

# **Test Bank for Fundamental Accounting Principles 2025 Release 1st Wild**

Correct answers located at the end of the chapter.

**TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.**

- 1) Accounting is an information and measurement system that identifies, records, and communicates an organization's business activities.
  - ☐ true
  - ☐ false
  
- 2) Accounting includes the analysis and interpretation of information.
  - ☐ true
  - ☐ false
  
- 3) Financial accounting focuses on the needs of external users, who get accounting information from general-purpose financial statements.
  - ☐ true
  - ☐ false
  
- 4) Internal users of accounting information do *not* directly manage the organization and have limited access to its accounting information.
  - ☐ true
  - ☐ false
  
- 5) Auditors verify the effectiveness of internal controls.
  - ☐ true
  - ☐ false
  
- 6) External auditors examine financial statements to verify that they are prepared according to generally accepted accounting principles.
  - ☐ true
  - ☐ false

- 7) External users include lenders, shareholders, customers, and regulators.
- ☐ true
  - ☐ false
- 8) Internal users include lenders, shareholders, brokers and nonexecutive employees.
- ☐ true
  - ☐ false
- 9) Opportunities in accounting include auditing, consulting, market research, and tax planning.
- ☐ true
  - ☐ false
- 10) The fraud triangle shows that three factors that push a person to commit fraud are opportunity, pressure, and rationalization.
- ☐ true
  - ☐ false
- 11) Internal controls are procedures to protect assets, ensure reliable accounting, promote efficiency, and uphold company policies.
- ☐ true
  - ☐ false
- 12) A partnership is a business owned by two or more people.
- ☐ true
  - ☐ false
- 13) Owners of a corporation are called shareholders or stockholders.
- ☐ true
  - ☐ false

- 14) In a partnership, the owners are called stockholders.
- ☐ true
  - ☐ false
- 15) The balance sheet shows a company's net income or loss over a period of time.
- ☐ true
  - ☐ false
- 16) The Financial Accounting Standards Board (FASB) is given the task of setting generally accepted accounting principles (GAAP) from the Securities and Exchange Commission.
- ☐ true
  - ☐ false
- 17) The business entity assumption means that accounting information presumes that the business will continue operating instead of being closed or sold.
- ☐ true
  - ☐ false
- 18) GAAP wants information to have relevance and faithful representation.
- ☐ true
  - ☐ false
- 19) The business entity assumption means that a business is accounted for separately from other business entities and its owner(s).
- ☐ true
  - ☐ false
- 20) Revenues should not be recognized in the accounting records when earned, but rather when cash is received.
- ☐ true
  - ☐ false

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

- ☐ true
- ☐ false

22) A sole proprietorship is a business with multiple owners.

- ☐ true
- ☐ false

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

- ☐ true
- ☐ false

24) Objectives, qualitative characteristics, elements, and recognition and measurement are components of the FASB conceptual framework.

- ☐ true
- ☐ false

25) Objectivity means that information is supported by independent, unbiased evidence.

- ☐ true
- ☐ false

26) The going-concern assumption presumes that a business will continue operating instead of being closed or sold.

- ☐ true
- ☐ false

27) The measurement principle prescribes that accounting information is based on subjective opinion rather than cost.

- ☐ true
- ☐ false

28) The monetary unit assumption means that companies should express transactions and events in terms such as “a lot” or “very little”.

- ☐ true
- ☐ false

29) The International Accounting Standards Board (IASB) issues International Financial Reporting Standards (IFRS) that identify preferred accounting practices.

- ☐ true
- ☐ false

30) A limited liability company (LLC) offers the limited liability of a partnership or proprietorship and the tax treatment of a corporation.

- ☐ true
- ☐ false

31) A limited liability company (LLC) offers the limited liability of a corporation and the tax treatment of a partnership or proprietorship.

- ☐ true
- ☐ false

32) The Securities and Exchange Commission (SEC) is a U.S. government agency that oversees proper use of GAAP by companies that sell stock and debt to the public.

- ☐ true
- ☐ false

33) The four common forms of business ownership include sole proprietorship, partnership, i-corp, and non-profit.

- ☐ true
- ☐ false

- 34) The statement of cash flows reports cash flows from operating activities, investing activities, and financing activities.
- ☐ true
  - ☐ false
- 35) Materiality is the ability of information to influence decisions.
- ☐ true
  - ☐ false
- 36) Financing activities on the statement of cash flows include long-term borrowing and repaying of cash from lenders.
- ☐ true
  - ☐ false
- 37) Investing activities on the statement of cash flows include long-term borrowing and repaying of cash from lenders.
- ☐ true
  - ☐ false
- 38) Investing activities on the statement of cash flows include buying equipment that is held for long-term use.
- ☐ true
  - ☐ false
- 39) Return on assets equals total revenues divided by average total assets.
- ☐ true
  - ☐ false
- 40) Revenues are increases in equity (via net income) from sales of products and services to customers.
- ☐ true
  - ☐ false

- 41) A net loss occurs when revenues exceed expenses.
- ☐ true
  - ☐ false
- 42) Net income occurs when revenues exceed expenses.
- ☐ true
  - ☐ false
- 43) Liabilities are the owner's claim on assets.
- ☐ true
  - ☐ false
- 44) Assets are the resources a company owns or controls and are expected to yield future benefits.
- ☐ true
  - ☐ false
- 45) Owner withdrawals are subtracted as expenses in the calculation of net income.
- ☐ true
  - ☐ false
- 46) The accounting equation can be restated as:  $\text{Assets} - \text{Equity} = \text{Liabilities}$ .
- ☐ true
  - ☐ false
- 47) The accounting equation can be restated as:  $\text{Assets} + \text{Liabilities} = \text{Equity}$ .
- ☐ true
  - ☐ false
- 48) Owner's investments are increases in equity from the sale of products or services.
- ☐ true
  - ☐ false

- 49) After each transaction and event, assets always equal liabilities plus equity.
- ☐ true
  - ☐ false
- 50) From an accounting perspective, an event is a happening that affects the accounting equation but cannot be measured.
- ☐ true
  - ☐ false
- 51) Owner's equity is increased when cash is received from customers in payment of previously recorded accounts receivable.
- ☐ true
  - ☐ false
- 52) An owner's investment increases equity via net income.
- ☐ true
  - ☐ false
- 53) Return on assets is often stated in ratio form as the amount of average total assets divided by revenue.
- ☐ true
  - ☐ false
- 54) Return on assets is often stated in ratio form as the amount of net income divided by average total assets.
- ☐ true
  - ☐ false
- 55) The four basic financial statements include the balance sheet, income statement, statement of owner's equity, and statement of cash flows.
- ☐ true
  - ☐ false

- 56) An income statement reports on investing and financing activities.
- ☐ true
  - ☐ false
- 57) The income statement reports revenues and expenses and computes net income or loss over a period of time.
- ☐ true
  - ☐ false
- 58) The statement of cash flows shows the net effect of revenues and expenses for a reporting period.
- ☐ true
  - ☐ false
- 59) The left side of the balance sheet lists a company's assets.
- ☐ true
  - ☐ false
- 60) Investing activities on the statement of cash flows involve selling assets such as equipment that is held for long-term use.
- ☐ true
  - ☐ false
- 61) The purchase of supplies appears on the statement of cash flows as an investing activity because it involves the purchase of assets.
- ☐ true
  - ☐ false
- 62) The income statement reports on operating activities at a point in time.
- ☐ true
  - ☐ false

- 63) The statement of cash flows identifies cash flows from operating, investing, and financing activities over a period of time.
- ☐ true
  - ☐ false
- 64) Ending capital reported on the statement of owner's equity is calculated by adding owner investments and net losses and subtracting net income and withdrawals.
- ☐ true
  - ☐ false
- 65) The cost-benefit constraint says that information disclosed by an entity must have benefits to the user that are greater than the costs of providing it.
- ☐ true
  - ☐ false
- 66) Net income is sometimes called earnings or profit.
- ☐ true
  - ☐ false

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.**

- 67) Which of the following is not accomplished by accounting?
- A) Identifies business activities.
  - B) Records business activities.
  - C) Communicates business activities.
  - D) Eliminates the need for interpreting financial data.
  - E) Helps people make better decisions.
- 68) Which of the following is an external user of accounting information?
- A) Purchasing manager.
  - B) Human resource manager.
  - C) Lender.
  - D) Chief executive officer (CEO).
  - E) Marketing manager.

- 69) The primary objective of financial accounting is to:
- A) Serve the decision-making needs of internal users.
  - B) Provide accounting information that serves external users.
  - C) Monitor consumer needs, tastes, and price concerns.
  - D) Provide information on both the costs and benefits of looking after products and services.
  - E) Know what, when, and how much product to produce.
- 70) The area of accounting aimed at serving the decision-making needs of internal users is:
- A) Financial accounting.
  - B) Managerial accounting.
  - C) External auditing.
  - D) SEC reporting.
  - E) Bookkeeping.
- 71) Which of the following is *not* an external user of accounting information?
- A) Shareholders.
  - B) Customers.
  - C) Purchasing managers.
  - D) Government regulators.
  - E) Creditors.
- 72) Which of the following is *not* true regarding a Certified Public Accountant?
- A) Must meet education requirements.
  - B) Must pass an examination.
  - C) Must exhibit ethical character.
  - D) Must meet experience requirements.
  - E) Cannot hold any certificate other than a CPA.
- 73) Which of the following factors is *not* a component of the fraud triangle?
- A) Opportunity
  - B) Pressure
  - C) Rationalization
  - D) All of the above are components of the fraud triangle.

- 74) Which of the following is not true regarding ethics:
- A) Ethics are beliefs that separate right from wrong.
  - B) Good ethics are good business.
  - C) Ethics do not affect the operations or outcome of a company.
  - D) Accountants face ethical choices as they prepare financial reports.
  - E) Ethics are accepted standards of good and bad behavior.
- 75) A corporation is:
- A) A business legally separate from its owners.
  - B) Controlled by the FASB.
  - C) Not responsible for its own acts and own debts.
  - D) The same as a limited liability partnership.
  - E) Not subject to double taxation.
- 76) The group that sets international preferred accounting practices is called the:
- A) AICPA.
  - B) IASB.
  - C) CAP.
  - D) SEC.
  - E) FASB.
- 77) The Securities and Exchange Commission (SEC) has given the task of setting GAAP to the:
- A) APB.
  - B) FASB.
  - C) AAA.
  - D) AICPA.
  - E) IASB.
- 78) The accounting concept that requires every business to be accounted for separately from other business entities, including its owner or owners is known as the:
- A) Time-period assumption.
  - B) Business entity assumption.
  - C) Going-concern assumption.
  - D) Revenue recognition principle.
  - E) Measurement (Cost) principle.

