

Test Bank for Financial & Managerial Accounting 20th Williams

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- 8) Liabilities are usually listed in order of magnitude, from smallest dollar amount to largest dollar amount.
- ☐ true
 - ☐ false
- 9) The entity principle states that the affairs of the owners are not part of the financial operations of a business entity and should be separated.
- ☐ true
 - ☐ false
- 10) The accounting equation may be stated as "assets minus liabilities equals owners' equity".
- ☐ true
 - ☐ false
- 11) Total assets plus total liabilities must equal total owners' equity.
- ☐ true
 - ☐ false
- 12) A transaction that causes an increase in an asset may also cause a decrease in another asset, an increase in a liability, or an increase in owners' equity.
- ☐ true
 - ☐ false
- 13) The collection of an account receivable will cause total assets to decrease.
- ☐ true
 - ☐ false
- 14) The payment of a liability causes an increase in owners' equity.
- ☐ true
 - ☐ false
- 15) When a business borrows money from a bank, the immediate effect is an increase in total assets and a decrease in liabilities or owners' equity.
- ☐ true
 - ☐ false
- 16) The purchase of an asset, such as office equipment, for cash will cause owners' equity to decrease.
- ☐ true
 - ☐ false

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- 17) Total assets must always equal total liabilities plus total owners' equity.
- ☐ true
 - ☐ false
- 18) If a company purchases equipment with cash, its total assets will increase.
- ☐ true
 - ☐ false
- 19) If a company purchases equipment by issuing a note payable, its total assets will not change.
- ☐ true
 - ☐ false
- 20) The statement of financial position (balance sheet) shows assets, liabilities, and owners' equity, as an expansion of the basic accounting equation.
- ☐ true
 - ☐ false
- 21) A net income results from having more revenues than liabilities.
- ☐ true
 - ☐ false
- 22) A statement of cash flows reports revenue and expense activities for a specific time period such as one month or one year.
- ☐ true
 - ☐ false
- 23) It is not unusual for an entity to report a significant increase in cash from operating activities, but a decrease in the total amount of cash.
- ☐ true
 - ☐ false
- 24) The statement of cash flows shows how net income (or loss) has changed owners' equity from the end of one accounting period to the end of the next accounting period.
- ☐ true
 - ☐ false
- 25) A company's ability to meet its obligations as they arise, as well as earn a fair return for its owners, is unrelated to its ability to generate net income.
- ☐ true
 - ☐ false

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- 26) Articulation between the financial statements means that they relate closely to each other on the basis of the same underlying transaction information.
- ☐ true
 - ☐ false
- 27) Limited liability means that owners of a business are only liable for the debts of the business up to the amounts they can afford.
- ☐ true
 - ☐ false
- 28) In a business organized as a corporation, it is not necessary to list the equity of each stockholder on the balance sheet.
- ☐ true
 - ☐ false
- 29) The owner of a sole proprietorship is personally liable for the debts of the business, whereas the stockholders of a corporation are not personally liable for the debts of the business.
- ☐ true
 - ☐ false
- 30) Window dressing occurs when management attempts to make a company look financially stronger than it actually is.
- ☐ true
 - ☐ false
- 31) Decision makers outside the organization base their credit decisions solely on weekly, or even daily, financial statements.
- ☐ true
 - ☐ false
- 32) The major outgrowth from business failures and allegations of fraudulent financial reporting during the 1990's was the passage of the Securities and Exchange Act.
- ☐ true
 - ☐ false

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

33) Which of the following is the primary objective of an income statement?

- A) Providing managers with detailed information about where the enterprise stands at a specific date.
- B) Providing users outside the business organization with information about the company's operating results for a period of time.
- C) Reporting to the Internal Revenue Service the company's taxable income.
- D) Indicating to investors the current market values of their investments in a particular company.

34) Which of the following describes the proper form of a balance sheet?

- A) Owners' equity is always the first section listed because it is the most important to external users.
- B) Cash is always the first asset listed, followed by permanent assets (such as land and buildings), and finally by assets such as receivables and supplies.
- C) Liabilities are listed before owners' equity.
- D) A subtotal for total assets plus total liabilities is shown.

35) A balance sheet is designed to show:

- A) How much a business is worth.
- B) The profitability of the business during the current year.
- C) The assets, liabilities, and owners' equity of a business as of a particular date.
- D) The cost of replacing the assets and of paying off the liabilities at December 31.

36) Blue Wholesale Shirt Company sold shirts to Pink Retail Shoppe. The owner of Pink Retail said she would pay Blue at a later date, which Blue Wholesale agreed to. Blue Wholesale Shirt Company is considered to be a:

- A) borrower.
- B) liability.
- C) creditor.
- D) debtor.

37) Which of the following best defines an asset?

- A) Something with physical form that is valued at cost in the accounting records.
- B) An economic resource owned by a business and expected to benefit future operations.
- C) An economic resource representing cash or the right to receive cash in the near future.
- D) Something owned by a business that has a ready market value.

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- 38) From an accounting viewpoint, when is a business considered as an entity separate from the financial activities of its owner(s)?
- A) Only when organized as a sole proprietorship.
 - B) Only when organized as a partnership.
 - C) Only when organized as a corporation.
 - D) A business is always considered as an accounting entity separate from the activities of the owner(s).
- 39) The accounting concept that assumes that a company will operate in the foreseeable future is:
- A) The going concern assumption.
 - B) Objectivity.
 - C) Liquidity.
 - D) Disclosure.
- 40) The valuation of assets such as land, building, merchandise, and equipment in the balance sheet is based primarily upon:
- A) What it would cost to replace the assets.
 - B) Cost, because cost is usually factual and verifiable.
 - C) Current fair market value as established by independent appraisers.
 - D) Cost, because in the event of liquidation, the assets would be sold at an amount equal to their original cost. TBEXAM.COM
- 41) Which of the following is **not** a generally accepted accounting principle relating to the valuation of assets?
- A) The cost principle - in general, assets are valued at cost, rather than at estimated market values.
 - B) The objectivity principle - accountants prefer to use objective, rather than subjective, information as the basis for accounting information.
 - C) The safety principle - assets are valued at no more than the value for which they are insured.
 - D) The going-concern assumption - one reason for valuing assets such as buildings and equipment at cost rather than at their current market values is the assumption that the business will use these assets rather than sell them.

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- 42) Each year, the accountant for Aberdeen Company adjusts the recorded value of all of its assets to their market values. Using these market value figures throughout the balance sheet violates the:
- A) Accounting equation.
 - B) Stable-dollar assumption.
 - C) Business entity concept.
 - D) Cost principle.
- 43) The owner of Westhampton Fish Eatery purchased a new car for his daughter who is away at college at a cost of \$43,000 and reported this amount as Delivery Vehicle in the restaurant's balance sheet. The reporting of this item in this manner violated the:
- A) Cost principle.
 - B) Business entity concept.
 - C) Objectivity principle.
 - D) Going-concern assumption.
- 44) Eton Corporation purchased land in Year 1 for \$190,000. In Year 10, it purchased a nearly identical parcel of land for \$430,000. Eton valued these two parcels of land at a combined value of \$860,000 in the balance sheet prepared at the end of Year 10. Reporting the land in this manner violated the:
- A) Cost principle.
 - B) Principle of the business entity.
 - C) Objectivity principle.
 - D) Going-concern assumption.
- 45) Bob Bertolucci, owner of Bob's Bazaar, also owns a personal residence that costs \$575,000. The market value of his residence is \$725,000. During preparation of the financial statements for Bob's Bazaar, the accounting principle most relevant to the presentation of Bob's home is:
- A) The concept of the business entity.
 - B) The cost principle.
 - C) The going-concern assumption.
 - D) The objectivity principle.
- 46) Which of the following will **not** cause a change in the owners' equity of a business?
- A) Purchase of land with cash.
 - B) Withdrawal of cash by the owner.
 - C) Sale of land at a profit.
 - D) Losses from unprofitable operations.

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- 47) Which of the following is correct when a corporation uses cash to pay for an expense?
- A) Total assets will decrease.
 - B) Retained earnings will increase.
 - C) Owners' equity will increase.
 - D) Liabilities will increase.
- 48) Deer Park Corporation recently borrowed \$70,000 cash from its bank. Which of the following was unaffected by this transaction?
- A) Assets
 - B) Liabilities
 - C) Owners' equity
 - D) Cash
- 49) Which of the following transactions would cause an increase in both assets and owners' equity?
- A) Investment of cash in the business by the owner.
 - B) Sale of land for a price less than its cost.
 - C) Borrowing money from a bank.
 - D) Sale of land for cash at a price equal to its cost.
- 50) A transaction caused an increase in both assets and owners' equity. This transaction could have been resulted from the:
- A) Sale of services to a customer.
 - B) Sale of land for a price less than its cost.
 - C) Borrowing money from a bank.
 - D) Sale of land for cash at a price equal to its cost.
- 51) The amount of owners' equity in a business is **not** affected by:
- A) The percentage of total assets held in cash.
 - B) The investments of cash or other assets made in the business by the owner.
 - C) The profitability of the business.
 - D) The amount of dividends paid to stockholders.
- 52) Decreases in owners' equity are caused by:
- A) Purchases of assets and payment of liabilities.
 - B) Purchases of assets and incurrence of liabilities.
 - C) Payment of liabilities and unprofitable operations.
 - D) Distributions of assets to the owners and unprofitable operations.

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- 53) Which of the following transactions would cause a change in owners' equity?
- A) Repayment of the principal on a bank loan.
 - B) Purchase of a delivery truck on credit.
 - C) Sale of land on credit for a price above cost.
 - D) Borrowing money from a bank.
- 54) On the statement of financial position, how are assets and liabilities normally presented?
- A) Assets are presented in order of liquidity; liabilities are presented in the order in which they become due.
 - B) Assets are presented in the order in which they become due; liabilities are presented in their order of permanence.
 - C) Assets are presented in order of profitability; liabilities are presented in order of liquidity.
 - D) Assets are presented in order of liquidity; liabilities are presented in order of profitability.
- 55) Which of the following assets would most likely be listed last on a statement of financial position?
- A) Land
 - B) Cash
 - C) Accounts receivable
 - D) Equipment
- 56) Which of the following liabilities would most likely be listed last on a statement of financial position?
- A) Bonds payable, due in 20 years
 - B) Accounts payable
 - C) Note payable, due in 3 years
 - D) Income taxes payable
- 57) If a transaction causes an asset account to decrease, which of the following related effects may occur?
- A) An increase of equal amount in an owners' equity account.
 - B) An increase in a liability account.
 - C) An increase of equal amount in another asset account.
 - D) An increase in the combined total of liabilities and owners' equity.

