerships
    c. corporations
    d. limited liability companies (LLCs)

ANSWER: c

127. Which of the following is true of the partnership form of business?
    a. owned by two or more individuals
    b. organized as a separate legal taxable entity
    c. easy and cheap to organize
    d. used by large businesses

ANSWER: a

128. Which of the following is true of the limited liability company (LLC) form of business?
    a. often used as an alternative to a partnership
    b. all of these choices
    c. offers tax and legal liability advantages for owners
    d. combines the attributes of a partnership and a corporation

ANSWER: b

129. The receipt of cash for services provided has what effect on the accounting equation?
    a. increases assets; increases liabilities
    b. increases liabilities; decreases owner's' equity
    c. increases assets; increases owner's equity
    d. decreases assets; decreases liabilities

ANSWER: c

130. The payment of cash to a creditor on account has what effect on the accounting equation?
    a. increases assets; increases liabilities
    b. increases liabilities; decreases owner's equity
    c. increases assets; decreases assets
    d. decreases assets; decreases liabilities

ANSWER: d

131. The receipt of cash from a credit customer on account has what effect on the accounting equation?
    a. increases assets; increases liabilities
    b. increases liabilities; decreases owner's' equity
    c. increases assets; decreases assets
    d. decreases assets; decreases liabilities

ANSWER: c

132. Owner withdrawals have what effect on the accounting equation?
    a. increases assets; increases liabilities
    b. increases liabilities; decreases owner's equity
    c. increases stockholders' equity; decreases owner's equity
    d. decreases assets; decreases owner's equity

ANSWER: d

133. A purchase of supplies on credit has what effect on the accounting equation?
    a. increases assets; increases liabilities
    b. increases liabilities; decreases owner's' equity
    c. increases assets; increases owner's equity
    d. decreases assets; decreases liabilities

ANSWER: a

134. Borrowing money from the bank has what effect on the accounting equation?
    a. increases assets; decreases assets

b. increases liabilities; decreases owner's equity
c. decreases assets; decreases owner's equity
d. increases assets; increases liabilities

ANSWER: d

135. The purchase of equipment for cash has what effect on the accounting equation?
a. increases assets; decreases assets
b. increases liabilities; decreases owner's equity
c. decreases assets; decreases owner's equity
d. decreases assets; decreases liabilities

ANSWER: a

136. The using up of supplies on hand has what effect on the accounting equation?
a. increases assets; increases liabilities
b. increases liabilities; decreases owner's equity
c. decreases assets; decreases owner's equity
d. decreases assets; decreases liabilities

ANSWER: c

137. Which of the following statements should be prepared first?
a. income statement
b. balance sheet
c. statement of owner's equity
d. statement of cash flows

ANSWER: a

138. Which of the following statements should be prepared second?
a. income statement
b. balance sheet
c. statement of owner's' equity
d. statement of cash flows

ANSWER: c

139. Which of the following statements is a formal presentation of the accounting equation?
a. income statement
b. balance sheet
c. statement of owner's equity
d. statement of cash flows

ANSWER: b

140. 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.

Managerial accounting reports often include sensitive information, for example about customers, prices, or plans to expand the business.

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.

141. Companies such as Enron, Countrywide, and Xerox Corporation have been caught in the midst of ethical lapses that led to fines, firings, and criminal and/or civil prosecution. List and briefly describe two factors that are responsible for what went wrong in these companies.

ANSWER: The two factors are: (1) failure in individual character and (2) company culture of greed and ethical indifference. 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 a firm's culture. That culture in turn flows down to lower-level managers.

142. 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.

143. Identify each of the following as either internal or external users of accounting information.

A.	Payroll manager
B.	Bank
C.	President's secretary
D.	Internal Revenue Service
E.	Raw material vendors
F.	Social Security Administration
G.	Health insurance provider
H.	Managerial accountant

ANSWER:

A.	Internal
B.	External
C.	Internal
D.	External
E.	External
F.	External
G.	External
H.	Internal

144. For each of the following companies, identify whether it is a service, retail, or manufacturing business.

A.	Kohl's
B.	Time Warner Cable
C.	General Motors
D.	Regal Cinemas
E.	Applebee's

F.	Sony
G.	Best Buy
H.	Banana Republic
I.	H&R Block

ANSWER:

A.	Retail
B.	Service
C.	Manufacturing
D.	Service
E.	Service
F.	Service/Manufacturing
G.	Retail
H.	Retail
I.	Service

145. 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 relevant and timely information for internal user's decision-making needs.