- 79) The rule that requires financial statements to assume that the business will continue operating instead of being closed or sold is the:
- A) Going-concern assumption.
  - B) Business entity assumption.
  - C) Objectivity principle.
  - D) Measurement (Cost) principle.
  - E) Monetary unit assumption.
- 80) If a company is considering the purchase of a parcel of land that was originally acquired by the seller for \$89,000, is currently offered for sale at \$158,000, is considered by the purchaser as easily being worth \$148,000, and is finally purchased for \$145,000, the land should be recorded in the purchaser's books at:
- A) \$99,000.
  - B) \$145,000.
  - C) \$146,500.
  - D) \$148,000.
  - E) \$158,000.
- 81) If a company is considering the purchase of a parcel of land that was originally acquired by the seller for \$85,000, is currently offered for sale at \$150,000, is considered by the purchaser as easily being worth \$140,000, and is finally purchased for \$137,000, the land should be recorded in the purchaser's books at:
- A) \$95,000.
  - B) \$137,000.
  - C) \$138,500.
  - D) \$140,000.
  - E) \$150,000.
- 82) To include the personal assets and transactions of a business's owner in the records and reports of the business would be in conflict with the:
- A) Objectivity principle.
  - B) Monetary unit assumption.
  - C) Business entity assumption.
  - D) Going-concern assumption.
  - E) Revenue recognition principle.

- 83) The accounting principle that requires accounting information to be based on actual cost and requires assets and services to be recorded initially at the cash or cash-equivalent amount given in exchange, is the:
- A) Accounting equation.
  - B) Measurement (Cost) principle.
  - C) Going-concern assumption.
  - D) Cost-benefit constraint.
  - E) Business entity assumption.
- 84) The rule that requires revenue to be recognized when
1. (1) goods or services are provided to customers and
  2. (2) at the amount expected to be received from the customer is called the:
- A) Going-concern assumption.
  - B) Measurement (Cost) principle.
  - C) Revenue recognition principle.
  - D) Objectivity principle.
  - E) Business entity assumption.
- 85) The question of when revenue should be recognized on the income statement according to GAAP is addressed by the:
- A) Revenue recognition principle.
  - B) Going-concern assumption.
  - C) Objectivity principle.
  - D) Business entity assumption.
  - E) Measurement (Cost) principle.
- 86) The Superior Company acquired a building for \$500,000. The building was appraised at a value of \$575,000. The seller had paid \$300,000 for the building 6 years ago. Which accounting principle would require Superior to record the building on its records at \$500,000?
- A) Monetary unit assumption.
  - B) Going-concern assumption.
  - C) Measurement (Cost) principle.
  - D) Business entity assumption.
  - E) Revenue recognition principle.

- 87) On December 15 of the current year, Conrad Accounting Services received \$40,000 from a client to provide bookkeeping services for the client in the following year. Which accounting principle would require Conrad Accounting Services to record the bookkeeping revenue in the following year and not in the year the cash was received?
- A) Monetary unit assumption.
  - B) Going-concern assumption.
  - C) Measurement (Cost) principle.
  - D) Business entity assumption.
  - E) Revenue recognition principle.
- 88) Marsha Bogswell is the owner of Bogswell Legal Services. Which accounting principle requires Marsha to keep her personal financial information separate from the financial information of Bogswell Legal Services?
- A) Monetary unit assumption.
  - B) Going-concern assumption.
  - C) Measurement (Cost) principle.
  - D) Business entity assumption.
  - E) Expense recognition (Matching) principle.
- 89) A limited liability company (LLC):
- A) Has owners called members.
  - B) Is subject to additional business income tax.
  - C) Includes a general owner with unlimited liability.
  - D) Is the same as a corporation.
  - E) Must have more than one owner.
- 90) A partnership:
- A) Is also called a sole proprietorship.
  - B) Has unlimited liability for its partners.
  - C) Has an indefinite business life.
  - D) Is a separate legal entity from its owners.
  - E) Has owners called shareholders.

- 91) Which of the following accounting principles require that all goods and services purchased be recorded at actual cost?
- A) Going-concern assumption.
  - B) Expense recognition (Matching) principle..
  - C) Measurement (Cost) principle.
  - D) Business entity assumption.
  - E) Consideration assumption.
- 92) Which of the following accounting principles prescribes that a company record its expenses incurred to generate the revenue reported?
- A) Going-concern assumption.
  - B) Expense recognition (Matching) principle.
  - C) Measurement (Cost) principle.
  - D) Business entity assumption.
  - E) Consideration assumption.
- 93) Revenue is properly recognized:
- A) When the customer makes an order.
  - B) Only if the transaction creates an account receivable.
  - C) At the end of the accounting period.
  - D) When goods or services are provided to customers and at the amount expected to be received from the customer.
  - E) When cash from a sale is received.
- 94) Which of the following is not an external user of accounting information?
- A) Lenders.
  - B) Shareholders.
  - C) Politicians.
  - D) Chief executive officer (CEO).
  - E) Customers.

- 95) Which of the following is an internal user of accounting information?
- A) Customers.
  - B) Internal Revenue Service.
  - C) Human resource manager.
  - D) Shareholders.
  - E) Lenders.
- 96) If a company uses \$1,450 of its cash to purchase supplies, the effect on the accounting equation would be:
- A) Assets increase \$1,450 and liabilities decrease \$1,450.
  - B) One asset increases \$1,450 and another asset decreases \$1,450, causing no effect.
  - C) Assets decrease \$1,450 and equity decreases \$1,450.
  - D) Assets decrease \$1,450 and equity increases \$1,450.
  - E) Assets increase \$1,450 and liabilities increase \$1,450.
- 97) If a company uses \$1,300 of its cash to purchase supplies, the effect on the accounting equation would be:
- A) Assets increase \$1,300 and liabilities decrease \$1,300.
  - B) One asset increases \$1,300 and another asset decreases \$1,300, causing no effect.
  - C) Assets decrease \$1,300 and equity decreases \$1,300.
  - D) Assets decrease \$1,300 and equity increases \$1,300.
  - E) Assets increase \$1,300 and liabilities increase \$1,300.
- 98) If a company receives \$10,900 from the owner to establish a proprietorship, the effect on the accounting equation would be:
- A) Assets decrease \$10,900 and equity decreases \$10,900.
  - B) Assets increase \$10,900 and liabilities decrease \$10,900.
  - C) Assets increase \$10,900 and liabilities increase \$10,900.
  - D) Liabilities increase \$10,900 and equity decreases \$10,900.
  - E) Assets increase \$10,900 and equity increases \$10,900.

- 99) If a company receives \$12,000 from the owner to establish a proprietorship, the effect on the accounting equation would be:
- A) Assets decrease \$12,000 and equity decreases \$12,000.
  - B) Assets increase \$12,000 and liabilities decrease \$12,000.
  - C) Assets increase \$12,000 and liabilities increase \$12,000.
  - D) Liabilities increase \$12,000 and equity decreases \$12,000.
  - E) Assets increase \$12,000 and equity increases \$12,000.
- 100) If a company purchases equipment costing \$5,500 on credit, the effect on the accounting equation would be:
- A) Assets increase \$5,500 and liabilities decrease \$5,500.
  - B) Equity decreases \$5,500 and liabilities increase \$5,500.
  - C) One asset increases \$5,500 and another asset decreases \$5,500.
  - D) Assets increase \$5,500 and liabilities increase \$5,500.
  - E) Equity increases \$5,500 and liabilities decrease \$5,500.
- 101) If a company purchases equipment costing \$4,500 on credit, the effect on the accounting equation would be:
- A) Assets increase \$4,500 and liabilities decrease \$4,500.
  - B) Equity decreases \$4,500 and liabilities increase \$4,500.
  - C) One asset increases \$4,500 and another asset decreases \$4,500.
  - D) Assets increase \$4,500 and liabilities increase \$4,500.
  - E) Equity increases \$4,500 and liabilities decrease \$4,500.
- 102) An example of a financing activity reported on the statement of cash flows is:
- A) Buying office supplies.
  - B) Obtaining a long-term loan.
  - C) Buying office equipment.
  - D) Selling inventory.
  - E) Buying land.

- 103) Increases in equity that result from providing products or services to customers are called:
- A) Liabilities.
  - B) Revenues.
  - C) Financing activities.
  - D) Investing activities.
  - E) Expenses.
- 104) Which of the following decreases equity:
- A) Investing activities.
  - B) Assets.
  - C) Accounts receivable.
  - D) Revenues.
  - E) Expenses.
- 105) An example of an investing activity on a statement of cash flows is:
- A) Paying wages of employees.
  - B) Withdrawals by the owner.
  - C) Purchase of land.
  - D) Selling inventory.
  - E) Contribution from owner.
- 106) Net Income:
- A) Decreases equity.
  - B) Represents the amount of assets owners put into a business.
  - C) Equals assets minus liabilities.
  - D) Occurs when revenues exceed expenses.
  - E) Represents creditor claims against assets.
- 107) If equity is \$428,000 and liabilities are \$202,000, then assets equal:
- A) \$226,000.
  - B) \$202,000.
  - C) \$428,000.
  - D) \$630,000.
  - E) \$1,058,000.

- 108) If equity is \$300,000 and liabilities are \$192,000, then assets equal:
- A) \$108,000.
  - B) \$192,000.
  - C) \$300,000.
  - D) \$492,000.
  - E) \$792,000.
- 109) If assets are \$428,000 and liabilities are \$202,000, then equity equals:
- A) \$226,000.
  - B) \$202,000.
  - C) \$428,000.
  - D) \$630,000.
  - E) \$1,058,000.
- 110) If assets are \$300,000 and liabilities are \$192,000, then equity equals:
- A) \$108,000.
  - B) \$192,000.
  - C) \$300,000.
  - D) \$492,000.
  - E) \$792,000.
- 111) Resources a company owns or controls that are expected to yield future benefits are:
- A) Assets.
  - B) Revenues.
  - C) Liabilities.
  - D) Payables.
  - E) Expenses.
- 112) Increases in equity from a company's sales of products or services to customers are:
- A) Assets.
  - B) Revenues.
  - C) Liabilities.
  - D) Owner's Equity.
  - E) Expenses.

- 113) The difference between a company's assets and its liabilities, or net assets is:
- A) Net income.
  - B) Expense.
  - C) Equity.
  - D) Revenue.
  - E) Net loss.
- 114) Creditors' claims on assets are called:
- A) Net losses.
  - B) Expenses.
  - C) Revenues.
  - D) Equity.
  - E) Liabilities.
- 115) Decreases in equity from costs of providing products or services to customers are called:
- A) Liabilities.
  - B) Equity.
  - C) Withdrawals.
  - D) Expenses.
  - E) Owner's Investment.
- 116) The description of the relation between a company's assets, liabilities, and equity, which is expressed as  $\text{Assets} = \text{Liabilities} + \text{Equity}$ , is known as the:
- A) Income statement equation.
  - B) Accounting equation.
  - C) Business equation.
  - D) Return on equity ratio.
  - E) Net income.
- 117) Revenues are:
- A) The same as net income.
  - B) The excess of expenses over assets.
  - C) Resources owned or controlled by a company.
  - D) Increases in equity from a company's sales of products and services.
  - E) The costs of assets or services used.

- 118) If assets are \$112,000 and liabilities are \$38,500, then equity equals:
- A) \$38,500.
  - B) \$73,500.
  - C) 112,000.
  - D) \$150,500.
  - E) \$262,500.
- 119) If assets are \$99,000 and liabilities are \$32,000, then equity equals:
- A) \$32,000.
  - B) \$67,000.
  - C) \$99,000.
  - D) \$131,000.
  - E) \$198,000.
- 120) Another name for equity is:
- A) Net income.
  - B) Expenses.
  - C) Net assets.
  - D) Revenue.
  - E) Net loss.
- 121) When expenses exceed revenues, the result is called:
- A) Net assets.
  - B) Negative equity.
  - C) Net loss.
  - D) Net income.
  - E) A liability.
- 122) Outflows of cash and other assets to owners for personal use are called a(n):
- A) Liabilities.
  - B) Withdrawals.
  - C) Expenses.
  - D) Contributions.
  - E) Investments.