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- 58) A payment of a business debt not including interest:
- A) Decreases total assets.
 - B) Increases total liabilities.
 - C) Increases the owners' equity in the business.
 - D) Decreases the owners' equity in the business.
- 59) If total assets equal \$530,000 and total liabilities equal \$400,000, the total owners' equity must equal:
- A) \$930,000.
 - B) \$130,000.
 - C) \$530,000.
 - D) Cannot be determined from the information given.
- 60) If total assets equal \$540,000 and total liabilities equal \$405,000, the total owners' equity must equal:
- A) \$945,000.
 - B) \$135,000.
 - C) \$540,000.
 - D) Cannot be determined from the information given.
- 61) If total assets equal \$351,000 and total owners' equity equal \$123,000, then total liabilities must equal:
- A) \$123,000.
 - B) \$228,000.
 - C) \$474,000.
 - D) Cannot be determined from the information given.
- 62) If total assets equal \$343,000 and total owners' equity equal \$119,000, then total liabilities must equal:
- A) \$119,000.
 - B) \$224,000.
 - C) \$462,000.
 - D) Cannot be determined from the information given.
- 63) Owners' equity increases as a result of which of the following?
- A) Payments of cash to the owners.
 - B) Losses from unprofitable operation of the business.
 - C) Earnings from profitable operation of the business.
 - D) Borrowing from a commercial bank.

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- 64) Owners' equity decreases as a result of which of the following?
- A) Investments of cash by the owners.
 - B) Profits from operating the business.
 - C) Losses from unprofitable operation of the business.
 - D) Repaying a loan to a commercial bank.
- 65) To appear in a balance sheet of a business entity, an asset need not:
- A) Be an economic resource.
 - B) Have a ready market value.
 - C) Be expected to benefit future operations.
 - D) Be owned by the business.
- 66) A statement of financial position (balance sheet):
- A) Provides owners, investors, and other interested parties with all the financial information they need to evaluate the financial strength, profitability, and future prospects of a given business entity.
 - B) Shows the current market value of the owners' equity in the business as of the date prepared.
 - C) Assists creditors in evaluating the debt-paying ability of a business by showing the assets and liabilities of the business, plus the assets and liabilities of its owner (or owners).
 - D) Shows the assets, liabilities, and owners' equity of a business entity, valued in conformity with generally accepted accounting principles.
- 67) Which of the following statements about revenues is **not** correct?
- A) Revenues are transactions with customers that may have already resulted in positive cash flows, or they may result in positive cash flows in the future.
 - B) Revenues result in positive cash flows either in the past, present, or future.
 - C) Revenues only include transactions with customers that have already resulted in positive cash flows.
 - D) Revenues are reported on the income statement.

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- 68) Which of the following statements about the statement of financial position is **not** correct?
- A) The statement of financial position is also called the balance sheet.
 - B) The purpose of the statement of financial position (balance sheet) is to communicate where the company stands, in financial terms, at a specific point in time.
 - C) The statement of financial position (balance sheet) is a summarization of the company's revenue and expense transactions for a period of time.
 - D) The body of the statement of financial position (balance sheet) consists of three distinct sections: assets, liabilities, and owners' equity.
- 69) Which of the following is correct if a company purchases equipment for \$10,000 cash?
- A) Total assets will increase by \$10,000.
 - B) Total assets will decrease by \$10,000.
 - C) Total assets will remain the same.
 - D) Total owners' equity will decrease.
- 70) If a company purchases equipment for \$90,000 by issuing a note payable:
- A) Total assets will increase by \$90,000.
 - B) Total assets will decrease by \$90,000.
 - C) Total assets will remain the same.
 - D) Total owners' equity will decrease.
- 71) If a company has a net income:
- A) Assets will be equal to liabilities plus owners' equity.
 - B) Assets will be less than liabilities plus owners' equity.
 - C) Assets will be greater than liabilities plus owners' equity.
 - D) Owners' equity will be greater than its assets.
- 72) Capital stock represents:
- A) The amount that owners originally invested in the business to become owners.
 - B) The owners' equity for a business organized as a corporation.
 - C) The owners' equity accumulated through profitable operations that have not been paid out as dividends.
 - D) The price paid by the current owners to acquire shares of stock in the corporation, regardless of whether they bought the shares directly from the corporation or from another stockholder.

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- 73) How does the objectivity principle apply to the accounting for assets?
- A) The intent of management in holding an asset is important in determining whether it is included in the statement of financial position (balance sheet) at cost or estimated current value.
 - B) Over time, the current market value of an asset is likely to approach its historical cost.
 - C) Estimates of the prices at which assets could be sold are largely objective in nature.
 - D) All assets must be reported at historical cost in the statement of financial position (balance sheet).
- 74) The balance sheet item that represents the accumulated earnings of previous years that remain within the enterprise is:
- A) Accounts receivable.
 - B) Cash.
 - C) Capital stock.
 - D) Retained earnings.
- 75) Retained earnings appears on:
- A) The income statement.
 - B) The balance sheet.
 - C) The statement of cash flows.
 - D) All three of the financial statements.

- 76) At December 31, Year 1, the accounting records of Braun Corporation contain the following items:

Accounts Payable	\$ 19,500	Accounts Receivable	\$ 47,000
Land	247,000	Cash	?
Capital Stock	?	Equipment	127,000
Building	187,000	Notes Payable	197,000
Retained Earnings	167,000		

If Capital Stock is \$267,000, what is the December 31, Year 1 cash balance?

- A) \$89,500
- B) \$97,500
- C) \$42,500
- D) \$650,500

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77) At December 31, Year 1, the accounting records of Braun Corporation contain the following items:

Accounts Payable	\$ 16,000	Accounts Receivable	\$ 40,000
Land	240,000	Cash	?
Capital Stock	?	Equipment	120,000
Building	180,000	Notes Payable	190,000
Retained Earnings	160,000		

If Capital Stock is \$260,000, what is the December 31, Year 1 cash balance?

- A) \$86,000
- B) \$94,000
- C) \$46,000
- D) \$686,000

78) At December 31, Year 1, the accounting records of Braun Corporation contain the following items:

Accounts Payable	\$ 17,000	Accounts Receivable	\$ 42,000
Land	242,000	Cash	?
Capital Stock	?	Equipment	122,000
Building	182,000	Notes Payable	192,000
Retained Earnings	162,000		

If Capital Stock is \$322,000, total assets of Braun Corporation at December 31, Year 1, amounts to:

- A) \$693,000.
- B) \$935,000.
- C) \$735,000.
- D) \$109,000.

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79) At December 31, Year 1, the accounting records of Braun Corporation contain the following items:

Accounts Payable	\$ 16,000	Accounts Receivable	\$ 40,000
Land	240,000	Cash	?
Capital Stock	?	Equipment	120,000
Building	180,000	Notes Payable	190,000
Retained Earnings	160,000		

If Capital Stock is \$320,000, total assets of Braun Corporation at December 31, Year 1, amounts to:

- A) \$686,000.
- B) \$926,000.
- C) \$726,000.
- D) \$106,000.

80) At December 31, Year 1, the accounting records of Braun Corporation contain the following items:

Accounts Payable	\$ 16,500	Accounts Receivable	\$ 41,000
Land	241,000	Cash	?
Capital Stock	?	Equipment	121,000
Building	181,000	Notes Payable	191,000
Retained Earnings	161,000		

If Cash at December 31, Year 1, is \$87,000, Capital Stock is:

- A) \$261,500.
- B) \$302,500.
- C) \$624,500.
- D) \$169,000.

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81) At December 31, Year 1, the accounting records of Braun Corporation contain the following items:

Accounts Payable	\$ 16,000	Accounts Receivable	\$ 40,000
Land	240,000	Cash	?
Capital Stock	?	Equipment	120,000
Building	180,000	Notes Payable	190,000
Retained Earnings	160,000		

If Cash at December 31, Year 1, is \$86,000, Capital Stock is:

- A) \$260,000.
- B) \$300,000.
- C) \$620,000.
- D) \$168,000.

82) At December 31, Year 1, the accounting records of Braun Corporation contain the following items:

Accounts Payable	\$ 19,500	Accounts Receivable	\$ 47,000
Land	247,000	Cash	?
Capital Stock	?	Equipment	127,000
Building	187,000	Notes Payable	197,000
Retained Earnings	167,000		

If Cash at December 31, Year 1, is \$33,000, total owners' equity is:

- A) \$167,000.
- B) \$383,500.
- C) \$641,000.
- D) \$424,500.

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83) At December 31, Year 1, the accounting records of Braun Corporation contain the following items:

Accounts Payable	\$ 16,000	Accounts Receivable	\$ 40,000
Land	240,000	Cash	?
Capital Stock	?	Equipment	120,000
Building	180,000	Notes Payable	190,000
Retained Earnings	160,000		

If Cash at December 31, Year 1, is \$26,000, total owners' equity is:

- A) \$160,000.
- B) \$366,000.
- C) \$606,000.
- D) \$400,000.

84) At December 31, Year 1, the accounting records of Braun Corporation contain the following items:

Accounts Payable	\$ 16,500	Accounts Receivable	\$ 41,000
Land	241,000	Cash	?
Capital Stock	?	Equipment	121,000
Building	181,000	Notes Payable	191,000
Retained Earnings	161,000		

If Cash at December 31, Year 1, is \$67,000, total assets amounts to:

- A) \$610,000.
- B) \$812,000.
- C) \$667,500.
- D) \$651,000.

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85) At December 31, Year 1, the accounting records of Braun Corporation contain the following items:

Accounts Payable	\$ 16,000	Accounts Receivable	\$ 40,000
Land	240,000	Cash	?
Capital Stock	?	Equipment	120,000
Building	180,000	Notes Payable	190,000
Retained Earnings	160,000		

If Cash at December 31, Year 1, is \$66,000, total assets amounts to:

- A) \$606,000.
- B) \$806,000.
- C) \$662,000.
- D) \$646,000.

86) At December 31, Year 1, the accounting records of Hercules Manufacturing, Incorporated contain the following items:

Accounts Payable	\$ 12,000	Accounts Receivable	\$ 30,000
Land	90,000	Cash	7,000
Building	250,000	Equipment	?
Notes Payable	135,000	Capital Stock	188,000
Retained Earnings	?		

If total assets of Hercules Manufacturing, Incorporated are \$556,000, Equipment is carried in Hercules Manufacturing accounting records at:

- A) \$377,000.
- B) \$179,000.
- C) \$150,000.
- D) \$90,000.

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87) At December 31, Year 1, the accounting records of Hercules Manufacturing, Incorporated contain the following items:

Accounts Payable	\$ 12,000	Accounts Receivable	\$ 30,000
Land	90,000	Cash	7,000
Building	250,000	Equipment	?
Notes Payable	135,000	Capital Stock	188,000
Retained Earnings	?		

If total assets of Hercules Manufacturing, Incorporated are \$556,000, Retained Earnings at December 31, Year 1, must be:

- A) \$811,000.
- B) \$180,000.
- C) \$221,000.
- D) \$335,000.

88) At December 31, Year 1, the accounting records of Hercules Manufacturing, Incorporated contain the following items:

Accounts Payable	\$ 12,000	Accounts Receivable	\$ 30,000
Land	90,000	Cash	7,000
Building	250,000	Equipment	?
Notes Payable	135,000	Capital Stock	188,000
Retained Earnings	?		