146. 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?

ANSWER: $95,000

147. 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 principle, what amount will be used to record this transaction in the accounting records?

ANSWER: $115,000

148. Explain the meaning of the business entity assumption.

ANSWER: The business entity assumption 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.

149. 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 in their accounting records?

ANSWER: Darnell Company and Joseph Company

150. 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.

151. Explain the meaning of:
(a) the measurement principle
(b) the monetary unit assumption

ANSWER: (a) The measurement principle 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 monetary unit assumption requires that financial reports be expressed in a single monetary unit, or currency. For example, economic data in the United States must be recorded in U.S. dollars. This provides a common measurement of the effects of economic events and transactions on an entity.

152. 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 assumption.

ANSWER: Under the business entity assumption, 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, unless Bob uses 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.

153. Dave Ryan is the owner 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 follow 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)]

154. Kramer Service has liabilities equal to one-fourth of its total assets. Kramer's owner's equity is $45,000. Using the accounting equation, what is the amount of liabilities for Kramer?

ANSWER: Assets = Liabilities + Owner's Equity
4X = X + $45,000
3X = $45,000
X = $15,000 in liabilities

155. Determine the missing amount for each of the following:

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

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

156. Determine the missing amount "X" for each of the following:

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

ANSWER: (a) $40,900 ($78,500 − $37,600)

(b) $198,280 ($53,280 + $145,000)

(c) $15,500 ($49,500 − $34,000)

157. Use the accounting equation to answer each of the following independent questions.

(a) At the beginning of the year, Norton's Travel Service had assets of $75,000, and owner's equity of $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?

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

158. 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 as of July 1 of the current year?

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

159. At the end of its accounting period, December 31, of Year 1, Hsu's Financial Services 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.

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

160. Indicate whether each of the following accounts represents an asset, liability, or owner's equity:

(a) Accounts Payable
(b) Wages Expense
(c) Chris Clark, Capital
(d) Accounts Receivable
(e) Chris Clark, Drawing
(f) Land

ANSWER: (a) liability
(b) owner's equity
(c) owner's equity
(d) asset
(e) owner's equity
(f) asset

161. 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) Owner's equity as of December 31.
(b) Owner's equity as of December 31 of the next year, assuming that assets increased by $12,000 and liabilities increased by $15,000.
(c) Owner's equity as of December 31 of the next year, assuming that assets decreased by $8,000 and liabilities increased by $14,000.

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

Scott Industries
The accountant for Scott Industries prepared the following list of account balances from the company's records for the year ended December 31. Use this information to answer the questions that follow.

Fees Earned	$165,000	Cash	$30,000
Accounts Receivable	16,000	Selling Expenses	44,000
Equipment	64,000	Sally Scott, Capital	47,000
Accounts Payable	12,000	Interest Revenue	3,000
Salaries and Wages Expense	40,000	Income Taxes Expense	18,000
Income Taxes Payable	5,000	Rent Expense	20,000

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

ANSWER: $110,000
($30,000 Cash + $16,000 Accounts Receivable + $64,000 Equipment = $110,000)

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

ANSWER: $17,000
($12,000 Accounts Payable + $5,000 Income Taxes Payable = $17,000)

164. Based on this information, is Scott Industries profitable? Explain your answer.

ANSWER: ($165,000 Fees Earned + $3,000 Interest Revenue) − ($40,000 Salaries and Wages Expense + $44,000 Selling Expenses + $18,000 Income Taxes Expense + $20,000 Rent Expense) = $46,000 Net Income

Scott Industries had net income for the period of $46,000. Since revenues exceeded expenses for the period, the company would be considered profitable.

165. Daniels Company made the following selected transactions during May:
1. The owner, Jan Daniels, invested cash in the business, $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. Jan Daniels withdrew cash for personal use, $2,500.
6. Purchased supplies on account $160.

Indicate the effect of each transaction on the accounting equation by:
(a) Account type—(A)assets, (L)liabilities, (OE)owner's equity, (R)revenue, and (E)expense
(b) Name of account
(c) Amount of the transaction
(d) Direction of change (increase or decrease) in the account affected
Hint: Each transaction has two entries.