- 123) Outflows of cash or other resources from a business to its owners:
- A) Reduce assets and equity.
  - B) Increase assets and equity.
  - C) Have no effect on equity.
  - D) Increases assets and reduces equity.
  - E) Reduces assets and increases equity.
- 124) The assets of a company total \$708,000; the liabilities, \$204,000. What is the amount of equity?
- A) \$912,000.
  - B) \$708,000.
  - C) \$504,000.
  - D) \$204,000.
  - E) It is impossible to determine unless the amount of the owners' investment is known.
- 125) The assets of a company total \$700,000; the liabilities, \$200,000. What is the amount of equity?
- A) \$900,000.
  - B) \$700,000.
  - C) \$500,000.
  - D) \$200,000.
  - E) It is impossible to determine unless the amount of the owners' investment is known.
- 126) On May 31 of the current year, the assets and liabilities of Riser, Incorporated are as follows: Cash \$16,800; Accounts Receivable, \$7,050; Supplies, \$700; Equipment, \$11,750; Accounts Payable, \$9,000. What is the amount of equity as of May 31 of the current year?
- A) \$45,300.
  - B) \$12,650.
  - C) \$16,800.
  - D) \$27,300.
  - E) \$36,300.

- 127) On May 31 of the current year, the assets and liabilities of Riser, Incorporated are as follows: Cash \$20,500; Accounts Receivable, \$7,250; Supplies, \$650; Equipment, \$12,000; Accounts Payable, \$9,300. What is the amount of equity as of May 31 of the current year?
- A) \$49,700.
  - B) \$13,050.
  - C) \$20,500.
  - D) \$31,100.
  - E) \$40,400.
- 128) On August 31 of the current year, the assets and liabilities of Gladstone, Incorporated are as follows: Cash \$30,900; Supplies, \$670; Equipment, \$10,600; Accounts Payable, \$9,300. What is the amount of equity as of August 31 of the current year?
- A) \$32,200.
  - B) \$32,870.
  - C) \$31,530.
  - D) \$10,330.
  - E) \$11,670.
- 129) On August 31 of the current year, the assets and liabilities of Gladstone, Incorporated are as follows: Cash \$30,000; Supplies, \$600; Equipment, \$10,000; Accounts Payable, \$8,500. What is the amount of equity as of August 31 of the current year?
- A) \$49,100.
  - B) \$32,100.
  - C) \$12,100.
  - D) \$10,900.
  - E) \$30,900.
- 130) Assets created by selling goods and services on credit are:
- A) Accounts payable.
  - B) Accounts receivable.
  - C) Liabilities.
  - D) Expenses.
  - E) Equity.

- 131) An exchange of value between two entities which causes a change in the accounting equation is called:
- A) The accounting equation.
  - B) Recordkeeping or bookkeeping.
  - C) An external transaction.
  - D) An asset.
  - E) Net Income.
- 132) Saddleback Company paid off \$50,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?
- A) Assets increase \$50,000; equity increases \$50,000.
  - B) Assets decrease \$50,000; liabilities decrease \$50,000.
  - C) Assets decrease \$50,000; liabilities increase \$50,000.
  - D) Liabilities decrease \$50,000; equity increases \$50,000.
  - E) Assets decrease \$50,000; equity decreases \$50,000.
- 133) Saddleback Company paid off \$30,000 of its accounts payable in cash. What would be the effects of this transaction on the accounting equation?
- A) Assets increase \$30,000; equity increases \$30,000.
  - B) Assets decrease \$30,000; liabilities decrease \$30,000.
  - C) Assets decrease \$30,000; liabilities increase \$30,000.
  - D) Liabilities decrease \$30,000; equity increases \$30,000.
  - E) Assets decrease \$30,000; equity decreases \$30,000.
- 134) If Houston Company billed a client for \$28,000 of consulting work completed, the accounts receivable asset increases by \$28,000 and:
- A) Accounts payable decreases \$28,000.
  - B) Accounts payable increases \$28,000.
  - C) Cash increases \$28,000.
  - D) Revenue increases \$28,000.
  - E) Revenue decreases \$28,000.

- 135) If Houston Company billed a client for \$10,000 of consulting work completed, the accounts receivable asset increases by \$10,000 and:
- A) Accounts payable decreases \$10,000.
  - B) Accounts payable increases \$10,000.
  - C) Cash increases \$10,000.
  - D) Revenue increases \$10,000.
  - E) Revenue decreases \$10,000.
- 136) Alpha Company has assets of \$604,000, liabilities of \$252,000, and equity of \$352,000. It buys office equipment on credit for \$77,000. What would be the effects of this transaction on the accounting equation?
- A) Assets increase by \$77,000 and expenses increase by \$77,000.
  - B) Assets increase by \$77,000 and expenses decrease by \$77,000.
  - C) Liabilities increase by \$77,000 and expenses decrease by \$77,000.
  - D) Assets decrease by \$77,000 and expenses decrease by \$77,000.
  - E) Assets increase by \$77,000 and liabilities increase by \$77,000.
- 137) Alpha Company has assets of \$600,000, liabilities of \$250,000, and equity of \$350,000. It buys office equipment on credit for \$75,000. What would be the effects of this transaction on the accounting equation?
- A) Assets increase by \$75,000 and expenses increase by \$75,000.
  - B) Assets increase by \$75,000 and expenses decrease by \$75,000.
  - C) Liabilities increase by \$75,000 and expenses decrease by \$75,000.
  - D) Assets decrease by \$75,000 and expenses decrease by \$75,000.
  - E) Assets increase by \$75,000 and liabilities increase by \$75,000.
- 138) Contessa Company collected \$42,000 cash on its accounts receivable. The effects of this transaction as reflected in the accounting equation are:
- A) Total assets decrease and equity increases.
  - B) Both total assets and total liabilities decrease.
  - C) Total assets, total liabilities, and total equity are unchanged.
  - D) Both total assets and equity are unchanged and liabilities increase.
  - E) Total assets increase and equity decreases.

- 139) If the liabilities of a business increased \$97,000 during a period of time and the owner's equity in the business decreased \$41,000 during the same period, the assets of the business must have:
- A) Decreased \$138,000.
  - B) Decreased \$56,000.
  - C) Increased \$41,000.
  - D) Increased \$56,000.
  - E) Increased \$138,000.
- 140) If the liabilities of a business increased \$75,000 during a period of time and the owner's equity in the business decreased \$30,000 during the same period, the assets of the business must have:
- A) Decreased \$105,000.
  - B) Decreased \$45,000.
  - C) Increased \$30,000.
  - D) Increased \$45,000.
  - E) Increased \$105,000.
- 141) If the assets of a business increased \$103,000 during a period of time and its liabilities increased \$74,000 during the same period, equity in the business must have:
- A) Increased \$29,000.
  - B) Decreased \$29,000.
  - C) Increased \$103,000.
  - D) Decreased \$177,000.
  - E) Increased \$177,000.
- 142) If the assets of a business increased \$89,000 during a period of time and its liabilities increased \$67,000 during the same period, equity in the business must have:
- A) Increased \$22,000.
  - B) Decreased \$22,000.
  - C) Increased \$89,000.
  - D) Decreased \$156,000.
  - E) Increased \$156,000.

- 143) If the liabilities of a company increased \$96,000 during a period of time and equity in the company decreased \$30,000 during the same period, what was the effect on the assets?
- A) Assets would have increased \$66,000.
  - B) Assets would have decreased \$66,000.
  - C) Assets would have increased \$126,000.
  - D) Assets would have decreased \$126,000.
  - E) None of the above.
- 144) If the liabilities of a company increased \$74,000 during a period of time and equity in the company decreased \$19,000 during the same period, what was the effect on the assets?
- A) Assets would have increased \$55,000.
  - B) Assets would have decreased \$55,000.
  - C) Assets would have increased \$93,000.
  - D) Assets would have decreased \$93,000.
  - E) None of the above.
- 145) If a company paid \$38,000 of its accounts payable in cash, what was the effect on the accounting equation?
- A) Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would decrease \$38,000.
  - B) Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would increase \$38,000.
  - C) Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity remains unchanged.
  - D) There would be no effect on the accounts because the accounts are affected by the same amount.
  - E) Assets would increase \$38,000 and liabilities would decrease \$38,000.
- 146) If assets are \$399,000 and equity is \$137,000, then liabilities are:
- A) \$137,000.
  - B) \$262,000.
  - C) \$399,000.
  - D) \$536,000.
  - E) \$661,000.

- 147) If assets are \$365,000 and equity is \$120,000, then liabilities are:
- A) \$120,000.
  - B) \$245,000.
  - C) \$365,000.
  - D) \$485,000.
  - E) \$610,000.
- 148) Rushing had net income of \$201 million and average total assets of \$1,980 million. Its return on assets (ROA) is:
- A) 10.2%.
  - B) 101.5%.
  - C) 10.0%.
  - D) 99.0%.
  - E) 20.3%.
- 149) Rushing had net income of \$240 million and average total assets of \$2,000 million. Its return on assets (ROA) is:
- A) 12%.
  - B) 120%.
  - C) 80%.
  - D) 8%.
  - E) 800%.
- 150) Cage Company had net income of \$361 million and average total assets of \$2,030 million. Its return on assets (ROA) is:
- A) 1.8%.
  - B) 36.0%.
  - C) 17.8%.
  - D) 5.6%.
  - E) 3.6%.

- 151) Cage Company had net income of \$160 million and average total assets of \$2,000 million. Its return on assets (ROA) is:
- A) 80%.
  - B) 0.8%.
  - C) 8%.
  - D) 12.5%.
  - E) 125%.
- 152) Speedy has net income of \$24,955, and assets at the beginning of the year of \$206,000. Assets at the end of the year total \$252,000. Compute its return on assets.
- A) 9.9%.
  - B) 10.9%.
  - C) 12.1%.
  - D) 11.2%.
  - E) 14.9%.
- 153) Speedy has net income of \$18,955, and assets at the beginning of the year of \$200,000. Assets at the end of the year total \$246,000. Compute its return on assets.
- A) 7.7%.
  - B) 8.5%.
  - C) 9.5%.
  - D) 11.8%.
  - E) 13.0%.
- 154) Chou Company has a net income of \$53,000, assets at the beginning of the year are \$260,000 and assets at the end of the year are \$310,000. Compute its return on assets.
- A) 10.2%.
  - B) 20.4%.
  - C) 17.1%.
  - D) 18.6%.
  - E) 1.8%.

