

## Chapter 1 - Introduction to Accounting and Business

True / False

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

- a. True
- b. False

ANSWER: True

DIFFICULTY: Easy  
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.18.01-01 - 01-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

ANSWER: True

DIFFICULTY: Moderate  
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.18.01-01 - 01-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

ANSWER: True

DIFFICULTY: Easy  
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.18.01-01 - 01-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

ANSWER: False

DIFFICULTY: Easy  
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.18.01-01 - 01-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.01 - Purpose  
ACCT.ACBSP.APC.25 - Managerial Characteristics/Terminology  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Easy  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.03 - Legal  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Ethics

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

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.BB.03 - Legal  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Ethics

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

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.BB.03 - Legal  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Ethics

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

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.BB.06 - Resource Management  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Easy

Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.20 - Accounting for Corporations  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Ethics

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

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Easy

Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Moderate

Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Easy

Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Moderate

Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Easy

Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Easy

Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Easy

Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** True  
**DIFFICULTY:** Moderate  
Bloom's: Remembering  
**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02  
**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** True  
**DIFFICULTY:** Easy  
Bloom's: Remembering  
**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02  
**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** False  
**DIFFICULTY:** Moderate  
Bloom's: Applying  
**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02  
**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** False  
**DIFFICULTY:** Moderate  
Bloom's: Remembering  
**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02  
ACCT.WARD.18.01-05 - 01-05  
**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Challenging  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.01 - Purpose  
ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Easy

Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** False

**RATIONALE:** Assets = Liabilities + Owner's Equity = \$300,000 + \$300,000 = \$600,000

**DIFFICULTY:** Moderate

Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** False

**RATIONALE:** Assets = Liabilities + Owner's Equity  
 $-\$30,000 = \text{Liabilities} + (-\$35,000)$   
Liabilities = +\$5,000

**DIFFICULTY:** Moderate

Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 1 - Introduction to Accounting and Business

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

- a. True
- b. False

**ANSWER:** True

**RATIONALE:** Assets = Liabilities + Owner's Equity  
+\$190,000 = -\$10,000 + Owner's Equity  
Owner's Equity = +\$200,000

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.AC BSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** True

**RATIONALE:** Increase in Capital = Net Income for the Year – Withdrawals + Additional Investment by Owner = \$50,000 – \$20,000 + \$10,000 = \$40,000

**DIFFICULTY:** Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.AC BSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.AC BSP.APC.15 - Current Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Easy

Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.12 - Receivables Reporting

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

35. Paying an account payable increases liabilities and decreases assets.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Moderate

Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions

ACCT.ACBSAPC.16 - Current Liabilities Reporting

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

36. Receiving payments on an account receivable increases both equity and assets.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Challenging

Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

37. Cash withdrawals by owners decrease assets and increase equity.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Moderate

Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

38. Purchasing supplies on account increases liabilities and decreases equity.

- a. True
- b. False

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-04 - 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

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

- a. True
- b. False

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-04 - 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.ACBSP.APC.04 - Cash vs. Accrual

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

40. Revenue is earned only when money is received.

- a. True
- b. False

*ANSWER:* False

*DIFFICULTY:* Moderate

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-04 - 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP

ACCT.ACBSP.APC.04 - Cash vs. Accrual

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

41. Assets that are used up during the process of earning revenue are called expenses.

- a. True
- b. False

*ANSWER:* True

*DIFFICULTY:* Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-04 - 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.15 - Current Assets Reporting

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

42. The excess of revenue over the expenses incurred in earning the revenue is called capital.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

43. The primary financial statements of a proprietorship are the income statement, statement of owner's equity, and balance sheet.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

- a. True
- b. False

*ANSWER:* False

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-05 - 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.ACBSP.APC.24 - Statement of Cash Flows  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

47. The balance sheet represents the accounting equation.

- a. True
- b. False

*ANSWER:* True

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-05 - 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- a. True
- b. False

*ANSWER:* False

*DIFFICULTY:* Easy  
Bloom's: Understanding

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-05 - 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

### Multiple Choice

49. Profit is the difference between
- assets and liabilities
  - the incoming cash and outgoing cash
  - the assets purchased with cash contributed by the owner and the cash spent to operate the business
  - the amounts received from customers for goods or services and the amounts paid for the inputs used to provide the goods or services

*ANSWER:* d

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-01 - 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose  
ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

50. Two common areas of accounting that respectively provide information to internal and external users are
- forensic accounting and financial accounting
  - managerial accounting and financial accounting
  - managerial accounting and environmental accounting
  - financial accounting and tax accounting systems

*ANSWER:* b

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-01 - 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

*ANSWER:* b

*DIFFICULTY:* Moderate  
Bloom's: Evaluating

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-01 - 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

52. Which type of accountant typically practices as an individual or as a member of a public accounting firm?
- Certified Public Accountant
  - Certified Payroll Professional
  - Certified Internal Auditor
  - Certified Management Accountant

*ANSWER:* a

*DIFFICULTY:* Easy  
Bloom's: Evaluating

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-01 - 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

53. Financial reports are used by
- management
  - creditors
  - investors
  - All of these choices

*ANSWER:* d

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-01 - 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