If Retained Earnings at December 31, Year 1, is \$140,000, total assets amounts to:

- A) \$98,000.
- B) \$377,000.
- C) \$475,000.
- D) \$188,000.

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89) At December 31, Year 1, the accounting records of Hercules Manufacturing, Incorporated contain the following items:

Accounts Payable	\$ 12,000	Accounts Receivable	\$ 30,000
Land	90,000	Cash	7,000
Building	250,000	Equipment	?
Notes Payable	135,000	Capital Stock	188,000
Retained Earnings	?		

If Retained Earnings at December 31, Year 1, is \$100,000, Equipment is carried in Hercules Manufacturing, Incorporated accounting records at:

- A) \$42,000.
- B) \$58,000.
- C) \$43,500.
- D) \$345,000.

90) At December 31, Year 1, the accounting records of Hercules Manufacturing, Incorporated contain the following items:

Accounts Payable	\$ 12,000	Accounts Receivable	\$ 30,000
Land	90,000	Cash	7,000
Building	250,000	Equipment	?
Notes Payable	135,000	Capital Stock	188,000
Retained Earnings	?		

Assume that the Equipment shown above was acquired by the business five years ago and has a book value of \$156,000, but has a current appraised value of \$200,000. Hercules Manufacturing's Retained Earnings at December 31, Year 1, amounts to:

- A) \$533,000.
- B) \$345,000.
- C) \$198,000.
- D) \$356,000.

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91) At December 31, Year 1, the accounting records of Gordon, Incorporated contain the following items:

Accounts Payable	\$ 2,500	Accounts Receivable	\$ 18,750
Land	30,000	Cash	?
Building	31,250	Equipment	40,000
Notes Payable	?	Capital Stock	12,500
Retained Earnings	125,000		

If the Notes Payable is \$10,000, the December 31, Year 1 cash balance is:

- A) \$60,000.
- B) \$160,000.
- C) \$30,000.
- D) \$20,000.

92) At December 31, Year 1, the accounting records of Gordon, Incorporated contain the following items:

Accounts Payable	\$ 2,500	Accounts Receivable	\$ 18,750
Land	30,000	Cash	?
Building	31,250	Equipment	40,000
Notes Payable	?	Capital Stock	12,500
Retained Earnings	125,000		

If the Notes Payable balance is \$25,000, then the total assets of Gordon, Incorporated at December 31, Year 1 amount to:

- A) \$27,500.
- B) \$152,500.
- C) \$120,000.
- D) \$165,000.

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93) At December 31, Year 1, the accounting records of Gordon, Incorporated contain the following items:

Accounts Payable	\$ 2,500	Accounts Receivable	\$ 18,750
Land	30,000	Cash	?
Building	31,250	Equipment	40,000
Notes Payable	?	Capital Stock	12,500
Retained Earnings	125,000		

If the Cash balance at December 31, Year 1 is \$67,500, the Notes Payable balance is:

- A) \$118,750.
- B) \$47,500.
- C) \$137,500.
- D) \$140,000.

94) At December 31, Year 1, the accounting records of Gordon, Incorporated contain the following items:

Accounts Payable	\$ 2,500	Accounts Receivable	\$ 18,750
Land	30,000	Cash	?
Building	31,250	Equipment	40,000
Notes Payable	?	Capital Stock	12,500
Retained Earnings	125,000		

If the Cash balance at December 31, Year 1 is \$62,500 then total liabilities amounts to:

- A) \$42,500.
- B) \$140,000.
- C) \$45,000.
- D) \$182,500.

95) Which of the following is correct if at the end of Crystal Imports' first year of operations, total assets are \$800,000 and total owners' equity is \$720,000?

- A) The owner (s) must have invested \$800,000 to start the business.
- B) The business must be operating profitably.
- C) Total liabilities are \$80,000.
- D) Total liabilities are \$1,520,000.

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- 96) During the current year, the total assets of Wheatley's increased by \$362,000, and the total liabilities increased by \$260,000. The total owners' equity in the business must have:
- A) Decreased by \$102,000.
 - B) Decreased by \$622,000.
 - C) Increased by \$102,000.
 - D) Increased by \$622,000.
- 97) The total liabilities of Harrington Company on the balance sheet are \$270,000; this amount is equal to three-fourths of the total assets. What is the amount of total owners' equity?
- A) \$202,500
 - B) \$90,000
 - C) \$360,000
 - D) \$630,000
- 98) Twenty percent of the total assets of Kochanowsky Corporation have been financed through borrowing. The total liabilities of the company are \$530,000. What is the amount of total owners' equity?
- A) \$106,000
 - B) \$2,650,000
 - C) \$2,120,000
 - D) \$3,180,000
- 99) Twenty percent of the total assets of Kochanowsky Corporation have been financed through borrowing. The total liabilities of the company are \$440,000. What is the amount of total owners' equity?
- A) \$88,000
 - B) \$2,200,000
 - C) \$1,760,000
 - D) \$2,640,000
- 100) A transaction caused a \$60,000 increase in both total assets and total liabilities. This transaction could have been which of the following?
- A) Purchase for office equipment for \$60,000 cash.
 - B) Purchase of office equipment for \$120,000, paying \$60,000 cash and issuing a note payable for the balance.
 - C) Repayment of a \$60,000 bank loan.
 - D) Investment of \$60,000 cash in the business by the owner.

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- 101) If \$9,600 cash and a \$31,000 note payable are given in exchange for some office machines to be used in a business:
- A) Total assets are increased.
 - B) Total liabilities are decreased.
 - C) Total assets are decreased.
 - D) The owners' equity is increased.
- 102) If during the current year, liabilities of Corbett's Store increased by \$234,000 and owners' equity increased by \$167,000, then:
- A) Assets at the end of the year total \$401,000.
 - B) Assets at the end of the year total \$67,000.
 - C) Assets increased during the year by \$401,000.
 - D) Assets decreased during the year by \$67,000.
- 103) If during the current year, liabilities of Corbett's Store increased by \$220,000 and owners' equity increased by \$160,000, then:
- A) Assets at the end of the year total \$380,000.
 - B) Assets at the end of the year total \$60,000.
 - C) Assets increased during the year by \$380,000.
 - D) Assets decreased during the year by \$60,000.
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- 104) If during the current year, liabilities of Hayden Travel decreased by \$50,000 and owners' equity increased by \$75,000, then:
- A) Assets at the end of the year total \$125,000.
 - B) Assets at the end of the year total \$25,000.
 - C) Assets increased during the year by \$25,000.
 - D) Assets decreased during the year by \$125,000.
- 105) At the end of the current year, the owners' equity in Barclay Bakery is \$242,000. During the year, the assets of the business had increased by \$116,000 and the liabilities had increased by \$70,000. Owners' equity at the beginning of the year must have been:
- A) \$196,000.
 - B) \$172,000.
 - C) \$288,000.
 - D) \$428,000.

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- 106) At the end of the current year, the owners' equity in Barclay Bakery is \$246,000. During the year, the assets of the business had increased by \$120,000 and the liabilities had increased by \$72,000. Owners' equity at the beginning of the year must have been:
- A) \$198,000.
 - B) \$174,000.
 - C) \$284,000.
 - D) \$438,000.
- 107) At the end of the current year, the owners' equity in Durante Company is \$376,000. During the year, the assets of the business had increased by \$84,000 and the liabilities had increased by \$126,000. Owners' equity at the beginning of the year must have been:
- A) \$418,000.
 - B) \$334,000.
 - C) \$586,000.
 - D) \$166,000.
- 108) At the end of the current year, the owners' equity in Durante Company is \$360,000. During the year, the assets of the business had increased by \$68,000 and the liabilities had increased by \$118,000. Owners' equity at the beginning of the year must have been:
- A) \$410,000.
 - B) \$310,000.
 - C) \$546,000.
 - D) \$174,000.
- 109) During the current year, the assets of Quality Stairs increased by \$184,000 and the liabilities decreased by \$24,000. If the owners' equity in the business is \$484,000 at the end of the year, the owners' equity at the beginning of the year must have been:
- A) \$644,000.
 - B) \$276,000.
 - C) \$692,000.
 - D) \$324,000.
- 110) During the current year, the assets of Quality Stairs increased by \$175,000 and the liabilities decreased by \$15,000. If the owners' equity in the business is \$475,000 at the end of the year, the owners' equity at the beginning of the year must have been:
- A) \$335,000.
 - B) \$285,000.
 - C) \$665,000.
 - D) \$615,000.

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- 111) An expense is best defined as:
- Any payment of cash for the benefit of the company.
 - Past, present, or future payments of cash required to generate revenues.
 - Past payments of cash required to generate revenues.
 - Future payments of cash required to generate revenues.
- 112) A revenue transaction may result in all of the following except:
- An increase in assets.
 - An increase in owners' equity.
 - A positive cash flow in either the past, present, or future.
 - An increase in liabilities.
- 113) Astoria Company had the following transactions during the month of August Year 1:
- Cash received from bank loans was \$26,000.
 - Dividends of \$10,100 were paid to stockholders in cash.
 - Revenues earned and received in cash amounted to \$39,500
 - Expenses incurred and paid were \$29,000.
- What amount of net income will be reported on an income statement for the month of August?
- \$26,000
 - \$10,500
 - \$0
 - \$39,500
- 114) Astoria Company had the following transactions during the month of August Year 1:
- Cash received from bank loans was \$20,000.
 - Dividends of \$9,500 were paid to stockholders in cash.
 - Revenues earned and received in cash amounted to \$33,500.
 - Expenses incurred and paid were \$26,000.
- What amount of net income will be reported on an income statement for the month of August?
- \$20,000
 - \$7,500
 - \$0
 - \$33,500

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115) Astoria Company had the following transactions during the month of August Year 1:

1. Cash received from bank loans was \$24,000.
2. Dividends of \$9,900 were paid to stockholders in cash.
3. Revenues earned and received in cash amounted to \$37,500.
4. Expenses incurred and paid were \$28,000.

At the beginning of August, Year 1, owners' equity in Astoria was \$164,000. Given the transactions of August, what will be the owners' equity be at the end of the month?

- A) \$173,500
- B) \$154,100
- C) \$201,500
- D) \$163,600

116) Astoria Company had the following transactions during the month of August Year 1:

1. Cash received from bank loans was \$20,000.
2. Dividends of \$9,500 were paid to stockholders in cash.
3. Revenues earned and received in cash amounted to \$33,500.
4. Expenses incurred and paid were \$26,000.

At the beginning of August, Year 1, owners' equity in Astoria was \$160,000. Given the transactions of August, what will be the owners' equity be at the end of the month?

- A) \$167,500
- B) \$150,500
- C) \$193,500
- D) \$158,000

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117) Astoria Company had the following transactions during the month of August Year 1:

1. Cash received from bank loans was \$15,000.
2. Dividends of \$9,000 were paid to stockholders in cash.
3. Revenues earned and received in cash amounted to \$28,500
4. Expenses incurred and paid were \$23,500.