- 155) Chou Company has a net income of \$42,900, assets at the beginning of the year are \$250,000 and assets at the end of the year are \$300,000. Compute its return on assets.
- A) 8.4%.
  - B) 17.2%.
  - C) 14.3%.
  - D) 15.6%.
  - E) 1.5%.
- 156) Return on assets (ROA) falls into which area of financial statement analysis.
- A) Liquidity and efficiency.
  - B) Solvency.
  - C) Profitability.
  - D) Market prospects.
  - E) Market research.
- 157) Equity is:
- A) Net income divided by average total assets.
  - B) Equal to assets plus liabilities.
  - C) The owner's claim on assets.
  - D) Increased by expenses.
  - E) Decreased by revenue.
- 158) Which of the following is not reported on the statement of cash flows?
- A) Cash flows from operating activities.
  - B) Cash flows from investing activities.
  - C) Cash flows from financing activities.
  - D) The net increase or decrease in equity for the period reported.
  - E) The net increase or decrease in cash for the period reported.
- 159) Which of the following is *not* a financial statement?
- A) Balance Sheet.
  - B) Income Statement.
  - C) Statement of Owner's Equity.
  - D) Statement of Cash Flows.
  - E) Statement of Changes in Assets.

- 160) The statement of owner's equity:
- A) Reports how equity changes at a point in time.
  - B) Reports how equity changes over a period of time.
  - C) Reports on cash flows for operating, financing, and investing activities over a period of time.
  - D) Reports on cash flows for operating, financing, and investing activities at a point in time.
  - E) Reports on amounts for assets, liabilities, and equity at a point in time.
- 161) The financial statement that reports whether the business earned a profit and also lists the revenues and expenses is called the:
- A) Balance sheet.
  - B) Statement of owner's equity.
  - C) Statement of cash flows.
  - D) Income statement.
  - E) Statement of financial position.
- 162) A balance sheet lists:
- A) The types and amounts of the revenues and expenses of a business.
  - B) Only the information about what happened to equity during a time period.
  - C) The types and amounts of assets, liabilities, and equity of a business at a point in time.
  - D) The inflows and outflows of cash during the period.
  - E) The assets and liabilities of a company but not the owner's equity.
- 163) A financial statement providing information that helps users understand a company's financial status, and which lists the types and amounts of assets, liabilities, and equity as of a specific date, is called a(n):
- A) Balance sheet.
  - B) Income statement.
  - C) Statement of cash flows.
  - D) Statement of owner's equity.
  - E) Financial Status Statement.

- 164) The financial statement that identifies a company's cash inflows (receipts) and cash outflows (payments) over a period of time is the:
- A) Statement of financial position.
  - B) Statement of cash flows.
  - C) Balance sheet.
  - D) Income statement.
  - E) Statement of changes in owner's equity.
- 165) The financial statement that shows the beginning balance of owner's equity; the changes in equity that resulted from new investments by the owner, net income (or net loss); withdrawals; and the ending balance, is the:
- A) Statement of financial position.
  - B) Statement of cash flows.
  - C) Balance sheet.
  - D) Income statement.
  - E) Statement of owner's equity.
- 166) Cash investments by owners are listed on which of the following statements?
- A) Statement of owner's equity and income statement.
  - B) Income statement only.
  - C) Statement of owner's equity only.
  - D) Statement of cash flows only.
  - E) Statement of owner's equity and statement of cash flows.
- 167) Accounts payable appear on which of the following statements?
- A) Balance sheet.
  - B) Income statement.
  - C) Statement of owner's equity.
  - D) Statement of cash flows.
  - E) Transaction statement.

168) Which of the following items is *not* reported on the income statement?

- A) Revenues earned by a business.
- B) Expenses incurred by a business.
- C) Assets owned by a business.
- D) Net income or loss earned by a business.
- E) The time period over which the earnings occurred.

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

|                    |           |
|--------------------|-----------|
| <b>Cash</b>        | \$ 62,000 |
| <b>Buildings</b>   | 180,000   |
| <b>Equipment</b>   | 211,000   |
| <b>Liabilities</b> | 146,000   |

- A) \$62,000.
- B) \$146,000.
- C) \$307,000.
- D) \$453,000.
- E) \$599,000.

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

|                    |           |
|--------------------|-----------|
| <b>Cash</b>        | \$ 57,000 |
| <b>Buildings</b>   | 175,000   |
| <b>Equipment</b>   | 206,000   |
| <b>Liabilities</b> | 141,000   |

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

171) Use the following information for Meeker Corporation to determine the amount of equity to report.

|                    |           |
|--------------------|-----------|
| <b>Cash</b>        | \$ 73,000 |
| <b>Buildings</b>   | 127,000   |
| <b>Land</b>        | 209,800   |
| <b>Liabilities</b> | 132,000   |

- A) \$541,800.
- B) \$287,800.
- C) \$409,800.
- D) \$23,800.
- E) \$277,800.

172) Use the following information for Meeker Corporation to determine the amount of equity to report.

|                    |           |
|--------------------|-----------|
| <b>Cash</b>        | \$ 70,000 |
| <b>Buildings</b>   | 125,000   |
| <b>Land</b>        | 205,000   |
| <b>Liabilities</b> | 130,000   |

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

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

|                                  |            |
|----------------------------------|------------|
| <b>Employee salaries expense</b> | \$ 194,000 |
| <b>Interest expense</b>          | 24,000     |
| <b>Rent expense</b>              | 34,000     |
| <b>Consulting revenue</b>        | 456,000    |

- A) \$204,000.
- B) \$252,000.
- C) \$272,000.
- D) \$456,000.
- E) \$708,000.

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

|                                  |            |
|----------------------------------|------------|
| <b>Employee salaries expense</b> | \$ 180,000 |
| <b>Interest expense</b>          | 10,000     |
| <b>Rent expense</b>              | 20,000     |
| <b>Consulting revenue</b>        | 400,000    |

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

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

|                          |            |
|--------------------------|------------|
| <b>Service revenue</b>   | \$ 338,000 |
| <b>Rent expense</b>      | 67,000     |
| <b>Utilities expense</b> | 5,100      |
| <b>Salaries expense</b>  | 100,000    |

- A) \$299,900.
- B) \$510,100.
- C) \$171,000.
- D) \$165,900.
- E) \$271,000.

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

|                          |            |
|--------------------------|------------|
| <b>Service revenue</b>   | \$ 300,000 |
| <b>Rent expense</b>      | 48,000     |
| <b>Utilities expense</b> | 3,200      |
| <b>Salaries expense</b>  | 81,000     |

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

- 177) A company purchases equipment for \$75,000 cash. This represents a(n):
- A) Operating activity.
  - B) Investing activity.
  - C) Financing activity.
  - D) Revenue activity.
  - E) Expense activity.
- 178) A company borrows \$125,000 from the Northern Bank and receives the loan proceeds in cash. This represents a(n):
- A) Revenue activity.
  - B) Operating activity.
  - C) Expense activity.
  - D) Investing activity.
  - E) Financing activity.
- 179) Zippy had cash inflows from operating activities of \$74,500; cash outflows from investing activities of \$59,000; and cash inflows from financing activities of \$37,000. The net change in cash was:
- A) \$52,500 increase.
  - B) \$52,500 decrease.
  - C) \$170,500 decrease.
  - D) \$170,500 increase.
  - E) \$21,500 decrease.
- 180) Zippy had cash inflows from operating activities of \$60,500; cash outflows from investing activities of \$47,000; and cash inflows from financing activities of \$25,000. The net change in cash was:
- A) \$38,500 increase.
  - B) \$38,500 decrease.
  - C) \$132,500 decrease.
  - D) \$132,000 increase.
  - E) \$11,500 decrease.

- 181) Zapper has beginning equity of \$259,000, net income of \$52,000, withdrawals of \$41,000 and investments by owners of \$7,000. Its ending equity is:
- A) \$225,000.
  - B) \$241,000.
  - C) \$270,000.
  - D) \$277,000.
  - E) \$208,500.
- 182) Zapper has beginning equity of \$257,000, net income of \$51,000, withdrawals of \$40,000 and investments by owners of \$6,000. Its ending equity is:
- A) \$223,000.
  - B) \$240,000.
  - C) \$268,000.
  - D) \$274,000.
  - E) \$208,000.
- 183) Cragmont has beginning equity of \$283,000, net income of \$69,000, withdrawals of \$31,000 and no additional investments by owners during the period. Its ending equity is:
- A) \$383,000.
  - B) \$245,000.
  - C) \$183,000.
  - D) \$321,000.
  - E) \$283,000.
- 184) Cragmont has beginning equity of \$277,000, net income of \$63,000, withdrawals of \$25,000 and no additional investments by owners during the period. Its ending equity is:
- A) \$365,000.
  - B) \$239,000.
  - C) \$189,000.
  - D) \$315,000.
  - E) \$277,000.

- 185) Rent expense appears on which of the following statements?
- A) Balance sheet.
  - B) Income statement.
  - C) Statement of owner's equity.
  - D) Income statement and balance sheet.
  - E) Statement of cash flows and balance sheet.
- 186) A company's balance sheet shows: cash \$50,000, accounts receivable \$30,000, office equipment \$64,000, and accounts payable \$31,000. What is the amount of owner's equity?
- A) \$31,000.
  - B) \$43,000.
  - C) \$113,000.
  - D) \$144,000.
  - E) \$175,000.
- 187) A company's balance sheet shows: cash \$22,000, accounts receivable \$16,000, office equipment \$50,000, and accounts payable \$17,000. What is the amount of owner's equity?
- A) \$17,000.
  - B) \$29,000.
  - C) \$71,000.
  - D) \$88,000.
  - E) \$105,000.
- 188) A company reported total equity of \$171,000 at the beginning of the year. The company reported \$236,000 in revenues and \$178,000 in expenses for the year. Liabilities at the end of the year totaled \$105,000. There were no owner investments or withdrawals during the year. What are the total assets of the company at the end of the year?
- A) \$58,000.
  - B) \$105,000.
  - C) \$124,000.
  - D) \$236,000.
  - E) \$334,000.

- 189) A company reported total equity of \$145,000 at the beginning of the year. The company reported \$210,000 in revenues and \$165,000 in expenses for the year. Liabilities at the end of the year totaled \$92,000. There were no owner investments or withdrawals during the year. What are the total assets of the company at the end of the year?
- A) \$45,000.
  - B) \$92,000.
  - C) \$98,000.
  - D) \$210,000.
  - E) \$282,000.
- 190) Flitter reported net income of \$19,000 for the past year. At the beginning of the year the company had \$203,000 in assets and \$53,000 in liabilities. By the end of the year, assets had increased to \$303,000 and liabilities were \$78,000. Calculate its return on assets:
- A) 9.4%.
  - B) 7.5%.
  - C) 6.3%.
  - D) 35.2%.
  - E) 24.0%.
- 191) Flitter reported net income of \$17,500 for the past year. At the beginning of the year the company had \$200,000 in assets and \$50,000 in liabilities. By the end of the year, assets had increased to \$300,000 and liabilities were \$75,000. Calculate its return on assets:
- A) 8.8%.
  - B) 7.0%.
  - C) 5.8%.
  - D) 35.0%.
  - E) 23.3%.
- 192) Cruz Company had revenues of \$118,000 and expenses of \$69,000 for the year. Its assets at the beginning of the year were \$419,000. At the end of the year assets were worth \$469,000. Calculate its return on assets.
- A) 11.0%.
  - B) 11.7%.
  - C) 10.4%.
  - D) 28.2%.
  - E) 26.6%.