	Entry				Entry			
	Account Type (a)	Name of Account (b)	Amount (c)	Increase or Decrease (d)	Account Type (a)	Name of Account (b)	Amount (c)	Increase or Decrease (d)
1								
2								
3								
4								
5								
6								

ANSWER:

	Entry				Entry			
	Account Type (a)	Name of Account (b)	Amount (c)	Increase or Decrease (d)	Account Type (a)	Name of Account (b)	Amount (c)	Increase or Decrease (d)
1	A	Cash	$55,000	Increase	OE	Jan Daniels, 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	$8,450	Decrease

						Receivable		
5	A	Cash	$2,500	Decrease	OE	Jan Daniels, Drawing	$2,500	Increase
6	A	Supplies	$160	Increase	L	Accounts Payable	$160	Increase

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

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

167. Ramirez Company paid its electric bill in the amount of $60. How will this transaction affect the accounting equation?

ANSWER: Decrease assets (Cash) and decrease owner's equity (Utilities Expense)

168. Indicate how the following transactions affect the accounting equation.

(a) Purchase of supplies on account
(b) Purchase of supplies for cash
(c) Withdrawal of cash by owner for personal use.
(d) Revenues received in cash
(e) Sale made on account

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

169. (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 on a loan 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?

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

170. 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 (a) the sale and (b) the payoff of the loan on the accounting equation.

ANSWER: (a)
Total assets increase $20,000 (Cash increases by $45,000; Land decreases by $65,000)
No change in liabilities
Owner's equity increases $20,000 (Sales price - Cost of land)
(b)

Total assets decrease by $40,000 (Cash paid)
Total liabilities decrease by $40,000 (Loan payoff to Regions Bank)
No change in owner's equity.

171. There are four transactions that affect owners' 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?

ANSWER: (a) Investments by the owner and revenues earned.
(b) Withdrawals by the owner and expenses incurred.

The assets and liabilities of Thompson Computer Services at March 31, the end of the current fiscal year, and its revenue and expenses for the year follow. Mike Thompson, Capital, had a balance of $180,000 at April 1, the beginning of the current year. During the year, the owner invested an additional $25,000. Use this information to answer the questions that follow.

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	Mike Thompson, Drawing	16,570
Building	157,630		

172. Identify each of the following as resulting in an (1) increase to owners' equity or a (2) decrease to owners' equity.

(a) Fees earned
(b) Wages expense incurred
(c) Cash withdrawn by Mike Thompson for personal use.
(d) Additional investment in business made by Mike Thompson
(e) Supplies expense recognized

ANSWER:
(a) 1
(b) 2
(c) 2
(d) 1
(e) 2

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

ANSWER:

Thompson Computer Services
Income Statement
For 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

174. Prepare a statement of owner's equity for the current year ended March 31.

ANSWER:

Thompson Computer Services
Statement of Owner's Equity
For the Year Ended March 31

Mike Thompson, capital April 1	180,000
Additional investment by owner	25,000
Net income for the year	47,630
Withdrawals	(16,570)
Mike Thompson, capital, March 31	$236,060

* $73,450 – $23,550 – $1,240 – $1,030

175. Prepare a balance sheet for the current year ended March 31.

ANSWER:

Thompson Computer Services
Balance Sheet
March 31

Assets	
Cash	$ 21,420
Accounts receivable	10,340
Supplies	1,670
Land	47,000
Building	157,630
Total assets	$238,060
Liabilities	
Accounts payable	$ 2,000
Owner's Equity	
Mike Thompson, capital	236,060
Total liabilities and owner's equity	$ 238,060

* $180,000 + $25,000 + $73,450 – $23,550 – $1,240 – $1,030 – $16,570

176. Use the following information to determine the net income or net loss:

Beginning owner's equity	$58,000
Ending owner's equity	30,000
Owner withdrawals	25,000

ANSWER:

Ending owner's equity	$ 30,000
Beginning owner's equity	(58,000)
Decrease in owner's equity	$(28,000)
Withdrawals	25,000
Net loss	$ (3,000)

177. A summary of cash flows for Linda's Design Services for the year ended December 31 follows:

Cash receipts:	
Cash received from customers	$83,990
Cash received from owner's investment	25,000
Cash payments:	
Cash paid for expenses	$27,000
Cash paid for land	47,000
Cash paid for supplies	410
Cash paid for owner withdrawals	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.