For the month of August, net cash flows provided by operating activities were:

- A) \$15,000.
- B) \$5,000.
- C) \$28,500.
- D) \$23,500.

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118) Astoria Company had the following transactions during the month of August Year 1:

1. Cash received from bank loans was \$20,000.
2. Dividends of \$9,500 were paid to stockholders in cash.
3. Revenues earned and received in cash amounted to \$33,500.
4. Expenses incurred and paid were \$26,000.

For the month of August, net cash flows provided by operating activities were:

- A) \$33,500.
- B) \$7,500.
- C) \$20,000.
- D) \$26,000.

119) Waldorf Company had the following transactions during the month of October Year 1:

1. Cash received from bank loans was \$60,000.
2. Dividends of \$18,500 were paid to stockholders in cash.
3. Revenues earned and received in cash amounted to \$100,500.
4. Expenses incurred and paid were \$78,000.

What amount of net income will be reported on an income statement for the month of October?

- A) \$18,500
- B) \$22,500
- C) \$78,000
- D) \$100,500

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120) Waldorf Company had the following transactions during the month of October Year 1:

1. Cash received from bank loans was \$60,000.
2. Dividends of \$18,500 were paid to stockholders in cash.
3. Revenues earned and received in cash amounted to \$100,500.
4. Expenses incurred and paid were \$78,000.

At the beginning of October, owners' equity in Waldorf was \$480,000. Given the transactions in October Year 1, what will be the owners' equity at the end of the month?

- A) \$480,000
- B) \$484,000
- C) \$502,500
- D) \$580,500

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121) Waldorf Company had the following transactions during the month of October Year 1:

1. Cash received from bank loans was \$60,000.
2. Dividends of \$18,500 were paid to stockholders in cash.
3. Revenues earned and received in cash amounted to \$100,500.
4. Expenses incurred and paid were \$78,000.

For the month of October, net cash flows provided (used) by operating activities were:

- A) \$18,500.
- B) \$22,500.
- C) \$78,000.
- D) \$100,500.

122) Which of the following activities is not a category into which cash flows are classified?

- A) Marketing activities
- B) Operating activities
- C) Financing activities
- D) Investing activities

123) A strong statement of cash flows indicates that significant cash is being generated by:

- A) Operating activities.
- B) Financing activities.
- C) Investing activities.
- D) Effective tax planning.

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124) During the month of May, Mountaintop Company had the following transactions:

1. Revenues of \$69,000 were earned and received in cash.
2. Bank loans of \$6,650 were paid off.
3. Equipment of \$29,000 was purchased.
4. Expenses of \$41,300 were paid.
5. Stockholders purchased additional shares for \$31,000 cash.

A statement of cash flows for May would report net cash flows provided by operating activities of:

- A) \$23,050.
- B) \$69,000.
- C) \$27,700.
- D) \$33,350.

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125) During the month of May, Mountaintop Company had the following transactions:

1. Revenues of \$56,000 were earned and received in cash.
2. Bank loans of \$6,000 were paid off.
3. Equipment of \$16,000 was purchased.
4. Expenses of \$34,800 were paid.
5. Stockholders purchased additional shares for \$18,000 cash.

A statement of cash flows for May would report net cash flows provided by operating activities of:

- A) \$56,000.
- B) \$17,200.
- C) \$21,200.
- D) \$34,000.

126) During the month of August, Boyce Company had the following transactions:

1. Revenues of \$110,000 were earned and received in cash.
2. Bank loans of \$10,500 were paid off.
3. Equipment of \$30,000 was purchased with cash.
4. Expenses of \$68,600 were paid.
5. Stockholders purchased additional shares for \$34,000 cash.

A statement of cash flows for August, would report net cash flows provided by operating activities of:

- A) \$23,500.
- B) \$34,900.
- C) \$30,000.
- D) \$41,400.

127) During the month of August, Boyce Company had the following transactions:

1. Revenues of \$120,000 were earned and received in cash.
2. Bank loans of \$18,000 were paid off.
3. Equipment of \$40,000 was purchased with cash.
4. Expenses of \$73,600 were paid.
5. Stockholders purchased additional shares for \$44,000 cash.

A statement of cash flows for August, would report net cash flows provided by operating activities of:

- A) \$26,000.
- B) \$32,400.
- C) \$40,000.
- D) \$46,400.

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131) During the month of August, Boyce Company had the following transactions:

1. Revenues of \$120,000 were earned and received in cash.
2. Bank loans of \$18,000 were paid off.
3. Equipment of \$40,000 was purchased with cash.
4. Expenses of \$73,600 were paid.
5. Stockholders purchased additional shares for \$44,000 cash.

A statement of cash flows for August, would report net cash flows provided (used) by investing activities of:

- A) (\$26,000).
- B) \$32,400.
- C) (\$40,000).
- D) \$46,400.

132) During the month of August, Boyce Company had the following transactions:

1. Revenues of \$123,000 were earned and received in cash.
2. Bank loans of \$20,250 were paid off.
3. Equipment of \$43,000 was purchased with cash.
4. Expenses of \$75,100 were paid.
5. Stockholders purchased additional shares for \$47,000 cash.

A statement of cash flows for August, would report an increase in cash of:

- A) \$26,750.
- B) \$31,650.
- C) \$43,000.
- D) \$47,900.

133) During the month of August, Boyce Company had the following transactions:

1. Revenues of \$120,000 were earned and received in cash.
2. Bank loans of \$18,000 were paid off.
3. Equipment of \$40,000 was purchased with cash.
4. Expenses of \$73,600 were paid.
5. Stockholders purchased additional shares for \$44,000 cash.

A statement of cash flows for August, would report an increase in cash of:

- A) \$26,000.
- B) \$32,400.
- C) \$40,000.
- D) \$46,400.

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134) During the month of February, Farness Company had the following transactions:

1. Revenues of \$225,000 were earned and received in cash.
2. Bank loans of \$18,000 were paid off.
3. New bank loans of \$15,000 were incurred.
4. Equipment of \$40,000 was purchased with cash.
5. Equipment was sold for its book value of \$36,000. Cash was received.
6. Expenses of \$171,400 were paid.
7. Stockholders purchased additional shares for \$50,000 cash.

A statement of cash flows for February, would report net cash flows provided by operating activities of:

- A) \$4,000.
- B) \$35,600.
- C) \$53,600.
- D) \$96,600.

135) During the month of February, Farness Company had the following transactions:

1. Revenues of \$225,000 were earned and received in cash.
2. Bank loans of \$18,000 were paid off.
3. New bank loans of \$15,000 were incurred.
4. Equipment of \$40,000 was purchased with cash.
5. Equipment was sold for its book value of \$36,000. Cash was received.
6. Expenses of \$171,400 were paid.
7. Stockholders purchased additional shares for \$50,000 cash.

A statement of cash flows for February, would report net cash flows provided by financing activities of:

- A) \$4,000.
- B) \$47,000.
- C) \$83,000.
- D) \$96,600.

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- 136) During the month of February, Farness Company had the following transactions:
1. Revenues of \$225,000 were earned and received in cash.
 2. Bank loans of \$18,000 were paid off.
 3. New bank loans of \$15,000 were incurred.
 4. Equipment of \$40,000 was purchased with cash.
 5. Equipment was sold for its book value of \$36,000. Cash was received.
 6. Expenses of \$171,400 were paid.
 7. Stockholders purchased additional shares for \$50,000 cash.
- A statement of cash flows for February, would report net flows provided (used) by investing activities of:
- A) (\$4,000).
 - B) \$47,000.
 - C) \$53,600.
 - D) \$76,000.
- 137) During the month of February, Farness Company had the following transactions:
1. Revenues of \$225,000 were earned and received in cash.
 2. Bank loans of \$18,000 were paid off.
 3. New bank loans of \$15,000 were incurred.
 4. Equipment of \$40,000 was purchased with cash.
 5. Equipment was sold for its book value of \$36,000. Cash was received.
 6. Expenses of \$171,400 were paid.
 7. Stockholders purchased additional shares for \$50,000 cash.
- A statement of cash flows for February, would report an increase in cash of:
- A) (\$4,000).
 - B) \$47,000.
 - C) \$53,600.
 - D) \$96,600.
- 138) If cash flows from operating activities is a positive amount, then:
- A) The amount will be shown on the statement of cash flows in parentheses.
 - B) The company must have reported net income for the year.
 - C) The company must have paid off more debts than it earned during the year.
 - D) The company may still have a decrease in the total amount of cash for the period.

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- 139) The change in owners' equity due to only revenue and expense transactions is explained by the:
- A) Statement of cash flows.
 - B) Statement of financial position.
 - C) Income statement.
 - D) Tax return.
- 140) Which one of the following is not considered as one of the three primary financial statements?
- A) Statement of financial position (balance sheet)
 - B) Income statement
 - C) Statement of cash flows
 - D) Statement of budgeting activities
- 141) The way in which financial statements relate is known as:
- A) Solvency.
 - B) Objectivity.
 - C) Articulation.
 - D) Entity.
- 142) Which business organization is recognized as a separate legal entity under the law?
- A) Corporation
 - B) Sole proprietorship
 - C) Partnership
 - D) All business organizations are separate legal entities.
- 143) Retained earnings is:
- A) The positive cash flows of a company.
 - B) The net worth of a company.
 - C) The component of owners' equity that has accumulated as a result of profitable operations and remain within the enterprise.
 - D) Equal to the total assets of a company.
- 144) Which of the following best describes liquidity?
- A) The ability to increase the value of retained earnings.
 - B) The ability to pay the debts of the company as they become due.
 - C) Being able to buy everything the company requires for cash.
 - D) Purchasing everything the company requires on credit.

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- 145) Profitability may be defined as:
- A) Pay the debts of the company as they become due.
 - B) Increasing retained earnings through ongoing operations.
 - C) Distributing dividends out of retained earnings.
 - D) Having excess cash.
- 146) The principle of adequate disclosure means that a company should disclose:
- A) Only the important monetary information.
 - B) All confidential information regarding the company.
 - C) Any financial facts that a reasonably informed person would consider necessary for the proper interpretation of the financial statements.
 - D) Only subsequent events.
- 147) Which of the following statements regarding liquidity and profitability is not true?
- A) If a business is unable to pay its debts as they come due, it is operating unprofitably.
 - B) A business may be liquid, yet operate unprofitably for several years.
 - C) A business may operate profitably, yet be unable to meet its obligations.
 - D) In order to survive in the long run, a business must both remain liquid and operate profitably.
- 148) The concept of adequate disclosure means that:
- A) The accounting department of a business must inform management of the accounting principles used in preparing the financial statements.
 - B) The company informs users of any significant facts necessary for proper interpretation of the financial statements, including events occurring after the financial statement date.
 - C) The independent auditors must disclose in the financial statements any and all errors detected in the company's accounting records.
 - D) The financial statements should include a comprehensive list of each transaction that occurred during the year.
- 149) According to the Sarbanes-Oxley Act, CEOs and CFOs must certify to the accuracy of their company's financial statements:
- A) Monthly and Quarterly.
 - B) Quarterly and Annually.
 - C) Monthly and Annually.
 - D) CEOs and CFOs are not required to certify to the company's financial statement; only CPAs do.