- 193) Cruz Company had revenues of \$80,175 and expenses of \$50,000 for the year. Its assets at the beginning of the year were \$400,000. At the end of the year assets were worth \$450,000. Calculate its return on assets.
- A) 7.1%.
  - B) 7.5%.
  - C) 6.7%.
  - D) 20.0%.
  - E) 18.8%.
- 194) Lito Company had cash inflows from operating activities of \$45,000; cash outflows from investing activities of \$40,000, and cash outflows from financing activities of \$30,000. Calculate the net increase or decrease in cash.
- A) \$115,000 increase.
  - B) \$55,000 increase.
  - C) \$25,000 decrease.
  - D) \$25,000 increase.
  - E) \$70,000 decrease.
- 195) Lito Company had cash inflows from operating activities of \$27,000; cash outflows from investing activities of \$22,000, and cash outflows from financing activities of \$12,000. Calculate the net increase or decrease in cash.
- A) \$61,000 increase.
  - B) \$37,000 increase.
  - C) \$7,000 decrease.
  - D) \$7,000 increase.
  - E) \$34,000 decrease.
- 196) Charlie's Chocolates' owner made investments of \$74,000 and withdrawals of \$32,000. The company has revenues of \$107,000 and expenses of \$76,000. Calculate its net income.
- A) \$42,000.
  - B) \$107,000.
  - C) \$76,000.
  - D) \$31,000.
  - E) \$73,000.

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

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

198) Savvy Sightseeing had beginning equity of \$77,000; revenues of \$105,000, expenses of \$70,000, and withdrawals by owners of \$9,500. Calculate the ending equity.

- A) \$102,500.
- B) \$35,000.
- C) \$112,000.
- D) \$32,500.
- E) \$42,000.

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

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

200) Doc's Ribhouse had beginning equity of \$55,000; net income of \$36,000, and withdrawals by the owner of \$13,000. The owner made no investments during the year. Calculate the ending equity.

- A) \$(6,000).
- B) \$32,000.
- C) \$6,000.
- D) \$104,000.
- E) \$78,000.

- 201) Doc's Ribhouse had beginning equity of \$52,000; net income of \$35,000, and withdrawals by the owner of \$12,000. The owner made no investments during the year. Calculate the ending equity.
- A) \$(5,000).
  - B) \$29,000.
  - C) \$5,000.
  - D) \$99,000.
  - E) \$75,000.
- 202) A company's balance sheet shows: cash \$34,000, accounts receivable \$40,000, equipment \$70,000, and equity \$82,000. What is the amount of liabilities?
- A) \$144,000.
  - B) \$126,000.
  - C) \$62,000.
  - D) \$78,000.
  - E) \$226,000.
- 203) A company's balance sheet shows: cash \$24,000, accounts receivable \$30,000, equipment \$50,000, and equity \$72,000. What is the amount of liabilities?
- A) \$104,000.
  - B) \$76,000.
  - C) \$32,000.
  - D) \$68,000.
  - E) \$176,000.
- 204) If a company has excess space in its building that it rents to another company for \$700, what is the effect on the accounting equation during the first month?
- A) Assets would decrease \$700 and liabilities would decrease \$700.
  - B) Assets would decrease \$700 and equity would increase \$700.
  - C) Assets would increase \$700 and equity would decrease \$700.
  - D) Assets would increase \$700 and equity would increase \$700.
  - E) Liabilities would decrease \$700 and equity would increase \$700.

- 205) Which of the following is a *not* an asset account?
- A) Accounts Receivable.
  - B) Supplies.
  - C) Equipment.
  - D) Accounts Payable.
  - E) Land.
- 206) Which of the following accounts is *not* included in the calculation of a company's ending equity?
- A) Revenues.
  - B) Expenses.
  - C) Withdrawals.
  - D) Owner investments.
  - E) Accounts receivable.
- 207) Which of the following is *not* classified as a liability?
- A) Accounts Receivable.
  - B) Notes Payable.
  - C) Wages Payable.
  - D) Accounts Payable.
  - E) Taxes Payable.
- 208) Billington Corporation borrows \$80,000 cash from U.S. Bank. How does this transaction affect the accounting equation for Billington?
- A) Assets would decrease \$80,000 and liabilities would decrease \$80,000.
  - B) Assets would decrease \$80,000 and equity would increase \$80,000.
  - C) Assets would increase \$80,000 and equity would decrease \$80,000.
  - D) Assets would increase \$80,000 and liabilities would increase \$80,000.
  - E) Liabilities would decrease \$80,000 and equity would increase \$80,000.

- 209) If the assets of a company increase by \$55,000 during the year and its liabilities increase by \$25,000 during the same year, then the change in equity of the company during the year must have been:
- A) An increase of \$80,000.
  - B) A decrease of \$80,000.
  - C) An increase of \$30,000.
  - D) A decrease of \$30,000.
  - E) An increase of \$25,000.
- 210) Which of the following is liability account?
- A) Accounts Payable.
  - B) Accounts Receivable.
  - C) Cash.
  - D) Supplies.
  - E) Prepaid Insurance.
- 211) Grandmark Printing pays the current month's rent of \$2,000 to the landlord of the building where its facilities are located. How does this transaction affect the accounting equation for Grandmark?
- A) Assets would decrease \$2,000 and liabilities would decrease \$2,000.
  - B) Assets would decrease \$2,000 and equity would decrease \$2,000.
  - C) Assets would increase \$2,000 and equity would increase \$2,000.
  - D) Assets would increase \$2,000 and liabilities would increase \$2,000.
  - E) Liabilities would decrease \$2,000 and equity would increase \$2,000.
- 212) Atkins Company collected \$1,750 as payment for the amount owed by a customer from services provided the prior month on credit. How does this transaction affect the accounting equation for Atkins?
- A) Assets would decrease \$1,750 and liabilities would decrease \$1,750.
  - B) One asset would increase \$1,750 and a different asset would decrease \$1,750, causing no net change in the accounting equation.
  - C) Assets would increase \$1,750 and equity would increase \$1,750.
  - D) Assets would increase \$1,750 and liabilities would increase \$1,750.
  - E) Liabilities would decrease \$1,750 and equity would increase \$1,750.

- 213) The accounting equation for Ying Company shows a decrease in its assets and a decrease in its equity. Which of the following transactions could have caused that effect?
- A) Cash was received from providing services to a customer.
  - B) The company paid an amount due on credit.
  - C) Equipment was purchased for cash.
  - D) A utility bill was received for the current month, to be paid in the following month.
  - E) Advertising expense for the month was paid in cash.
- 214) The accounting equation for Long Company shows an increase in its assets and an increase in its liabilities. Which of the following transactions could have caused that effect?
- A) Cash was received from providing services to a customer.
  - B) Cash was received as an owner investment.
  - C) Equipment was purchased on credit.
  - D) Supplies were purchased for cash.
  - E) Advertising expense for the month was paid in cash.
- 215) The expense recognition principle, also called the matching principle:
- A) Prescribes that accounting information is based on actual cost.
  - B) Provides guidance on when a company must recognize revenue.
  - C) Prescribes that a company report the details behind financial statements that would impact users' decisions.
  - D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
  - E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.
- 216) The measurement principle, also called the cost principle:
- A) Prescribes that accounting information is based on actual cost.
  - B) Provides guidance on when a company must recognize revenue.
  - C) Prescribes that a company report the details behind financial statements that would impact users' decisions.
  - D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
  - E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

- 217) The revenue recognition principle:
- A) Prescribes that accounting information is based on actual cost.
  - B) Provides guidance on when a company must recognize revenue.
  - C) Prescribes that a company report the details behind financial statements that would impact users' decisions.
  - D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
  - E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.
- 218) The full disclosure principle:
- A) Prescribes that accounting information is based on actual cost.
  - B) Provides guidance on when a company must recognize revenue.
  - C) Prescribes that a company report the details behind financial statements that would impact users' decisions.
  - D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
  - E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.
- 219) The cost-benefit constraint:
- A) Prescribes that accounting information is based on actual cost.
  - B) Provides guidance on when a company must recognize revenue.
  - C) Says that information disclosed by an entity must have benefits to the user that are greater than the costs of providing it.
  - D) Prescribes that a company record the expenses it incurred to generate the revenue reported.
  - E) Means that accounting information reflects a presumption that the business will continue operating instead of being closed or sold.

- 220) The going concern assumption:
- A) Means that accounting information presumes that the business will continue operating instead of being closed or sold.
  - B) Means that we can express transactions and events in monetary, or money, units.
  - C) Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
  - D) Means that a business is accounted for separately from other business entities, including its owner.
  - E) Prescribes that a company record the expenses it incurred to generate the revenue reported.
- 221) The monetary unit assumption:
- A) Means that accounting information presumes that the business will continue operating instead of being closed or sold.
  - B) Means that transactions and events are expressed in monetary, or money, units.
  - C) Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
  - D) Means that a business is accounted for separately from other business entities, including its owner.
  - E) Prescribes that a company record the expenses it incurred to generate the revenue reported.
- 222) The time period assumption:
- A) Means that accounting information presumes that the business will continue operating instead of being closed or sold.
  - B) Means that we can express transactions and events are expressed in monetary, or money, units.
  - C) Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
  - D) Means that a business is accounted for separately from other business entities, including its owner.
  - E) Prescribes that a company record the expenses it incurred to generate the revenue reported.

- 223) The business entity assumption:
- A) Means that accounting information presumes that the business will continue operating instead of being closed or sold.
  - B) Means that we can express transactions and events in monetary, or money, units.
  - C) Presumes that the life of a company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
  - D) Means that a business is accounted for separately from other business entities, including its owner.
  - E) Prescribes that a company record the expenses it incurred to generate the revenue reported.
- 224) Internal controls are:
- A) Beliefs that separate right from wrong.
  - B) Procedures to protect assets, ensure reliable accounting, promote efficiency, and uphold company policies.
  - C) An example of a general principle.
  - D) An example of a specific principle.
  - E) The same across all companies.
- 225) The Financial Accounting Standards Board (FASB) is given the task of setting GAAP from the:
- A) U.S. State Department.
  - B) Securities and Exchange Commission (SEC).
  - C) International Accounting Standards Board (IASB).
  - D) International Financial Reporting Standards (IFRS).
  - E) American Institute of Certified Public Accountants (AICPA).
- 226) Which of the following accounts is *not* included in the asset section of the balance sheet?
- A) Cash.
  - B) Accounts receivable.
  - C) Supplies.
  - D) Land.
  - E) Services revenue.

- 227) Which of the following accounts is *not* included in the asset section of the balance sheet?
- A) Buildings.
  - B) Wages expense.
  - C) Supplies.
  - D) Land.
  - E) Furniture.
- 228) Which of the following accounts is *not* included in the liabilities section of the balance sheet?
- A) Accounts receivable.
  - B) Wages payable.
  - C) Accounts payable.
  - D) Notes payable.
  - E) Taxes payable.
- 229) Which of the following accounts is *not* included in the calculation of net income?
- A) Services revenue.
  - B) Wages expense.
  - C) Rent expense.
  - D) Cash.
  - E) Rent revenue.
- 230) Which of the following combinations results in a net loss reported on the income statement?
- A) Total revenues of \$80,000 and total expenses of \$74,000.
  - B) Total revenues of \$70,000 and total expenses of \$74,000.
  - C) Total revenues of \$60,000 and total expenses of \$52,000.
  - D) Total revenues of \$20,000 and total expenses of \$16,000.
  - E) Total revenues of \$40,000 and total expenses of \$31,000.