ANSWER:

Linda's Design Services
Statement of Cash Flows
For 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's investment	$25,000	
Cash paid for owner withdrawals	(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

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

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.

179. 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
Cash flows from (used for) financing activities

180. For each of the following items, indicate the financial statement on which they can be found. (*Hint*: Some of the items can be found on more than one financial statement.)

A. Balance sheet
B. Income statement
C. Statement of cash flows
D. Statement of owner's equity

#	**Item**
1.	Withdrawals
2.	Revenues
3.	Supplies
4.	Land
5.	Accounts payable
6.	Accounts receivable
7.	Operating activities
8.	Wages expense
9.	Net income
10.	Cash

ANSWER:

#	**Answer**	**Item**
1.	C, D	Withdrawals
2.	B	Revenues
3.	A	Supplies
4.	A	Land
5.	A	Accounts payable
6.	A	Accounts receivable
7.	C	Operating activities
8.	B	Wages expense
9.	B, D	Net income
10.	A, C	Cash

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

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 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.

182. A summary of cash flows for Evelyn's Event Planning for the year ended December 31 follows:

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

Cash payments:	
Cash paid for operating expenses	$12,120
Cash paid for equipment	18,070
Cash paid for party supplies	9,480
Cash paid for owner withdrawals	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.

ANSWER:

Evelyn's Event Planning
Statement of Cash Flows
For 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 flow from (used for) financing activities:		
Cash received from bank loan	$15,000	
Cash paid for owner's withdrawals	(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

183. The assets and liabilities of Rocky's Day Spa at December 31 and expenses for the year are listed. The balance of Rocky Reed, Capital was $68,000 at January 1. Rocky invested an additional $10,000 in the business during the year. Net income for the year was $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	Rocky Reed, drawing	38,170
Computers	2,130		

Prepare an income statement for Rocky's Day Spa for the current year ended December 31.

ANSWER:

Rocky's Day Spa
Income Statement
For 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

184. The assets and liabilities of Rocky's Day Spa at December 31 and expenses for the year are listed. The balance of Rocky Reed, Capital was $68,000 at January 1. Rocky invested an additional $10,000 in the business during the year. Net income for the year was $45,625.

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	Rocky Reed, drawing	38,170
Computers	2,130		

Prepare a balance sheet for Rocky's Day Spa for the year ended December 31.

ANSWER:

Rocky's Day Spa
Balance Sheet
December 31

Assets	
Cash	$13,980
Accounts receivable	8,490
Spa supplies	9,230
Computers	2,130
Spa furniture and equipment	56,000
Total assets	$89,830
Liabilities	
Accounts payable	$ 4,375
Owners' Equity	
Rocky Reed, capital	85,455
Total liabilities and owner' equity	$89,830

* $68,000 + $10,000 + $45,625 – $38,170

185. The assets and liabilities of Rocky's Day Spa at December 31 and expenses for the year are listed. The balance in Rocky Reed, Capital was $68,000 at January 1. Rocky invested an additional $10,000 in the business during the year. Net income for the year was $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	98,435	Wages expense	26,580
Spa furniture and equipment	56,000	Rocky Reed, drawing	38,170
Computers	2,130		

Prepare a statement of owner's equity for Rocky's Day Spa for the current year ended December 31.

ANSWER:

Rocky's Day Spa
Statement of Owner's Equity
For the Year Ended December 31

Rocky Reed, capital, January 1	$68,000	
Additional investment by owner	10,000	
Net income for the year	45,625	
Withdrawals		(38,170)
Rocky Reed, capital, December 31	$85,455	

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

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

187. From the following list of accounts taken from Lamar's accounting records, identify those that would appear on the income statement.

(a) Rent Expense
(b) Land
(c) Lamar Hill, Capital
(d) Fees Earned
(e) Lamar, Hill, Drawing
(f) Wages Expense
(g) Investments

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

188. Identify which of the following accounts would appear on a balance sheet.

(a) Cash
(b) Fees Earned
(c) Natalie West, Capital
(d) Wages Payable
(e) Rent Expense
(f) Supplies
(g) Land

ANSWER: (a), (c), (d), (f), (g)

189. Indicate whether each of the following activities would be reported on the statement of cash flows as an operating activity, an investing activity, or a financing activity.