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- 150) A strong statement of financial position is one that shows:
- A) A reasonable amount of debt and adequate amounts of liquid assets relative to the liabilities due in the near future liquid assets relative to the liabilities due in the near future.
 - B) Large amounts of debt relative to owners' equity.
 - C) That cash is being generated by operations.
 - D) That profits are being generated by operations.
- 151) Which of the following is a safeguard put in place to help to ensure that investors, creditors, and others have confidence that the information in a company's financial statements fairly present the company's financial position, results of operations, and cash flows?
- A) The periodic audit of the financial statements by a professional certified public accountant
 - B) The preparation of financial statements by the board of directors
 - C) The interrelationship between financial statements
 - D) The workings of the various stock exchanges
- 152) Which of the following statements about the Sarbanes–Oxley Act (SOX) of 2002 is correct?
- A) SOX led to the creation of the Financial Accounting Standards Board.
 - B) SOX requires the company's accounting department to certify the accuracy of the company's financial statements.
 - C) The responsibilities of the Public Company Accounting Oversight Board include establishing standards for auditors in carrying out their responsibilities.
 - D) All of the answer choices are correct.

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

- 153) A set of financial statements includes three related accounting reports, or statements.
Required: List the names of three primary statements, and give a brief description of the accounting information contained in each.

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154) Consider generally accepted accounting principles and business entities.

Required:

- A. What is meant by the phrase "generally accepted accounting principles"?
- B. Explain the concept of the business entity and how it relates to generally accepted accounting principles.

155) Under generally accepted accounting principles, the assets owned by a business are reported in the statement of financial position (balance sheet) at their historical cost.

Required: Identify and briefly explain two accounting principles other than the cost principle that support the valuation of assets at cost in the statement of financial position (balance sheet).

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156) Listed below are various key terms introduced or emphasized in this chapter:

- ☐ Accounting equation
- ☐ Assets
- ☐ Cost principle
- ☐ Going concern assumption
- ☐ Inflation
- ☐ Liabilities
- ☐ Liquidity
- ☐ Owners' equity
- ☐ Statement of financial position (balance sheet)
 - a. Having the financial ability to pay debts as they become due.
 - b. An assumption that a business will operate in the foreseeable future.
 - c. Economic resources owned and used by businesses that are expected to benefit future operations.
 - d. The debts or obligations of a business organization.
 - e. $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$
 - f. The principle which states that assets are valued in the statement of financial position (balance sheet) at their historical cost.
 - g. A residual amount equal to assets minus liabilities.

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157) Consider the basic accounting equation.

Required: Answer each of the following questions:

- A. During the current year, the assets of Duffy Stationery increased by \$650,000 and the liabilities decreased by \$340,000. What was the change in owners' equity during the year? (Label your answer as "increase" or "decrease.")
- B. The owners' equity of Graham Interiors appears on the balance sheet as \$720,000 and is equal to one-fourth of total assets. What was the amount of total liabilities?
- C. At the end of the year, the owners' equity in Scott Manufacturing Company amounted to \$845,000. During Year 1, the assets of the business increased by \$515,000 and the liabilities increased by \$205,000. What was the amount of total owners' equity at the beginning of Year 1?

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158) Some of the transactions carried out by Tudor Wholesale during the first month of the company's operations are listed below.

Required: Determine the effect of each transaction on the total assets, the total liabilities, and the owners' equity. Prepare your answer in columnar form, identifying each transaction by letter and using the symbols (+) for increase, (–) for decrease, and (NC) for no change. An answer is provided for the first transaction to serve as an example.

Transactions	Total Assets	Total Liabilities	Owners' Equity
A. Issued capital stock in exchange for cash	+	NC	+
B. Bought land and a building at a total price of \$165,000. Made a down payment of \$65,000 cash and signed a note payable for the balance.			
C. Bought adjoining lot for use as parking lot; paid cash in full			
D. Sold a portion of the land on credit at a price equal to its cost.			
E. Obtained a loan from a bank.			
F. Purchased office equipment on credit.			
G. Paid a liability.			
H. Collected part of amount owed to the business from purchaser of land.			
I. Sold another portion of the land for cash at a price in excess of cost.			

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- 159) Some of the transactions carried out by Tsang Company during the first month of the company's operations are listed below.

Required: Determine the dollar effect of each transaction on the total assets, the total liabilities, and the owners' equity of Tsang Company. Use the symbols (+) for increase, (-) for decrease, and (NC) for no change. An answer is provided for the first transaction to serve as an example.

Transaction	Total Assets	Total Liabilities	Owners' Equity
A. Issued capital stock to Don Tsang in exchange for his investment of \$200,000 in the business.	+\$ 200,000	NC	+\$ 200,000
B. Purchased a computer for the business for \$5,500 cash.			
C. Borrowed \$20,000 from the bank.			
D. Purchased office furnishings at a total price of \$4,200, terms \$600 cash and balance payable in two installments.			
E. Paid \$1,800 of the balance due on the office furnishings.			
F. Sold an extra monitor that had cost \$250 for \$300 on credit.			
G. Collected \$150 of accounts receivable from purchaser of the monitor.			
H. Bought a small truck to be used in the business for \$29,000; paid cash in full.			

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160) Consider the following list of accounts:

- ☐ Capital Stock
- ☐ Equipment
- ☐ Accounts Receivable
- ☐ Retained Earnings
- ☐ Revenue
- ☐ Accounts Payable
- ☐ Cash
- ☐ Rent Expense

Required: List the accounts set forth above in the order that they would appear in a balance sheet:

161) On April 30, Year 1, the balance sheet of China Collectibles showed total assets of \$700,000, total liabilities of \$400,000, and owners' equity of \$300,000. The following transactions occurred in May of Year 1:

1. Capital stock was issued in exchange for \$165,000 cash.
 2. The business purchased equipment for \$360,000, paying \$160,000 cash and issuing a note payable for \$200,000.
 3. The business paid \$70,000 of its accounts payable.
 4. The business collected \$54,000 of its accounts receivable.
- B. Total assets
C. Total liabilities
D. Owners' equity

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162) The balance sheet prepared for Charles Realty as of December 31, Year 1, shows total assets of \$900,000, total liabilities of \$350,000, and total owners' equity of \$550,000. The following transactions occurred in January of Year 2:

1. The business purchased land for \$250,000, paying \$100,000 cash and issuing a note payable for the balance.
 2. The business collected accounts receivable totaling \$45,000.
 3. The business sold land costing \$50,000 for \$60,000 cash.
 4. The business paid \$50,000 of the note payable.
- B. Total assets
C. Total liabilities
D. Owners' equity

163) The records of Lambda Company includes the following accounts and account balances (in random order):

Notes Payable	\$?	Land	\$ 260,000
Office equipment	\$ 41,600	Accounts Payable	\$ 377,000
Buildings	\$ 533,000	Accounts receivable	\$ 97,500
Capital stock	\$ 494,000	Cash	\$ 19,760

Required: Prepare the balance sheet as of December 31, Year 1, for Lambda Company, from the following list of items, arranged in random order. (*Hint: You must compute the amount for notes payable to complete the balance sheet.*)

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164) The balance sheet was as follows for Carrington Company on February 1, Year 1:

Carrington Company			
Balance Sheet			
February 1, Year 1			
Assets		Liabilities & Owners' Equity	
Cash	\$ 7,000	Liabilities:	
Accounts Receivable	5,200	Accounts Payable	\$ 6,000
Office Equipment	30,000	Notes Payable	40,000
Buildings	50,000	Total liabilities	\$ 46,000
Land	80,000	Owners' equity:	
		Capital Stock	100,000
		Retained Earnings	26,200
Total	\$ 172,200	Total	\$ 172,200

During the month of February, the following transactions occurred:

1. The business used cash to pay off \$5,000 of its accounts payable. (No payment was made on the notes payable.)
2. Additional capital stock was issued to the owner of the company in exchange for \$15,000 cash.
3. Equipment was purchased on credit for \$1,800.
4. The business collected \$4,000 cash from accounts receivable.

Required: Prepare a balance sheet for Carrington Company as of February 28, Year 1.

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- 165) Consider the partially-completed balance sheet of Curtin Construction Company as of December 31, Year 1:

Curtin Construction Company			
Balance Sheet			
December 31, Year 1			
Assets		Liabilities & Owners' Equity	
Cash	\$?	Liabilities:	
Accounts Receivable	85,000	Accounts Payable	\$ 40,000
Equipment	96,000	Income Tax Payable	?
Building	250,000	Notes Payable	?
Land	184,000	Total liabilities	\$ 215,000
		Owners' equity:	
		Capital Stock	
		Retained Earnings	?
Total	\$?	Total	\$ 620,000

Required: Use the following information to complete the balance:

- The company was organized on January 1, Year 1.
- Net income totaled \$275,000 and dividends of \$70,000 were paid to stockholders during the year.
- The sum of Cash and Accounts Receivable equals 1.5 times the Notes Payable amount.

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- 166) Consider the following incomplete balance sheet for Copper Supplies Company as of December 31, Year 1:

Copper Supplies Company				
Balance Sheet				
December 31, Year 1				
Assets		Liabilities & Owners' Equity		
Cash	\$ 30,000	Liabilities:		
Accounts Receivable	?	Accounts Payable	\$ 40,000	
Equipment	?	Notes Payable	?	
Buildings	300,000	Total liabilities		\$?
Land	215,000	Owners' equity:		
		Capital Stock	\$?	
		Retained Earnings	?	?
Total	\$ 835,000	Total		\$?

Required: Use the following information to complete the balance sheet.

- Owners' equity as of January 1, Year 1, totaled \$175,000, which included capital stock of \$150,000.
- Additional capital stock was issued during Year 1 in exchange for \$40,000 cash.
- Net income for Year 1 amounted to \$200,000; no dividends were paid during Year 1.
- Cash and accounts receivable together amount to 3 times as much as accounts payable.

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167) Distinctive Draperies entered into the following transactions during the month of May:

- May 1** Issued capital stock for \$75,000.
- May 2** Purchased a small office building at a price of \$58,000 for the land and \$65,000 for the building. Paid \$43,000 cash and signed a note payable for the balance.
- May 8** Borrowed \$15,000 from the bank. Signed a 60-day note payable for this amount.
- May 16** Purchased copying machines, computers, and other office equipment for \$19,000. Paid \$9,000 cash and signed a note payable for the balance.
- May 28** Sold an item of office equipment (computer) to a stockholder at its cost of \$2,800. The stockholder paid \$800 cash and promised to pay the balance within 30 days.
- May 30** Paid \$5,000 on the liability for the office equipment.
- May 31** Collected \$500 from the stockholder who had bought the computer.

Required: Show the effect of each transaction on the balance sheet items of Distinctive Draperies. Indicate the new balances after the transaction of May 2 and each subsequent transaction. The effects of the May 1 transaction are already filled in to provide you with an example.