## Answer Key

Test name: Chapter 01-01

- 1) TRUE
- 2) TRUE
- 3) TRUE
- 4) FALSE
- 5) TRUE
- 6) TRUE
- 7) TRUE
- 8) FALSE
- 9) TRUE
- 10) TRUE
- 11) TRUE
- 12) TRUE
- 13) TRUE
- 14) FALSE
- 15) FALSE
- 16) TRUE
- 17) FALSE
- 18) TRUE
- 19) TRUE
- 20) FALSE
- 21) FALSE
- 22) FALSE
- 23) FALSE
- 24) TRUE
- 25) TRUE
- 26) TRUE
- 27) FALSE
- 28) FALSE
- 29) TRUE
- 30) FALSE
- 31) TRUE
- 32) TRUE
- 33) FALSE
- 34) TRUE
- 35) TRUE
- 36) TRUE
- 37) FALSE

- 38) TRUE
- 39) FALSE
- 40) TRUE
- 41) FALSE
- 42) TRUE
- 43) FALSE
- 44) TRUE
- 45) FALSE
- 46) TRUE
- 47) FALSE
- 48) FALSE
- 49) TRUE
- 50) FALSE
- 51) FALSE
- 52) FALSE
- 53) FALSE
- 54) TRUE
- 55) TRUE
- 56) FALSE
- 57) TRUE
- 58) FALSE
- 59) TRUE
- 60) TRUE
- 61) FALSE
- 62) FALSE
- 63) TRUE
- 64) FALSE
- 65) TRUE
- 66) TRUE
- 67) D
- 68) C
- 69) B
- 70) B
- 71) C
- 72) E
- 73) D
- 74) C
- 75) A
- 76) B
- 77) B

- 78) B
- 79) A
- 80) B
- 81) B
- 82) C
- 83) B
- 84) C
- 85) A
- 86) C
- 87) E
- 88) D
- 89) A
- 90) B
- 91) C
- 92) B
- 93) D
- 94) D
- 95) C
- 96) B
- 97) B
- 98) E
- 99) E
- 100) D
- 101) D
- 102) B
- 103) B
- 104) E
- 105) C
- 106) D
- 107) D
- 108) D
- 109) A
- 110) A
- 111) A
- 112) B
- 113) C
- 114) E
- 115) D
- 116) B
- 117) D

- 118) B
- 119) B
- 120) C
- 121) C
- 122) B
- 123) A
- 124) C
- 125) C
- 126) D
- 127) D
- 128) B
- 129) B
- 130) B
- 131) C
- 132) B
- 133) B
- 134) D
- 135) D
- 136) E
- 137) E
- 138) C
- 139) D
- 140) D
- 141) A
- 142) A
- 143) A
- 144) A
- 145) C
- 146) B
- 147) B
- 148) A
- 149) A
- 150) C
- 151) C
- 152) B
- 153) B
- 154) D
- 155) D
- 156) C
- 157) C

- 158) D
- 159) E
- 160) B
- 161) D
- 162) C
- 163) A
- 164) B
- 165) E
- 166) E
- 167) A
- 168) C
- 169) C
- 170) C
- 171) E
- 172) E
- 173) A
- 174) A
- 175) D
- 176) D
- 177) B
- 178) E
- 179) A
- 180) A
- 181) D
- 182) D
- 183) D
- 184) D
- 185) B
- 186) C
- 187) C
- 188) E
- 189) E
- 190) B
- 191) B
- 192) A
- 193) A
- 194) C
- 195) C
- 196) D
- 197) D

- 198) A
- 199) A
- 200) E
- 201) E
- 202) C
- 203) C
- 204) D
- 205) D
- 206) E
- 207) A
- 208) D
- 209) C
- 210) A
- 211) B
- 212) B
- 213) E
- 214) C
- 215) D
- 216) A
- 217) B
- 218) C
- 219) C
- 220) A
- 221) B
- 222) C
- 223) D
- 224) B
- 225) B
- 226) E
- 227) B
- 228) A
- 229) D
- 230) B

Correct answers located at the end of the chapter.

**FILL IN THE BLANK. Write the word or phrase that best completes each statement or answers the question.**

- 1) \_\_\_\_\_ is an information and measurement system that identifies, records and communicates an organization's business activities.
- 2) A \_\_\_\_\_ is a business that is owned by only one person who has unlimited liability.
- 3) \_\_\_\_\_ users of accounting information do not directly run an organization and have limited access to its accounting information.
- 4) \_\_\_\_\_ is the area of accounting that focuses on the needs of external users by providing them with general-purpose financial statements.
- 5) \_\_\_\_\_ are procedures to protect assets, ensure reliable accounting, promote efficiency, and uphold company policies.
- 6) \_\_\_\_\_ are beliefs that separate right from wrong and are considered accepted standards of good and bad behavior.
- 7) The assumption that requires that a business be accounted for separately from other business entities and its owner(s) is the \_\_\_\_\_ assumption.
- 8) The \_\_\_\_\_ assumption assumes that a business will continue operating instead of being closed or sold.
- 9) The \_\_\_\_\_ assumption states that transactions and events are expressed in monetary, or money, units.

- 10) The principle that requires that accounting information be based on actual cost is the \_\_\_\_\_.
- 11) A disadvantage of a sole proprietorship is the fact that the owner has \_\_\_\_\_ for business debts and actions.
- 12) There are three sections of the statement of cash flows \_\_\_\_\_ activities involve the long-term borrowing and repaying of cash from lenders.
- 13) There are three sections of the statement of cash flows. \_\_\_\_\_ activities involve buying and selling assets such as land and equipment that are held for long-term use.
- 14) There are three sections of the statement of cash flows. \_\_\_\_\_ activities include payments for salaries, insurance, and rent.
- 15) Outflows of cash and other assets for personal use are called \_\_\_\_\_.
- 16) \_\_\_\_\_ are the increases in equity from a company's sales of products and services to customers.
- 17) A common characteristic of \_\_\_\_\_ is the expectation that they will yield future benefits.
- 18) Creditors' claims on assets that reflect company obligations to provide assets, products, or services to others are called \_\_\_\_\_.
- 19) The owner's claim on assets, also known as net assets, is called \_\_\_\_\_.
- 20) The accounting equation is \_\_\_\_\_.

- 21) The term \_\_\_\_\_ refers to a liability that promises a future outflow of resources.
- 22) Using the accounting equation, equity is equal to \_\_\_\_\_.
- 23) \_\_\_\_\_, is the recording of transactions and events.
- 24) \_\_\_\_\_ is net income divided by average total assets.
- 25) Return on assets is \_\_\_\_\_ divided by average total assets.
- 26) \_\_\_\_\_ reports changes in the owner's claim on the business's assets from net income or loss, owner investments, and owner withdrawals over a period of time.
- 27) The \_\_\_\_\_ describes a company's revenues and expenses along with the resulting net income or net loss over a period of time due to earnings activities.

**SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.**

- 28) Explain the role of accounting in the information age.
- 29) What is the balance sheet? What is its purpose?

30) Identify the users and uses of accounting information.

31) Identify several opportunities in accounting and distinguish between private accounting and public accounting.

32) Explain why ethics are an integral part of accounting.

33) Describe the two important guidelines for revenue recognition.

34) Identify the four basic forms of business organizations and their key attributes.

- 35) Identify and describe the two main groups involved in establishing generally accepted accounting principles.
- 36) How does the going-concern assumption affect reporting asset values of a business?
- 37) Describe the income statement and the relation between revenues, expenses, and net income or loss.
- 38) Explain the accounting equation and define its terms.
- 39) What distinguishes liabilities from equity?

40) What is the purpose of return on assets as an analytical tool?

41) Explain the cost-benefit constraint.

42) Describe the three types of activities reported on the statement of cash flows.

43) Identify and describe the four basic financial statements:

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.**

44) Match the following terms with the appropriate definition.

- a. Financial accounting
  - b. Ethics
  - c. Recordkeeping
  - d. Internal users
  - e. Accounting
  - f. Certified Public Accountant (CPA)
  - g. Fraud triangle
  - h. Managerial accounting
  - i. External users
1. \_\_\_\_ 1. An information and measurement system that identifies, records, and communicates an organization's business activities.
  2. \_\_\_\_ 2. The part of accounting that involves recording transactions and events.
  3. \_\_\_\_ 3. Persons using accounting information who do not directly run the organization and have limited access to its accounting information.
  4. \_\_\_\_ 4. Persons using accounting information who directly manage the organization.
  5. \_\_\_\_ 5. The area of accounting that serves the decision-making needs of internal users.
  6. \_\_\_\_ 6. The area of accounting focused on serving external users by providing them with general-purpose financial statements.
  7. \_\_\_\_ 7. Accounting specialists that have met educational and experience requirements, passed an examination and exhibit ethical characteristics to achieve a professional certification.
  8. \_\_\_\_ 8. Beliefs that distinguish right from wrong, considered accepted standards of good and bad behavior.
  9. \_\_\_\_ 9. A model that shows three factors that push a person to commit fraud.

45) Match each of the following terms with the most appropriate definition.

- a. Return on assets
  - b. Assets
  - c. Expenses
  - d. Liabilities
  - e. Owner withdrawals
  - f. Accounting equation
  - g. Owner capital
- 1. \_\_\_\_ 1. Resources such as cash that an owner puts into the company.
  - 1. \_\_\_\_ 2. A financial ratio computed as net income divided by average total assets.
  - 2. \_\_\_\_ 3. Creditor's claims on a company's assets.
  - 3. \_\_\_\_ 4. Decreases in equity from costs of providing products or services to customers.
  - 4. \_\_\_\_ 5. Outflows of cash and other assets to owners for personal use.
  - 5. \_\_\_\_ 6. Resources a company owns or controls that are expected to yield future benefit.
  - 6. \_\_\_\_ 7. Expresses the relation of assets, liabilities and equity in a company.

46) The following is a list of selected users of accounting information. Match the appropriate user to the following decisions they make with accounting information.

- a. Suppliers
  - b. Lenders
  - c. Shareholders
  - d. Purchasing managers
  - e. Regulators
- 1. \_\_\_\_ 1. Need to know what, when, and how much to purchase.
  - 2. \_\_\_\_ 2. Use information to analyze a customer before extending credit.
  - 3. \_\_\_\_ 3. Have legal authority over certain activities of an organization.
  - 4. \_\_\_\_ 4. Assess whether an organization is likely to repay its loans with interest.
  - 5. \_\_\_\_ 5. Decide whether to buy, hold, or sell a company's stock.

47) Match the following definitions with terms 1 through 8. Place the letter that identifies the best definition in the blank space next to the term.