(a) Cash paid for building

(b) Cash paid to suppliers
(c) Cash paid for owner withdrawals
(d) Cash received from customers
(e) Cash received from owner investments
(f) Cash received from the sale of a building
(g) Cash borrowed from a bank

ANSWER: (a) Investing
(b) Operating
(c) Financing
(d) Operating
(e) Financing
(f) Investing
(g) Financing

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

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

ANSWER: (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)

191. The total assets and total liabilities of Paul’s Pools and Palaces at the beginning and end of the current fiscal year are as follows:

	Jan. 1	Dec. 31
Total assets	$280,000	$475,000
Total liabilities	205,000	130,000

(a) Determine the amount of net income earned during the year. No additional investments or withdrawals were made.
(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 amounts initially presented. However, the owner withdrew $53,000 in cash during the year and made no additional investments in the business.
(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 amounts initially presented. However, the owner invested an additional $35,000 cash in the business during the year and no owner withdrawals were made.
(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 amounts initially presented. However, the owner invested an additional $12,000 in August and made 12

monthly withdrawals of $1,500 each during the year.

ANSWER:

(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
(b)	Increase in owner's equity as in (a)	$270,000
	Add withdrawals	53,000
	Net income	$323,000
(c)	Increase in owner's equity as in (a)	$270,000
	Deduct additional investment	(35,000)
	Net income	$235,000
(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

192. Selected transaction data of a business for September are summarized as follows:

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 included above) applicable to September	2,000

Determine the following amounts for September: (a) total revenue, (b) total expenses, and (c) net income.

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

193. On March 1, the balance of Richard Carter, Capital was $150,000. During March, the owner withdrew $31,000 cash for personal use. The amounts of the various assets, liabilities, revenues, and expenses as of March 31 are as follows:

Accounts payable	$10,250
Accounts receivable	45,950
Cash	23,840
Fees earned	64,950
Insurance expense	1,275
Land	88,400
Miscellaneous expense	1,210
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 for Richard's Catering Company as of March 31.

ANSWER: (a)

Richard's Catering Company
Income Statement
For the Month Ended March 31

Fees earned		$64,950
Operating 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

(b)

Richard's Catering Company
Statement of Owner's Equity
For the Month Ended March 31

Richard Carter, capital, March 1	$150,000
Net income for March	29,840
Withdrawals	(31,000)
Richard Carter, capital, March 31	$148,840

(c)

Richard's Catering Company
Balance Sheet
March 31

Assets	
Cash	$ 23,840
Accounts receivable	45,950
Supplies	900
Land	88,400
Total assets	$159,090
Liabilities	
Accounts payable	$ 10,250
Owner's Equity	
Richard Carter, capital	148,840
Total liabilities and owner's equity	$159,090

194. Using the following accounts and their amounts, prepare an income statement for Bright Futures Company for the month ended August 31. The owner, Miyoshi Umeki, made no additional investments in the business during the year.

Telephone Expense	$ 1,150
Cash	3,000
Accounts Payable	1,540
Miyoshi Umeki, Drawing	800
Fees Earned	15,700
Rent Expense	1,400
Supplies	140
Accounts Receivable	1,500
Computer Equipment	17,600
Miyoshi Umeki, Capital (August 1)	14,320
Wages Expense	4,800
Utilities Expense	750
Office Expense	420

ANSWER:

Bright Futures Company
Income Statement
For 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

195. Using the following accounts and their amounts, prepare a statement of owner's equity for Bright Futures Company for the month ended August 31. The owner, Miyoshi Umeki, made no additional investments in the business during the year.

Telephone expense	$ 1,150
Cash	3,000
Accounts Payable	1,540
Miyoshi, Umeki, Drawing	800
Fees Earned	15,700
Rent Expense	1,400
Supplies	140
Accounts Receivable	1,500
Computer Equipment	17,600
Miyoshi Umeki, Capital (August 1)	14,320
Wages Expense	4,800

Utilities Expense	750
Office Expense	420

ANSWER:

Bright Futures Company
Statement of Owner's Equity
For the Month Ended August 31

Miyoshi Umeki, Capital, August 1	$14,320
Net income for August *	(7,180)
Withdrawals	(800)
Miyoski Umeki, capital, August 31	$20,700

* $15,700 – $1,150 – $1,400 – $4,800 – $750 – $420

196. Using the following accounts and their amounts, prepare a balance sheet for Bright Futures Company as of August 31. The owner, Miyoshi Umeki, made no additional investments in the business during the year.