	Assets					= Liabilities + Owners' Equity	
	Cash	Accounts Receivable	Land	Buildings	Office Equipment	Notes Payable	Capital Stock
May 1	+\$75,000						+\$75,000
May 2							
Balance							
May 8							
Balance							
May 16							
Balance							

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May 28

Balanc

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May 30

Balanc

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May 31

Balanc

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168) Renaissance Investment Services, Incorporated, entered into the following transactions during November.

November 1 Issued capital stock for \$200,000.

November 2 Purchased a small office building at a price of \$86,000 for the land and \$74,000 for the building. Made a cash payment of 20% of the total price and signed a note payable for the balance.

November 7 Purchased telephones, computers, and other office equipment for \$58,000. Paid \$23,000 cash and signed a note payable for the balance.

November 12 Sold one of the computers to a stockholder at its cost of \$3,500. The stockholder paid \$500 cash and agreed to pay the balance within 10 days.

November 22 Received \$3,000 due from the stockholder who had purchased the computer.

November 30 Paid \$17,500 on the note payable for the office equipment.

Required: Show the effect of each of the six listed transactions on the balance sheet items of Renaissance Investment Services, Incorporated. Indicate the new balances after the transaction of November 2 and each subsequent transaction. The effects of the November 1 transaction are already filled in to provide you with an example.

	Assets					= Liabilities + Owners' Equity	
	Cash	Accounts Receivable	Land	Buildings	Office Equipment	Notes Payable	Capital Stock
November 1	+\$200,000						+\$200,000
November 2							
Balance							
November 7							
Balance							
November 12							
Balance							

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Novembe
r 22
Balance

Novembe
r 30
Balance

- 169) An inexperienced accounting intern at Tasso Company prepared the following income statement for the month ending July 31, Year 1:

Tasso Company
Income Statement
Month ending July 31, Year 1

Revenues:

Services provided to customers	\$ 25,000	
Capital stock	12,500	
Loan from bank	37,500	\$ 75,000

Expenses:

Payments to long-term creditors	\$ 20,000	
Expenses required to provide services to customers	18,750	
Purchase of equipment	10,000	48,750
Net income		\$ 26,250

Required: Prepare a revised income statement in accordance with generally accepted accounting principles.

170) Consider the following accounts and balances relating to the Swell Company for December 31, Year 1:

Accounts Payable	\$ 61,250
Accounts Receivable	70,500
Building	50,000
Capital Stock	50,000
Cash	64,000
Equipment	30,000
Insurance Expense	5,000
Land	125,000
Notes Payable	175,000
Sales Revenue	25,000
Salaries Expense	20,000

Required: Prepare a balance sheet for the Swell Company for December 31, Year 1. (*Hint: You must compute the amount for retained earnings to complete the balance sheet.*)

171) **Required:** State and describe the three most common forms of business organizations in the United States.

Answer Key

Test name: Chapter 02

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

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38) D

39) A

40) B

41) C

42) D

43) B

44) A

45) A

46) A

47) A

48) C

49) A

50) A

51) A

52) D

53) C

54) A

55) A

56) A

57) C

58) A

59) B

Total Assets = Total Liabilities + Total Owners' Equity

Total Assets of \$530,000 – Total Liabilities of \$400,000 = Total Owners' Equity of \$130,000

60) B

Total Assets = Total Liabilities + Total Owners' Equity

Total Assets of \$540,000 – Total Liabilities of \$405,000 = Total Owners' Equity of \$135,000

61) B

Total Assets = Total Liabilities + Total Owners' Equity

Total Assets of \$351,000 – Total Owners' Equity of \$123,000 = Total Liabilities of \$228,000

62) B

Total Assets = Total Liabilities + Total Owners' Equity

Total Assets of \$343,000 – Total Owners' Equity of \$119,000 = Total Liabilities of \$224,000

63) C

64) C

65) B

66) D

67) C

68) C

69) C

70) A

71) A

72) A

73) A

74) D

75) B

76) C

Total Assets = Total Liabilities + Total Owners' Equity

Total Liabilities and Owners' Equity = Accounts Payable (\$19,500) + Notes Payable (\$197,000) + Capital Stock (\$267,000) + Retained Earnings (\$167,000) = \$650,500

Total Assets = Cash (?) + Accounts Receivable (\$47,000) + Land (\$247,000) + Building (\$187,000) + Equipment (\$127,000) = \$650,500

Cash = \$42,500

77) C

Total Assets = Total Liabilities + Total Owners' Equity

Total Liabilities and Owners' Equity = Accounts Payable (\$16,000) + Notes Payable (\$190,000) + Capital Stock (\$260,000) + Retained Earnings (\$160,000) = \$626,000

Total Assets = Cash (?) + Accounts Receivable (\$40,000) + Land (\$240,000) + Building (\$180,000) + Equipment (\$120,000) = \$626,000

Cash = \$46,000

78) A

Total Assets = Total Liabilities + Total Owners' Equity

Total Liabilities + Total Owners' Equity = Accounts Payable (\$17,000) + Notes Payable (\$192,000) + Capital Stock (\$322,000) + Retained Earnings (\$162,000) = \$693,000

Total Assets = \$693,000

79) A

Total Assets = Total Liabilities + Total Owners' Equity

Total Liabilities + Total Owners' Equity = Accounts Payable (\$16,000) + Notes Payable (\$190,000) + Capital Stock (\$320,000) + Retained Earnings (\$160,000) = \$686,000

Total Assets = \$686,000

80) B

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Total Assets = Cash (\$87,000) + Accounts Receivable (\$41,000) + Land (\$241,000) + Building (\$181,000) + Equipment (\$121,000) = \$671,000

Total Liabilities + Total Owners' Equity = Accounts Payable (\$16,500) + Notes Payable (\$191,000) + Capital Stock (?) + Retained Earnings (\$161,000) = \$671,000

Capital Stock = \$302,500

81) B

Total Assets = Cash (\$86,000) + Accounts Receivable (\$40,000) + Land (\$240,000) + Building (\$180,000) + Equipment (\$120,000) = \$666,000

Total Liabilities + Total Owners' Equity = Accounts Payable (\$16,000) + Notes Payable (\$190,000) + Capital Stock (?) + Retained Earnings (\$160,000) = \$666,000

Capital Stock = \$300,000

82) D

Total Assets = Cash (\$33,000) + Accounts Receivable (\$47,000) + Land (\$247,000) + Building (\$187,000) + Equipment (\$127,000) = \$641,000

Total Liabilities = Accounts Payable (\$19,500) + Notes Payable (\$197,000) = \$216,500

Total Assets of \$641,000 – Total Liabilities of \$216,500 = Total Owners' Equity of \$424,500

83) D

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Total Assets = Cash (\$26,000) + Accounts Receivable (\$40,000) + Land (\$240,000) + Building (\$180,000) + Equipment (\$120,000) = \$606,000

Total Liabilities = Accounts Payable (\$16,000) + Notes Payable (\$190,000) = \$206,000

Total Assets of \$606,000 – Total Liabilities of \$206,000 = Total Owners' Equity of \$400,000

84) D

Total Assets = Cash (\$67,000) + Accounts Receivable (\$41,000) + Land (\$241,000) + Building (\$181,000) + Equipment (\$121,000) = \$651,000

85) D

Total Assets = Cash (\$66,000) + Accounts Receivable (\$40,000) + Land (\$240,000) + Building (\$180,000) + Equipment (\$120,000) = \$646,000

86) B

Total Assets = Cash (\$7,000) + Accounts Receivable (\$30,000) + Land (\$90,000) + Building (\$250,000) + Equipment (?) = \$556,000

Equipment = \$556,000 – \$7,000 – \$30,000 – \$90,000 – \$250,000 = \$179,000

87) C

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Total Assets = Total Liabilities + Total Owners' Equity

Total Liabilities + Total Owners' Equity = Accounts Payable (\$12,000) + Notes Payable (\$135,000) + Capital Stock (\$188,000) + Retained Earnings (?) = \$556,000

Retained Earnings = \$556,000 - \$12,000 - \$135,000 - \$188,000 = \$221,000

88) C

Total Assets = Total Liabilities + Total Owners' Equity

Total Assets = Accounts Payable (\$12,000) + Notes Payable (\$135,000) + Capital Stock (\$188,000) + Retained Earnings (\$140,000) = \$475,000

89) B

Total Assets = Total Liabilities + Total Owners' Equity

Total Liabilities + Owners' Equity = Accounts Payable (\$12,000) + Notes Payable (\$135,000) + Capital Stock (\$188,000) + Retained Earnings (\$100,000) = \$435,000

Cash (\$7,000) + Accounts Receivable (\$30,000) + Land (\$90,000) + Building (\$250,000) + Equipment (?) = Total Assets (\$435,000)

Equipment = \$435,000 - \$7,000 - \$30,000 - \$90,000 - \$250,000 = \$58,000

90) C

Cash (\$7,000) + Accounts Receivable (\$30,000) + Land (\$90,000) + Building (\$250,000) + Equipment (\$156,000) = Total Assets (\$533,000)

Total Assets = Total Liabilities + Total Owners' Equity

Total Assets (\$533,000) = Total Liabilities + Total Owners' Equity = Accounts Payable (\$12,000) + Notes Payable (\$135,000) + Capital Stock (\$188,000) + Retained Earnings (?)

Retained Earnings = \$533,000 - \$12,000 - \$135,000 - \$188,000 = \$198,000

91) C

Total Liabilities + Total Owners' Equity = Accounts Payable (\$2,500) + Notes Payable (\$10,000) + Capital Stock (\$12,500) + Retained Earnings (\$125,000) = \$150,000

Total Assets = Total Liabilities + Total Owners' Equity

Total Assets = Cash (?) + Accounts Receivable (\$18,750) + Land (\$30,000) + Building (\$31,250) + Equipment (\$40,000) = \$150,000

Cash = \$150,000 - \$18,750 - \$30,000 - \$31,250 - \$40,000 = \$30,000

92) D

Total Liabilities + Total Owners' Equity = Accounts Payable (\$2,500) + Notes Payable (\$25,000) + Capital Stock (\$12,500) + Retained Earnings (\$125,000) = \$165,000

Total Assets = Total Liabilities + Total Owners' Equity

Total Assets = \$165,000

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93) B

Total Assets = Cash (\$67,500) + Accounts Receivable (\$18,750) + Land (\$30,000) + Building (\$31,250) + Equipment (\$40,000) = \$187,500

Total Assets = Total Liabilities + Total Owners' Equity

Total Liabilities + Total Owners' Equity = Accounts Payable (\$2,500) + Notes Payable (?) + Capital Stock (\$12,500) + Retained Earnings (\$125,000) = \$187,500

Notes Payable = \$187,500 - \$2,500 - \$12,500 - \$125,000 = \$47,500

94) C

Total Assets = Cash (\$62,500) + Accounts Receivable (\$18,750) + Land (\$30,000) + Building (\$31,250) + Equipment (\$40,000) = \$182,500