1. \_\_\_\_ 1. Generally accepted accounting principles
  2. \_\_\_\_ 2. Time period assumption
  3. \_\_\_\_ 3. Statement of owner's equity
  4. \_\_\_\_ 4. Balance sheet
  5. \_\_\_\_ 5. Income statement
  6. \_\_\_\_ 6. Measurement (Cost) principle
  7. \_\_\_\_ 7. Securities and Exchange Commission
  8. \_\_\_\_ 8. FASB
  9. \_\_\_\_ 9. Full disclosure principle
  10. \_\_\_\_ 10. Statement of cash flows
- a. Prescribes that assets and services to be recorded initially on a cash or equal-to-cash basis.
  - b. Describes a company's revenues and expenses and computes net income or loss over a period of time.
  - c. Is given the task of setting generally accepted accounting principles from the Securities and Exchange Commission.
  - d. Presumes that the life of a company can be divided into periods for reporting purposes.
  - e. The concepts and rules that govern financial accounting.
  - f. A financial statement that reports the changes in equity over the reporting period, including increases such as owner investment and net income and for decreases such as owner withdrawals or net loss.
  - g. A report that identifies cash inflows (receipts) and cash outflows (payments) over a period of time.
  - h. Prescribes that a company report the details behind financial statements that would impact user decisions.
  - i. The governmental agency that oversees the proper use of GAAP by companies that sell stock and debt to the public.
  - j. A report that describes a company's financial position at a point in time.

48) Match the following definitions with the terms 1 through 9. Place the letter that identifies the best definition in the blank space next to the term.

1. \_\_\_\_ 1. Statement of cash flows
  2. \_\_\_\_ 2. Events
  3. \_\_\_\_ 3. Monetary unit assumption
  4. \_\_\_\_ 4. Business entity assumption
  5. \_\_\_\_ 5. Revenue recognition principle
  6. \_\_\_\_ 6. Accounting equation
  7. \_\_\_\_ 7. Income statement
  8. \_\_\_\_ 8. Expenses
  9. \_\_\_\_ 9. Liabilities
- a. The relation between a company's assets, liabilities, and equity.
  - b. Happenings that effect the accounting equation and are reliably measured.
  - c. The assumption that transactions and events are expressed in monetary, or money, units.
  - d. Describes a company's revenues and expenses and computes net income or loss over a period of time.
  - e. A financial statement that lists cash inflows (receipts) and cash outflows (payments); the cash flows are arranged by operating, investing, and financing activities.
  - f. Creditor's claims on assets.
  - g. The cost of providing products and services to customers.
  - h. The assumption that requires a business to be accounted for separately from other business entities and from its owners.
  - i. Revenue is recorded when goods and services are provided to customers and at the amount expected to be received from customers.

49) Identify each of the following items 1 through 8 as belonging to category a, b, or c.

- a. Assets
  - b. Liabilities
  - c. Equity
- 1. \_\_\_\_ 1. Cash
  - 2. \_\_\_\_ 2. Supplies
  - 3. \_\_\_\_ 3. Wages payable
  - 4. \_\_\_\_ 4. Owner capital
  - 5. \_\_\_\_ 5. Accounts receivable
  - 6. \_\_\_\_ 6. Owner withdrawals
  - 7. \_\_\_\_ 7. Accounts payable
  - 8. \_\_\_\_ 8. Notes payable

50) Match each of the following items 1 through 8 with the financial statement a through d in which each item would most likely appear. An item may appear on more than one statement.

- a. Income statement
  - b. Statement of owner's equity
  - c. Balance sheet
  - d. Statement of cash flows
- 1. \_\_\_\_ 1. Assets.
  - 2. \_\_\_\_ 2. Withdrawals.
  - 3. \_\_\_\_ 3. Revenues.
  - 4. \_\_\_\_ 4. Cash from investing activities.
  - 5. \_\_\_\_ 5. Expenses.
  - 6. \_\_\_\_ 6. Liabilities.
  - 7. \_\_\_\_ 7. Cash from operating activities.
  - 8. \_\_\_\_ 8. Cash from financing activities.

51) Classify the following activities in the appropriate section of the statement of cash flows.

- a. Operating activity
  - b. Investing activity
  - c. Financing activity
- 1. \_\_\_\_ 1. Cash received from clients.
  - 2. \_\_\_\_ 2. Cash paid for machinery.
  - 3. \_\_\_\_ 3. Cash paid for insurance expense.
  - 4. \_\_\_\_ 4. Cash paid for equipment.
  - 5. \_\_\_\_ 5. Cash paid for wages expense.

# Answer Key

Test name: Chapter 01-02

- 1) Accounting
- 2) Sole proprietorship
- 3) External
- 4) Financial accounting
- 5) Internal controls
- 6) Ethics
- 7) business entity
- 8) going-concern
- 9) monetary unit
- 10) Measurement (Cost) principle
- 11) unlimited liability
- 12) Financing
- 13) Investing
- 14) Operating
- 15) withdrawals
- 16) Revenues
- 17) assets
- 18) liabilities
- 19) equity
- 20)  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$
- 21) payable
- 22) assets minus liabilities
- 23) Record-keeping or Book keeping
- 24) Return on assets
- 25) net income
- 26) The statement of owner's equity
- 27) income statement
- 28) Short Answer
- 29) Short Answer
- 30) Short Answer
- 31) Short Answer
- 32) Short Answer
- 33) Short Answer
- 34) Short Answer
- 35) Short Answer
- 36) Short Answer
- 37) Short Answer

- 38) Short Answer
- 39) Short Answer
- 40) Short Answer
- 41) Short Answer
- 42) Short Answer
- 43) Short Answer
- 44) Essay
- 45) Essay
- 46) Essay
- 47) Essay
- 48) Essay
- 49) Essay
- 50) Essay
- 51) Essay

Correct answers located at the end of the chapter.

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.**

1) The characteristics below apply to at least one of the forms of business organization.

- a. Is a separate legal entity.
- b. Is allowed to be owned by one person only.
- c. Owner or owners are personally liable for debts of the business.
- d. Is subject to an additional business income tax.
- e. Has an unlimited life

Use the following format to indicate (with a “yes” or “no”) whether or not a characteristic applies to each type of business organization.

|    | Proprietorship | Partnership | Corporation | LLC |
|----|----------------|-------------|-------------|-----|
| a. |                |             |             |     |
| b. |                |             |             |     |
| c. |                |             |             |     |
| d. |                |             |             |     |
| e. |                |             |             |     |

2) A parcel of land is offered for sale at \$600,000, is recognized by its purchasers as easily being worth \$575,000, and is sold for \$570,000. At what amount should the land be recorded in the purchaser’s books? What accounting principle supports your answer?

- 3) You are reviewing the accounting records of Buddy's Foreign Automotive, owned by Bruce Jones. You have uncovered the following situations. List the appropriate accounting principle or assumption related to each independent scenario and suggest a correct action for each.
1. In August, a check for \$500 was written to Community Sports. This amount represents soccer camp for his daughter Cassie.
  2. Bruce plans a Going Out of Business Sale for June, since he will be closing the business for a month-long vacation in July. He plans to reopen August 1 and will continue operating Buddy's Foreign Automotive indefinitely.
  3. Buddy received a shipment of tools from Ontario, Canada. The invoice was stated in Canadian dollars.
  4. Customer Sandy Lane paid \$1,500 to Buddy for a major repair service. The amount was recorded by Buddy as revenue. The parts for the repair must be ordered from overseas and the service won't be complete until the following month.
- 4) At the beginning of the year, a company had \$120,000 worth of liabilities. During the year, assets increased by \$160,000 and at year-end they equaled \$360,000. Liabilities decreased \$20,000 during the year. Calculate the beginning and ending values of equity.
- 5) At the beginning of the period, a company had \$350,000 worth of assets, \$110,000 worth of liabilities, and \$240,000 worth of equity. Assume the only change during the period was a \$30,000 purchase of equipment by issuing a note payable. Show the accounting equation with the appropriate amounts at the end of the period.

- 6) The accounts of Odie Company had the following increases and decreases during the past year:

| <b>Account</b>             | <b>Increase</b> | <b>Decrease</b> |
|----------------------------|-----------------|-----------------|
| <b>Cash</b>                | \$ 25,000       |                 |
| <b>Accounts receivable</b> |                 | \$ (5,000)      |
| <b>Accounts payable</b>    |                 | (11,000)        |
| <b>Notes payable</b>       | 16,000          |                 |

Except for net income, an investment of \$3,000 by the owner, and a withdrawal of \$11,000 by the owner, no other items affected owner's equity. Compute net income for the past year.

- 7) The accounts of Mason Company at the end of the past year report the following amounts:

| <b>Accounts</b>                    | <b>Amount</b> |
|------------------------------------|---------------|
| <b>Owner Withdrawals, G. Mason</b> | \$ 15,500     |
| <b>Revenues</b>                    | \$ 97,000     |
| <b>Expenses</b>                    | \$ 43,800     |
| <b>Owner investments</b>           | 2,000         |

If the beginning equity for the year was \$173,000, calculate the ending equity for Mason Company.

- 8) Cornelia's Closet has the following account balances for the dates given:

|                            | October 1 | October 31 |
|----------------------------|-----------|------------|
| <b>Cash</b>                | \$ 40,000 | 60,000     |
| <b>Accounts Receivable</b> | 40,000    | 38,000     |
| <b>Accounts Payable</b>    | 6,000     | ?          |

Also, its net income, for October 1 through October 31 was \$20,000 and there were no investments or withdrawals by the owner. Determine the equity at both October 1 and October 31.

- 9) If the liabilities of a company increased \$92,000 during a period of time and equity in the business decreased \$30,000 during the same period, did the assets of the company increase or decrease? By what amount?

10) Soo Lin began an Internet Consulting practice and completed these transactions during April of the current year:

- April 1** Invested \$100,000 of her personal savings into a checking account opened in the name of the business.
- April 2** Rented office space and paid \$1,200 cash for the month of September.
- April 3** Purchased office equipment for \$30,000, paying \$8,000 cash and agreeing to pay the balance in one year.
- April 4** Purchased office supplies for \$750 cash.
- April 8** Completed work for a client and immediately collected \$2,700 cash for the services.
- April 15** Completed \$3,600 services for a client on credit.
- April 20** Received \$3,600 from a client for the work completed on September 15.
- April 30** Paid the office secretary's monthly salary, \$3,000 cash.
- April 30** Lin withdrew \$2,000 for personal use.

Show the effects of the above transactions on the components of the accounting equation. Use the following format for your answers. The first item is shown as an example.

Increase = I, Decrease = D, No effect = N

| Date            | Assets | Liabilities | Equity |
|-----------------|--------|-------------|--------|
| <b>Example:</b> |        |             |        |
| <b>April 1</b>  | I      | N           | I      |

11) For each of the following transactions, identify the effects as reflected in the accounting equation. Use “+” to indicate an increase and “-” to indicate a decrease. Use “A”, “L”, and “E” to indicate assets, liabilities, and equity, respectively. Part A has been completed as an example.

- a. L. Chester invested \$100,000 in a sole proprietorship. +A +E
- b. Land was purchased for \$50,000 cash.
- c. Services were rendered to customers for cash.
- d. A building was purchased for cash.
- e. Supplies were purchased for cash.
- f. Paid the office secretary's salary.
- g. The amount owed on the land from Part (b) was paid.