Telephone Expense	$ 1,150
Cash	3,000
Accounts Payable	1,540
Miyoshi Umeki, Drawing	800
Fees Earned	15,700
Rent Expense	1,400
Supplies	140
Accounts Receivable	1,500
Computer Equipment	17,600
Miyoshi Umeki, capital (August 1)	14,320
Wages Expense	4,800
Utilities Expense	750
Office Expense	420

ANSWER:

Bright Futures Company
Balance Sheet
August 31

Assets	
Cash	$ 3,000
Accounts receivable	1,500
Supplies	140
Computer equipment	17,600
Total assets	$22,240
Liabilities	
Accounts payable	$ 1,540
Owner's' Equity	
Miyoshi Umeki, capital *	20,700
Total liabilities and owner's equity	$22,240

* $14,320 + $15,700 – $1,150 – $1,400 – $4,800 – $750 – $420 – $800

197. The account balances of Awesome Travel Services at December 31 are listed. There were no additional investments or withdrawals by the owner during the year.

Accounts Payable	$12,000	Debra Hagedorn, capital (Jan. 1)	$10,000
Accounts Receivable	14,000	Supplies	1,000
Cash	18,000	Income Taxes 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

Prepare an income statement for the year ended December 31, a statement of owner's equity for the year ended December 31, and a balance sheet as of December 31.

ANSWER:

Awesome Travel Services
Income Statement
For the Year Ended December 31

Fees earned		$78,000
Operating expenses:		
Wages expense	$25,000	
Rent expense	10,000	
Utilities expense	8,000	
Supplies expense	1,700	
Income taxes expense	1,300	
Total expenses		(46,000)
Net income		$32,000

Awesome Travel Services
Statement of Owner's Equity
For the Year Ended December 31

Debra Hagedorn, capital, January 1	$10,000
Net income	32,000
Debra Hagedorn, capital, December 31	$42,000

Awesome Travel Services
Balance Sheet
December 31

Assets	
Cash	$18,000
Accounts receivable	14,000
Supplies	1,000
Computer equipment	21,000
Total assets	$54,000
Liabilities	
Accounts payable	$12,000
Owner's Equity	
Debra Hagedorn, capital	$42,000

Total liabilities and owner's equity	$54,000

198. Schultz Tax Services, a tax preparation business, had the following transactions during the month of June:

1. Received cash for providing accounting services, $3,000.
2. Billed customers on account for providing services, $7,000.
3. Paid advertising expense, $800.
4. Received cash from customers on account, $3,800.
5. Withdrew cash for owner's personal use, $1,500.
6. Received telephone bill, $220.
7. Paid telephone bill, $220.

Based on the information provided, compute the balance of Cash at June 30. Use the following format:

Cash, June 1	$25,000
Plus cash receipts for June	____________
Minus cash payments for June	____________
Cash, June 30	____________

ANSWER:

Cash, June 1	$25,000
Plus cash receipts for June	6,800
Minus cash payments for June	2,520
Cash, June 30	$29,280

199. A company had the following data:

	Dec. 31, Year 2	Dec. 31, Year 1
Total liabilities	$128,250	$120,000
Total stockholders' equity	95,000	80,000

(a) Compute the ratio of liabilities to stockholders' equity for each year. Round answers to two decimal places.
(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 1
Total liabilities	$128,250	$120,000
Total stockholders' equity	÷95,000	÷80,000
Ratio of liabilities to stockholders' equity	1.35	1.50

(b) Decreased

200. 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.

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?

ANSWER: Company M's creditors are more at risk than are Company G's creditors. The lower the ratio of liabilities to owner's 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.

201. The following data were taken from Miller Company's balance sheet:

	Dec. 31, Year 2	Dec. 31, Year 1
Total liabilities	$150,000	$105,000
Total stockholders' equity	75,000	60,000

(a) Compute the ratio of liabilities to stockholders' equity. Round answers to two decimal places.
(b) Has the creditors' risk increased or decreased from December 31, Year 1, to December 31, Year 2?