Total Assets = Total Liabilities and Owners' Equity

Total Liabilities = \$182,500 - \$12,500 - \$125,000 = \$45,000

95) C

Total Assets (\$800,000) - Total Owners' Equity (\$720,000) = Total Liabilities (\$80,000)

96) C

Change in Total Assets = Change in Total Liabilities and Owner's Equity

Increase in Total Assets (\$362,000) = Increase in Total Liabilities (\$260,000) + Increase in Total Owners' Equity

Increase in Total Owners' Equity = \$362,000 - \$260,000 = \$102,000

97) B

Total Liabilities of \$270,000 = 0.75 × Total Assets

Total Assets = \$270,000 ÷ 0.75 = \$360,000

Total Owners' Equity = Total Assets of \$360,000 - Total Liabilities of \$270,000

Total Owners' Equity = \$360,000 - \$270,000 = \$90,000

98) C

Total Liabilities of \$530,000 = 0.20 × Total Assets

Total Assets = \$530,000 ÷ 0.20 = \$2,650,000

Total Owners' Equity = Total Assets of \$2,650,000 - Total Liabilities of \$530,000

Total Owners' Equity = \$2,650,000 - \$530,000 = \$2,120,000

99) C

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Total Liabilities of \$440,000 = 0.20 × Total Assets

Total Assets = \$440,000 ÷ 0.20 = \$2,200,000

Total Owners' Equity = Total Assets of \$2,200,000 – Total Liabilities of \$440,000

Total Owners' Equity = \$2,200,000 – \$440,000 = \$1,760,000

100) B

101) A

102) C

Change in Total Assets = Change in Total Liabilities and Owner's Equity

Increase in Total Assets = Increase in Liabilities (\$234,000) + Increase in Owners' Equity (\$167,000)

Increase in Total Assets = \$234,000 + \$167,000 = \$401,000

103) C

Change in Total Assets = Change in Total Liabilities and Owner's Equity

Increase in Total Assets = Increase in Liabilities (\$220,000) + Increase in Owners' Equity (\$160,000)

Increase in Total Assets = \$220,000 + \$160,000 = \$380,000

104) C

Change in Assets = Change in Total Liabilities and Owner's Equity

Change in Assets = Decrease in Liabilities (\$50,000) + Increase in Owners' Equity (\$75,000)

Increase in Assets = \$75,000 – \$50,000 = \$25,000

105) A

Change in Assets = Change in Total Liabilities and Owner's Equity

Increase in Assets (\$116,000) – Increase in Liabilities (\$70,000) = Change in Owners' Equity

Increase in Owners' Equity = \$116,000 – \$70,000 = \$46,000

Owners' Equity at beginning of year + Increase in Owners' Equity (\$46,000) = Owners' Equity at end of year (\$242,000)

Owners' Equity at beginning of year = \$242,000 – \$46,000 = \$196,000

106) A

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Change in Assets = Change in Total Liabilities and Owner's Equity

Increase in Assets (\$120,000) – Increase in Liabilities (\$72,000) = Change in Owners' Equity

Increase in Owners' Equity = \$120,000 – \$72,000 = \$48,000

Owners' Equity at beginning of year + Increase in Owners' Equity (\$48,000) = Owners' Equity at end of year (\$246,000)

Owners' Equity at beginning of year = \$246,000 – \$48,000 = \$198,000

107) A

Change in Assets = Change in Total Liabilities and Owner's Equity

Increase in Total Assets (\$84,000) = Increase in Total Liabilities (\$126,000) + Change in Owners' Equity

Decrease in Owners' Equity = \$84,000 – \$126,000 = (\$42,000)

Owners' Equity at beginning of year – Decrease in Owners' Equity (\$42,000) = Owners' Equity at end of year (\$376,000)

Owners' Equity at beginning of year = \$376,000 + \$42,000 = \$418,000

108) A

Change in Assets = Change in Total Liabilities and Owner's Equity

Increase in Total Assets (\$68,000) = Increase in Total Liabilities (\$118,000) + Change in Owners' Equity

Decrease in Owners' Equity = \$68,000 – \$118,000 = (\$50,000)

Owners' Equity at beginning of year – Decrease in Owners' Equity (\$50,000) = Owners' Equity at end of year (\$360,000)

Owners' Equity at beginning of year = \$360,000 + \$50,000 = \$410,000

109) B

Change in Assets = Change in Total Liabilities and Owner's Equity

Increase in Total Assets (\$184,000) = Decrease in Total Liabilities (\$24,000) + Change in Owners' Equity

Increase in Owners' Equity = \$184,000 + \$24,000 = \$208,000

Owners' Equity at beginning of year + Increase in Owners' Equity (\$208,000) = Owners' Equity at end of year (\$484,000)

Owners' Equity at beginning of year = \$484,000 – \$208,000 = \$276,000

110) B

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Change in Assets = Change in Total Liabilities and Owner's Equity

Increase in Total Assets (\$175,000) = Decrease in Total Liabilities (\$15,000) + Change in Owners' Equity

Increase in Owners' Equity = \$175,000 + \$15,000 = \$190,000

Owners' Equity at beginning of year + Increase in Owners' Equity (\$190,000) = Owners' Equity at end of year (\$475,000)

Owners' Equity at beginning of year = \$475,000 - \$190,000 = \$285,000

111) B

112) D

113) B

Revenues of \$39,500 - Expenses of \$29,000 = Net income of \$10,500

114) B

Revenues of \$33,500 - Expenses of \$26,000 = Net income of \$7,500

115) D

Beginning Owners' Equity of \$164,000 + Net income of \$9,500 - Dividends of \$9,900 = Ending Owners' Equity of \$163,600

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116) D

Beginning Owners' Equity of \$160,000 + Net income of \$7,500 - Dividends of \$9,500 = Ending Owners' Equity of \$158,000

117) B

Net cash flows provided (used) by operating activities = Revenues earned and received in cash of \$28,500 - Expenses incurred and paid of \$23,500 = \$5,000

118) B

Net cash flows provided (used) by operating activities = Revenues earned and received in cash of \$33,500 - Expenses incurred and paid of \$26,000 = \$7,500

119) B

Revenues of \$100,500 - Expenses of \$78,000 = Net income of \$22,500

120) B

Beginning Owners' Equity of \$480,000 + Net income of \$22,500 - Dividends of \$18,500 = Ending Owners' Equity = \$484,000

121) B

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Net cash flows provided (used) by operating activities = Revenues earned and received in cash of \$100,500 – Expenses incurred and paid of \$78,000 = \$22,500

122) A

123) A

124) C

Net cash flows provided by operating activities = Revenues earned and received in cash of \$69,000 – Expenses incurred and paid of \$41,300 = \$27,700

125) C

Net cash flows provided by operating activities = Revenues earned and received in cash of \$56,000 – Expenses incurred and paid of \$34,800 = \$21,200

126) D

Cash flow provided by operating activities = Revenues earned and received in cash of \$110,000 – Expenses incurred and paid of \$68,600 = \$41,400

127) D

Cash flow provided by operating activities = Revenues earned and received in cash of \$120,000 – Expenses incurred and paid of \$73,600 = \$46,400

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128) B

Net cash flows provided by financing activities = Issue of stock \$46,000 – bank loan paid \$19,500 = \$26,500

129) B

Net cash flows provided by financing activities = Issue of stock \$44,000 – bank loan paid \$18,000 = \$26,000

130) C

Net cash flows provided (used) by investing activities = Equipment purchased = \$30,000 used

131) C

Net cash flows provided (used) by investing activities = Equipment purchased = \$40,000 used

132) B

Increase in cash = \$47,900 + \$26,750 – \$43,000 = \$31,650

133) B

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Increase in cash = \$46,400 + \$26,000 - \$40,000 = \$32,400

134) C

Net cash flows provided by operating activities = cash revenues \$225,000 - Cash expenses \$171,400 = \$53,600

135) B

Net cash provided by financing activities = Issue of stock of \$50,000 + Bank loan issued of \$15,000 - Bank loan paid of \$18,000 = \$47,000

136) A

Net cash flows provided (used) by investing activities = Outflow from purchase of equipment of \$40,000 - Inflow from sale of equipment of \$36,000 = (\$4,000)

137) D

Increase in cash = \$53,600 + \$47,000 - \$4,000 = \$96,600

138) D

139) C

140) D

141) C

142) A

143) C

144) B

145) B

146) C

147) A

148) B

149) B

150) A

151) A

152) C

153) Essay

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The order of these items may vary:

- ☐ Statement of financial position (or balance sheet). A report showing at a specific date the financial position of the company by reporting the assets (resources) that it owns, the liabilities (debts) that it owes, and the amount of the owners' equity in the business.
- ☐ Income statement. A report indicating the profitability (or net income) of the business over a specific time period.
- ☐ Statement of cash flows. A report summarizing the cash receipts and cash payments of the business over the same time period covered by the income statement. The cash flows from three activities are presented on the statement. In order of presentation, they include: (1) operating activities; (2) investing activities; and (3) financing activities.

154) Essay

- A. Generally accepted accounting principles are the concepts, standards, or rules used in the preparation of financial statements.
- B. Generally accepted accounting principles require that financial statements describe the activities of a specific economic entity, which is an economic unit that engages in identifiable business activities separate from the personal activities of its owners.

155) Essay

The student may choose any two of the following:

- ☐ Going-concern assumption. An assumption by accountants that a business will operate in the foreseeable future unless specific evidence that this is not a reasonable assumption exists, such as impending bankruptcy. Since assets of the business were acquired for use and not for resale, estimated current market prices or appraisal values are of less importance than if these items were intended for sale.
- ☐ Objectivity principle. Accounting measurements should be based upon dollar amounts that are factual and subject to independent verification. Historical cost of assets is objective; estimated market values or appraisals change over time and are not factual or objective.
- ☐ Stable-dollar assumption. An assumption by accountants that the dollar is a stable unit of measure. This assumption permits reporting assets at cost, even though individual assets may have been acquired in different years.