12) The following schedule reflects shows the first month's transactions of the Green Construction Company, owned by Jennifer Green:

|    | Cash   | + Accounts<br>Receivable | + Supplies | + Equipment | = Accounts<br>Payable | + J. Green<br>Capital |
|----|--------|--------------------------|------------|-------------|-----------------------|-----------------------|
| 1. | +      |                          |            |             |                       | +                     |
|    | 20,000 |                          |            |             |                       | 20,000                |
| 2. | -      |                          |            | +           |                       |                       |
|    | 5,000  |                          |            | 5,000       |                       |                       |
| 3. |        |                          | +\$        |             | +                     |                       |
|    |        |                          | 1,500      |             | 1,500                 |                       |
| 4. | +      |                          |            |             |                       | +                     |
|    | 3,000  |                          |            |             |                       | 3,000                 |
| 5. | +      | +                        |            |             |                       | +                     |
|    | 1,000  | 1,500                    |            |             |                       | 2,500                 |
| 6. | - 750  |                          |            |             | - 750                 |                       |
| 7. | + 500  | - 500                    |            |             |                       |                       |
| 8. |        |                          | - 400      |             |                       | - 400                 |
| 9. | -      |                          |            |             |                       | -                     |
|    | 2,000  |                          |            |             |                       | 2,000                 |

Provide descriptions for each transaction.

- 13) The accountant of Action Adventure Games prepared a balance sheet after every 10 day period. The only resources invested by the owner were at the start of the company on June 1. During June, the first month of operation, the following balance sheets were prepared:

ACTION ADVENTURE GAMES

Balance Sheet

June 10

| Assets       |                  | Equity                       |                  |
|--------------|------------------|------------------------------|------------------|
| Cash         | \$ 60,000        | Owner, Capital               | \$ 60,000        |
| Total assets | <u>\$ 60,000</u> | Total liabilities and equity | <u>\$ 60,000</u> |

ACTION ADVENTURE GAMES

Balance Sheet

June 20

| Assets       |                  | Liabilities                  |                  |
|--------------|------------------|------------------------------|------------------|
| Cash         | \$ 48,000        | Notes payable                | \$ 18,000        |
| Land         | 10,000           | Equity                       |                  |
| Building     | 20,000           | Owner, Capital               | 60,000           |
| Total assets | <u>\$ 78,000</u> | Total liabilities and equity | <u>\$ 78,000</u> |

ACTION ADVENTURE GAMES

Balance Sheet

June 30

| Assets          |                  | Liabilities                  |                  |
|-----------------|------------------|------------------------------|------------------|
| Cash            | \$ 51,000        | Accounts payable             | \$ 2,000         |
| Office supplies | 2,000            | Notes payable                | 18,000           |
| Land            | 10,000           | Equity                       |                  |
| Building        | 20,000           | Owner, Capital               | 63,000           |
| Total assets    | <u>\$ 83,000</u> | Total liabilities and equity | <u>\$ 83,000</u> |

Required: Describe the nature of each of the four transactions that took place between the balance sheet dates shown. Assume only one transaction affected each account.

|         |       |
|---------|-------|
| June 10 | _____ |
| June 20 | _____ |
| June 30 | _____ |
| June 30 | _____ |

14) Compute the return on assets (ROA) for each of the following separate examples.

- a. Net income equals \$5,000; Average total assets equals \$25,000.
- b. Net income equals \$1,200; Average total assets equals \$12,000.
- c. Net income equals \$8,000; Average total assets equals \$160,000.

15) Prepare an April 30 balance sheet for Two Rivers Vending Service from the following alphabetical list of the accounts at April 30:

|                            |           |
|----------------------------|-----------|
| <b>Accounts receivable</b> | \$ 10,000 |
| <b>Accounts payable</b>    | 18,000    |
| <b>Building</b>            | 28,000    |
| <b>Cash</b>                | 10,000    |
| <b>Notes payable</b>       | 47,000    |
| <b>Office equipment</b>    | 12,000    |
| <b>K. Fields, Capital</b>  | ?         |
| <b>Trucks</b>              | 55,000    |

- 16) Prepare a December 31 balance sheet for Smokey River Supplies from the following list of the accounts:

|                            |           |
|----------------------------|-----------|
| <b>Cash</b>                | \$ 10,000 |
| <b>Accounts receivable</b> | 8,000     |
| <b>Supplies</b>            | 12,000    |
| <b>Equipment</b>           | 35,000    |
| <b>Land</b>                | 18,000    |
| <b>Accounts payable</b>    | 13,000    |
| <b>Notes payable</b>       | 41,000    |
| <b>L. Marks, Capital</b>   | 29,000    |

- 17) Prepare a December 31 balance sheet for Cane Property Management using the following accounts and amounts:

|                            |         |
|----------------------------|---------|
| <b>Accounts payable</b>    | 3,500   |
| <b>Accounts receivable</b> | 5,000   |
| <b>M. Bruno, Capital</b>   | 104,500 |
| <b>Office equipment</b>    | 10,000  |
| <b>Advertising expense</b> | 3,200   |
| <b>Cash</b>                | 7,500   |
| <b>Land</b>                | 35,000  |
| <b>Note payable</b>        | 50,000  |
| <b>Office supplies</b>     | 1,500   |
| <b>Salaries expense</b>    | 12,000  |
| <b>Salaries payable</b>    | 1,000   |
| <b>Building</b>            | 100,000 |

- 18) From the information given below, prepare a November income statement, a November statement of owner's equity, and a November 30 balance sheet. On November 1 of the current year, Victoria Garza began Garza Décor with an initial investment of \$50,000 cash. On November 30, her records showed the following (alphabetically arranged) items and amounts.

|                            |           |
|----------------------------|-----------|
| <b>Accounts payable</b>    | \$ 12,000 |
| <b>Accounts receivable</b> | 19,000    |
| <b>Cash</b>                | 21,200    |
| <b>Fee Revenue</b>         | 34,000    |
| <b>Notes payable</b>       | 4,250     |
| <b>Office furniture</b>    | \$ 40,000 |
| <b>Owner's withdrawals</b> | 6,000     |
| <b>Rent expense</b>        | 9,600     |
| <b>Salaries expense</b>    | 4,200     |
| <b>Telephone expense</b>   | 250       |

- 19) Data for Kennedy Realty are as follows:

|                                       |            |
|---------------------------------------|------------|
| <b>Total assets at January 1</b>      | \$ 100,000 |
| <b>Total liabilities at January 1</b> | 35,000     |
| <b>Total revenues for the year</b>    | 79,000     |
| <b>Total expenses for the year</b>    | 47,000     |

The owner, Finn Kennedy, withdrew a total of \$30,000 for personal use during the year. Using the above data, prepare Kennedy Realty's Statement of Owner's Equity for the year ended December 31.

20) Jet Styling has the following beginning cash balance and cash transactions for the month of January. Using this information prepare a statement of cash flows.

|                                       |          |
|---------------------------------------|----------|
| a. Beginning cash balance             | \$ 3,200 |
| b. Cash investment by owner           | 15,000   |
| c. Cash payment toward long-term loan | 1,000    |
| d. Cash payment of rent               | 1,800    |
| e. Purchased equipment for cash       | 7,500    |
| f. Purchased store supplies for cash  | 1,500    |
| g. Cash collected from customers      | 7,750    |
| h. Cash withdrawal by owner           | 2,000    |
| i. Cash payment of wages              | 4,000    |

21) The records of Roadmaster Auto Rentals show the following information as of December 31. The owner, Rob Fletcher withdrew \$52,000 during the year for personal expenses. Prepare a December income statement, a December statement of owner's equity, and a December 31 balance sheet.

|                                 |           |
|---------------------------------|-----------|
| Accounts payable                | \$ 36,000 |
| Insurance expense               | 2,000     |
| Accounts receivable             | 24,000    |
| R Fletcher, Capital (January 1) | 150,000   |
| Buildings                       | 150,000   |
| Notes payable                   | 47,000    |
| Equipment                       | 60,000    |
| Wages expense                   | \$ 75,000 |
| Advertising expense             | 22,000    |
| Cash                            | 11,000    |
| Office Furniture                | 15,000    |
| Maintenance expense             | 39,000    |
| Revenues                        | 217,000   |

22) Verity Siding Company, owned by S. Verity, began operations in May and completed the following transactions during that first month of operations. Show the effects of the transactions on the accounts of the accounting equation by recording increases and decreases in the appropriate columns in the table below. Do not determine new account balances after each transaction. Determine the final total for each account and verify that the equation is in balance.

**May** S.

**1** Verity  
invested  
\$90,000  
cash in  
the  
company.

**May** The

**2** company  
purchase  
d  
\$25,000  
in  
office  
equipmen  
t. It  
paid  
\$10,000  
in cash  
and  
signed a  
note  
payable  
promisin  
g to pay  
the  
\$15,000  
in three  
years.

**May** The  
2 company  
rented  
office  
space  
and paid  
\$3,000  
for the  
May  
rent.

**May** The  
6 company  
installle  
d new  
vinyl  
siding  
for a  
customer  
and  
immediat  
ely  
collecte  
d  
\$5,000.

**May** The  
7 company  
paid a  
supplier  
\$2,000  
for  
siding  
material  
s used  
on the  
May 6  
job.

**May** The  
**8** company  
purchase  
d a  
\$2,500  
copy  
machine  
for  
office  
use on  
credit.

**May** The  
**9** company  
complete  
d work  
for  
addition  
al  
customer  
s on  
credit  
in the  
amount  
of  
\$16,000.

**May** The  
**15** company  
paid its  
employee  
s'  
salaries  
\$2,300  
for the  
first  
half of  
the  
month.

**May** The  
**17** company  
installe  
d new  
siding  
for a  
customer  
and  
immediat  
ely  
collecte  
d  
\$2,400.

**May** The  
**20** company  
received  
\$10,000  
in  
payments  
from the  
customer  
s billed  
on May  
9.

**May** The  
**28** company  
paid  
\$1,500  
on the  
copy  
machine  
purchase  
d on May  
8. It  
will pay  
the  
remainin  
g  
balance  
in June.

**May** The  
**31** company  
 paid its  
 employee  
 s'  
 salaries  
 \$2,400  
 for the  
 second  
 half of  
 the  
 month.

**May** The  
**31** company  
 paid a  
 supplier  
 \$5,300  
 for  
 siding  
 material  
 s used  
 on the  
 remainin  
 g jobs  
 complete  
 d during  
 May.

**May** The  
**31** company  
 paid  
 \$450 for  
 this  
 month's  
 utility  
 bill.

| VERITY SIDING COMPANY |          |                                |               |                              |                      |                                 |                                 |              |              |
|-----------------------|----------|--------------------------------|---------------|------------------------------|----------------------|---------------------------------|---------------------------------|--------------|--------------|
| Date                  | Assets = |                                |               | Liabilities +                |                      |                                 | Equity                          |              |              |
|                       | Cash     | Account<br>s<br>Receiva<br>ble | Equipme<br>nt | Account<br>ts<br>Payabl<br>e | Notes<br>Payab<br>le | S.<br>Verit<br>y<br>Capit<br>al | S.<br>Verity<br>Withdraw<br>als | Revenu<br>es | Expens<br>es |

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\$ \$ \$ \$ \$ \$ \$ \$ \$

# **Answer Key**

Test name: Chapter 01-03

- 1) Essay
- 2) Essay
- 3) Essay
- 4) Essay
- 5) Essay
- 6) Essay
- 7) Essay
- 8) Essay
- 9) Essay
- 10) Essay
- 11) Essay
- 12) Essay
- 13) Essay
- 14) Essay
- 15) Essay
- 16) Essay
- 17) Essay
- 18) Essay
- 19) Essay
- 20) Essay
- 21) Essay
- 22) Essay