ANSWER: (a) 12/31/Year 2: $150,000 ÷ $75,000 = 2.00
12/31/Year 1: $105,000 ÷ $60,000 = 1.75

(b) Increased

202. Any 12-month accounting period adopted by a company is known as its fiscal year.
   a. True
   b. False

ANSWER: True

203. A fiscal year that ends when business activities have reached their lowest point is called the natural business year.
   a. True
   b. False

ANSWER: True

204. All businesses must use the calendar year (January 1 through December 31) as their fiscal year.
   a. True
   b. False

ANSWER: False

205. The majority of businesses end their fiscal year on December 31.
   a. True
   b. False

ANSWER: True

206. Financial reports that allow users to identify the similarities and differences among reported items are said to demonstrate
   a. timeliness
   b. understandability
   c. comparability
   d. verifiability

ANSWER: c

207. Financial reports that are available to help users in decision making show

a. timeliness
b. understandability
c. comparability
d. verifiability

ANSWER: a

208. Relevant and faithful representation of accounting data is enhanced when financial reports are clear and concise. Such reports demonstrate

a. timeliness
b. understandability
c. comparability
d. verifiability

ANSWER: b

209. Financial reports are said to be verifiable when

a. they are available in time to influence users' decisions
b. they are formatted clearly and concisely
c. they demonstrate the similarities and differences among reported items
d. the data can be confirmed by a third party

ANSWER: d

210. A fiscal year for a business

a. ordinarily begins on the first day of a month and ends on the last day of the following twelfth month
b. is determined by the federal government
c. always begins on January 1 and ends on December 31 of the same year
d. should end at the height of the business's annual operating cycle

ANSWER: a

211. The natural business year is a

a. fiscal year that ends when business activities are at their lowest point
b. calendar year that ends when business activities are at their lowest point
c. fiscal year that ends when business activities are at their highest point
d. calendar year that ends when business activities are at their highest point

ANSWER: a

212. Resources owned by a business are known as

a. debts
b. liabilities
c. assets
d. equity

ANSWER: c

213. The rights of owners in a business are referred to as

a. proprietor's equity

b. owner's equity

c. drawings

d. equity in assets

ANSWER: b

214. The assets and owner's equity of a business are $159,000 and $95,000, respectively. Liabilities should equal

a. $64,000

b. $46,000

c. $254,000

d. $95,000

ANSWER: a

215. The liabilities and owner's equity of a business are $132,000 and $244,000, respectively. Assets should equal

a. $188,000

b. $132,000

c. $376,000

d. $112,000

ANSWER: c

216. Owner's equity at the beginning of the year for Atlas Services was $390,000, while its liabilities totaled $230,000. During the year, its assets increased by $75,000, and its liabilities decreased by $50,000. What is the amount of owner's equity at the end of the year for Atlas Services?

a. $107,000

b. $98,000

c. $415,000

d. $515,000

ANSWER: d

217. At the beginning of the year, Winton Company’s assets were $180,000, and its owner’s equity was $82,000. During the year, assets increased by $25,000, and liabilities increased by $9,000. What is the amount of owner's equity at the end of the year?

a. $107,000

b. $98,000

c. $114,000

d. $116,000

ANSWER: b

218. The assets and liabilities of Bennett Designs at December 31, the end of the current year, and its revenue and expenses for the year are as follows:

Accounts payable	$ 42,000	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		
Building	157,630		

What were the total assets on December 31?

a. $238,060

b. $236,390

c. $309,840

d. $33,430

ANSWER: a

219. Redfox Pest Control Service had revenues of $425,000 and expenses of $338,000 for the current year, ended June 30. At the beginning of the year, Randall Foxx, Capital, had a balance of $180,000. During the year, Randall invested an additional $25,000 in the business and made withdrawals of $16,750 for personal use. What is the balance of Randall Foxx, Capital at the end of the year?

a. $292,000

b. $267,250

c. $205,250

d. $275,250

ANSWER: d

220. Revenues for the year totaled $162,000 and expenses totaled $174,000. The owner invested an additional $15,000 in the business and withdrew $6,000 cash for personal use during the year. What was the net income or net loss for the year?

a. $12,000 net income

b. $(12,000) net loss

c. $(18,000) net loss

d. $(6,000) net loss

ANSWER: b

221. Purchasing equipment for use in business operations is

a. an operating activity

b. an investing activity

c. a financing activity

d. both an investing and an operating activity

ANSWER: b

222. Obtaining funds to start and operate a business is

a. an operating activity

b. an investing activity

c. a financing activity

d. both an investing and a financing activity

ANSWER: c