156) Essay

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- b. Liquidity
- c. Going concern assumption
- d. Assets
- e. Liabilities
- f. Accounting equation
- g. Cost principle
- h. Owners' equity

157) Essay

- A. Change in owners' equity = \$650,000 + \$340,000 = \$990,000 increase
- B. Total assets = $4 \times \$720,000 = \$2,880,000$ Total liabilities = \$2,880,000 assets - \$720,000 owners' equity = \$2,160,000
- C. Change in owners' equity = \$515,000 - \$205,000 = \$310,000 increase Beginning owners' equity = \$845,000 ending balance - \$310,000 increase = \$535,000

158) Essay

Transactions	Total Assets	Total Liabilities	Owners' Equity
A. Issued capital stock in exchange for cash	+	NC	+
B. Bought land and a building at a total price of \$165,000. Made a down payment of \$65,000 cash and signed a note payable for the balance.	+	+	NC
C. Bought adjoining lot for use as parking lot; paid cash in full	NC	NC	NC
D. Sold a portion of the land on credit at a price equal to its cost.	NC	NC	NC
E. Obtained a loan from a bank.	+	+	NC
F. Purchased office equipment on credit.	+	+	NC
G. Paid a liability.	-	-	NC
H. Collected part of amount owned to the business from purchaser of land.	NC	NC	NC
I. Sold another portion of the land for cash at a price in excess of cost.	+	NC	+

159) Essay

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Transaction	Total Assets	Total Liabilities	Owners' Equity
A. Issued capital stock to Don Tsang in exchange for his investment of \$ 200,000 in the business.	+\$ 200,000	NC	+\$ 200,000
B. Purchased a computer for the business for \$ 5,500 cash.	NC	NC	NC
C. Borrowed \$ 20,000 from the bank.	+\$ 20,000	+\$ 20,000	NC
D. Purchased office furnishings at a total price of \$ 4,200, terms \$ 600 cash and balance payable in two installments.	+\$ 3,600	+\$ 3,600	NC
E. Paid \$ 1,800 of the balance due on the office furnishings.	-\$ 1,800	-\$ 1,800	NC
F. Sold an extra monitor that had cost \$ 250 for \$ 300 on credit.	+\$ 50	NC	+\$ 50
G. Collected \$ 150 of accounts receivable from purchaser of the monitor.	NC	NC	NC
H. Bought a small truck to be used in the business for \$ 29,000; paid cash in full.	NC	NC	NC

160) Essay

Financial & Managerial Accounting Edition 20 by Williams

Cash

Accounts Receivable

Equipment

Accounts Payable

Capital Stock, Retained Earnings

The balance sheet lists assets, then liabilities, and then owners' equity. Assets are ordinarily presented in their order of "permanence," starting with cash. Next are other assets that are close to cash (e.g., receivables from customers), followed by more permanent assets like equipment, buildings, and land, which is considered the most permanent asset. Liabilities are usually presented in the order in which they are expected to be repaid.

Revenue and Rent Expense do not appear in a balance sheet; both appear on the income statement.

161) Essay

D. Total assets: $\$700,000 + \$165,000 + \$360,000 - \$160,000 - \$70,000 + \$54,000 - \$54,000 = \$995,000$

E. Total liabilities: $\$400,000 + \$200,000 - \$70,000 = \$530,000$

F. Owners' equity: $\$300,000 + \$165,000 = \$465,000$ (or $\$995,000 - \$530,000 = \$465,000$)

162) Essay

G. Total assets: $\$900,000 + \$250,000 - \$100,000 + \$45,000 - \$45,000 - \$50,000 + \$60,000 - \$50,000 = \$1,010,000$

H. Total liabilities: $\$350,000 + \$150,000 - \$50,000 = \$450,000$

I. Owners' equity: $\$550,000 + \$10,000 = \$560,000$ (or $\$1,010,000 - \$450,000 = \$560,000$)

163) Essay

Financial & Managerial Accounting Edition 20 by Williams

Lambda Company Balance Sheet December 31, Year 1			
Assets		Liabilities & Owners' Equity	
Cash	\$ 19,760	Liabilities:	
Accounts Receivable	97,500	Accounts Payable	\$ 377,000
Office Equipment	41,600	Notes Payable	80,860
Buildings	533,000	Total liabilities	<u>\$ 457,860</u>
Land	260,000	Owners' equity:	
	<u> </u>	Capital Stock	494,000
Total	\$ 951,860	Total	<u>\$ 951,860</u>
	<u> </u>		<u> </u>

164) Essay

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Financial & Managerial Accounting Edition 20 by Williams

Carrington Company					
Balance Sheet					
February 28, Year 1					
Assets			Liabilities & Owners' Equity		
Cash	\$ (a)		Liabilities:		
	21,000				
Accounts Receivable	1,200 (b)		Accounts Payable	\$ 2,800	(d)
Office Equipment	31,800 (c)		Notes Payable	40,000	
Buildings	50,000		Total liabilities	<u>42,800</u>	
Land	80,000		Owners' equity:		
			Capital Stock	115,000	(e)
			Retained Earnings	26,200	141,200
Total	\$		Total	<u>\$</u>	
	184,000			184,000	

- i. $\$7,000 + \$4,000$ (collections from customers) + $\$15,000$ (stock issuance) - $\$5,000$ (pay accounts payable) = $\$21,000$
- j. $\$5,200 - \$4,000$ (collections from customers) = $\$1,200$
- k. $\$30,000 + \$1,800$ (equipment purchase) = $\$31,800$
- l. $\$6,000 + \$1,800$ (equipment purchase) - $\$5,000$ (paid on accounts payable) = $\$2,800$
- m. $\$100,000 + \$15,000$ (stock issuance) = $\$115,000$

165) Essay

Financial & Managerial Accounting Edition 20 by Williams

Carrington Company					
Balance Sheet					
December 31, Year 1					
Assets			Liabilities & Owners' Equity		
Cash	\$ 5,000	(b)	Liabilities:		
Accounts Receivable	85,000		Accounts Payable	\$ 40,000	
Equipment	96,000		Income Tax Payable	115,000	(d)
Building	250,000		Notes Payable	60,000	(c)
Land	184,000		Total liabilities		\$ 215,000
			Owners' equity:		
			Capital Stock	200,000	(f)
			Retained Earnings	205,000	405,000 (e)
Total Assets	\$ 620,000	(a)	Total		\$ 620,000

- n. Total assets must be \$620,000 to agree with the total of liabilities plus owners' equity.
- o. Cash must be \$5,000 to achieve a total asset figure of \$620,000.
- p. Cash (\$5,000) plus Accounts Receivable (\$85,000) equals \$90,000. The sum of Cash and Accounts Receivable equals 1.5 times the Notes Payable amount. Notes payable is computed as \$90,000 divided by 1.5, or \$60,000.
- q. Income Tax Payable must be \$115,000 to achieve total liabilities figure of \$215,000.
- r. Retained Earnings at the end of the first accounting period must be net income of \$275,000 less dividends paid of \$70,000, or \$205,000.
- s. Capital stock must be \$200,000 to achieve total liabilities and owners' equity figure of \$620,000.

166) Essay

Financial & Managerial Accounting Edition 20 by Williams

Copper Supplies Company					
Balance Sheet					
December 31, Year 1					
Assets			Liabilities & Owners' Equity		
Cash	\$ 30,000		Liabilities:		
Accounts Receivable	90,000 (b)		Accounts Payable	\$ 40,000	
Equipment	200,000 (c)		Notes Payable	380,000	(g)
Building	300,000		Total liabilities		\$ (f) 420,000
Land	215,000		Owners' equity:		
			Capital Stock	190,000	(d)
			Retained Earnings	225,000	415,000 (e)
Total	\$ 835,000		Total		\$ (a) 835,000

- t. Total of liabilities & owners' equity must be \$835,000 to agree with the amount of total assets.
- u. Cash and Accounts Receivable together amount to 3 times Accounts Payable, or \$120,000. Since Cash is \$30,000, Accounts Receivable equals \$120,000 minus \$30,000, or \$90,000.
- v. Equipment must be \$200,000 to achieve total assets of \$835,000.
- w. Beginning Capital Stock of \$150,000 plus stock issued of \$40,000 equals ending Capital Stock of \$190,000.
- x. Beginning Retained Earnings equals total owners' equity at January 1 of \$175,000 minus beginning Capital Stock of \$150,000, or \$25,000. Ending Retained Earnings equals beginning Retained Earnings of \$25,000 plus net income of \$200,000, or \$225,000.
- y. Total liabilities must be \$420,000 to achieve the total of liabilities plus owners' equity of \$835,000.
- z. Since total liabilities equal \$420,000 and Accounts Payable are \$40,000, Notes Payable must be \$380,000.

167) Essay

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	Assets					= Liabilities	+ Owners' Equity
	Cash	+Accounts Receivable	+ Land	+Buildings	+ Office Equipment	= Notes Payable	+Capital Stock
May 1	+\$75,000						+\$75,000
May 2	-\$43,000		+\$58,000	+\$65,000		+\$80,000	
Balance	\$32,000		\$58,000	\$65,000		\$80,000	\$75,000
May 8	+\$15,000					+\$15,000	
Balance	\$47,000		\$58,000	\$65,000		\$95,000	\$75,000
May 16	-\$9,000				+\$19,000	+\$10,000	
Balance	\$38,000		\$58,000	\$65,000	\$19,000	\$105,000	\$75,000
May 28	+\$800	+\$2,000			-\$2,800		
Balance	\$38,800	\$2,000	\$58,000	\$65,000	\$16,200	\$105,000	\$75,000
May 30	-\$5,000					-\$5,000	
Balance	\$33,800	\$2,000	\$58,000	\$65,000	\$16,200	\$100,000	\$75,000
May 31	+\$500	-\$500					

Financial & Managerial Accounting Edition 20 by Williams

Balan	\$	\$	\$	\$	\$	\$	\$
ce	34,3	1,500	58,0	65,00	16,20	100,000	75,5
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168) Essay

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Financial & Managerial Accounting Edition 20 by Williams

	Assets					= Liabilities	+ Owners' Equity
	Cash	+Accounts Receivable	+ Land	+Buildings	+ Office Equipment	= Notes Payable	+ Capital Stock
November 1	+\$200,000						+\$200,000
November 2	-\$32,000		+\$86,000	+\$74,000		+\$128,000	
Balance	\$168,000		\$86,000	\$74,000		\$128,000	\$200,000
November 7	-\$23,000				+\$58,000	+\$35,000	
Balance	\$145,000		\$86,000	\$74,000	\$58,000	\$163,000	\$200,000
November 12	+\$500	+\$3,000			-\$3,500		
Balance	\$145,500	\$3,000	\$86,000	\$74,000	\$54,500	\$163,000	\$200,000
November 22	+\$3,000	-\$3,000					
Balance	\$148,500		\$86,000	\$74,000	\$54,500	\$163,000	\$200,000
November 30	-\$17,000					-\$17,500	
Balance	\$131,000		\$86,000	\$74,000	\$54,500	\$145,500	\$200,000

169) Essay

Financial & Managerial Accounting Edition 20 by Williams

Tasso Company
Income Statement
Month ending July 31, Year 1

Revenues:

Services provided to customers \$ 25,000

Expenses:

Expenses required to provide services to customers 18,750

Net income \$ 6,250

170) Essay

Swell Company
Balance Sheet
December 31, Year 1

Assets		Liabilities & Owners' Equity	
Cash	\$ 64,000	Liabilities:	
Accounts Receivable	70,500	Accounts Payable	\$ 61,250
Equipment	30,000	Notes Payable	175,000
Building	50,000	Total liabilities	<u>236,250</u>
Land	125,000	Owners' equity:	
	<u>339,500</u>	Capital Stock	50,000
		Retained Earnings	53,250
Total	<u>\$ 339,500</u>	Total	<u>\$ 339,500</u>

171) Essay

- (1) Sole Proprietorship: One person, unlimited liability, and owner acts as manager.
- (2) Partnership: Two or more persons and owners are personally responsible for debts.
- (3) Corporation: Stockholders are owners, limited liability, ease of transfer of ownership, and separate entity under the law.