54. Which of the following is a manufacturing business?
- General Motors
  - Facebook
  - American Airlines
  - Target

*ANSWER:* a

*DIFFICULTY:* Moderate  
Bloom's: Evaluating

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-01 - 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

55. Which of the following is a service business?

- a. Microsoft
- b. Dell Computers
- c. Facebook
- d. Walmart

*ANSWER:* c

*DIFFICULTY:* Easy  
Bloom's: Evaluating

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-01 - 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

*ANSWER:* d

*DIFFICULTY:* Easy  
Bloom's: Evaluating

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-01 - 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

57. Which of the following groups is considered to be **internal users** of accounting information?

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

*ANSWER:* c

*DIFFICULTY:* Easy  
Bloom's: Understanding

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-01 - 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 1 - Introduction to Accounting and Business

58. The following are examples of external users of accounting information **except**

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

**ANSWER:** d

**DIFFICULTY:** Easy  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

59. Which of the following is the **best** description of accounting's role in business?

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

**ANSWER:** b

**DIFFICULTY:** Moderate  
Bloom's: Evaluating

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

60. Managerial accountants would be responsible for providing information regarding

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

**ANSWER:** c

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.01 - Purpose  
ACCT.ACBSP.APC.25 - Managerial Characteristics/Terminology  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

ANSWER: d

DIFFICULTY: Moderate  
Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.18.01-01 - 01-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

62. Which of the following is **not** a role of accounting in business?

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

ANSWER: b

DIFFICULTY: Moderate  
Bloom's: Understanding

LEARNING OBJECTIVES: ACCT.WARD.18.01-01 - 01-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

63. Which of the following is a guideline for behaving ethically?

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

ANSWER: d

DIFFICULTY: Moderate  
Bloom's: Understanding

LEARNING OBJECTIVES: ACCT.WARD.18.01-01 - 01-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.03 - Legal  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Ethics

## Chapter 1 - Introduction to Accounting and Business

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

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

*ANSWER:* b

*DIFFICULTY:* Moderate  
Bloom's: Understanding

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-01 - 01-01

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

65. Most businesses in the United States are

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

*ANSWER:* a

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-02 - 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

66. Which of the following is **not** a business entity?

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

*ANSWER:* a

*DIFFICULTY:* Easy  
Bloom's: Understanding

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-02 - 01-02

*LOCAL STANDARDS:* United States - OH - Default City - ACBSP: APC-03-Business Forms  
United States - OH - Default City - AICPA: FN-Measurement

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

ANSWER: b

DIFFICULTY: Easy  
Bloom's: Understanding

LEARNING OBJECTIVES: ACCT.WARD.18.01-02 - 01-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

ANSWER: d

DIFFICULTY: Easy  
Bloom's: Understanding

LEARNING OBJECTIVES: ACCT.WARD.18.01-02 - 01-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

ANSWER: d

DIFFICULTY: Moderate  
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.18.01-02 - 01-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.02 - GAAP  
ACCT.ACBSP.APC.13 - Long-term Assets Reporting  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

**ANSWER:** b

**DIFFICULTY:** Easy  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

71. Which of the following is **not** a characteristic of a corporation?

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

**ANSWER:** d

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.03 - Business Forms  
ACCT.ACBSP.APC.20 - Accounting for Corporations  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

72. The initials GAAP stand for

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

**ANSWER:** c

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.1-02 - 01 - 02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

73. Within the United States, the dominant body in the primary development of accounting principles is the
- American Institute of Certified Public Accountants (AICPA)
  - American Accounting Association (AAA)
  - Financial Accounting Standards Board (FASB)
  - Institute of Management Accountants (IMA)

**ANSWER:** c

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

74. The business entity concept means that
- the owner is part of the business entity
  - an entity is organized according to state or federal statutes
  - an entity is organized according to the rules set by the FASB
  - the entity is an individual economic unit for which data are recorded, analyzed, and reported

**ANSWER:** d

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

75. For accounting purposes, the business entity should be considered separate from its owners if the entity is
- a corporation
  - a proprietorship
  - a partnership
  - All of these choices

**ANSWER:** d

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

76. The objectivity concept requires that

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

**ANSWER:** d

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**ANSWER:** b

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**ANSWER:** b

**RATIONALE:** Amount in Buyer's Accounting Records = Amount Paid in Cash + Amount Paid through Note Payable = \$15,000 + \$20,000 = \$35,000

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

**ANSWER:** a

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**ANSWER:** c

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**ANSWER:** b

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 1 - Introduction to Accounting and Business

82. Many countries outside the United States use financial accounting standards issued by the
- AICPA
  - SEC
  - IASB
  - FASB

*ANSWER:* c

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-02 - 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

*ANSWER:* d

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-02 - 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

84. Which of the following is **not** true of accounting principles?
- Financial accountants follow generally accepted accounting principles (GAAP).
  - Following GAAP allows accounting information users to compare one company to another.
  - A new accounting principle can be adopted with stockholders' approval.
  - The Financial Accounting Standards Board (FASB) has primary responsibility for developing accounting principles.

*ANSWER:* c

*DIFFICULTY:* Moderate  
Bloom's: Understanding

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-02 - 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

85. Assets are

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

**ANSWER:** d

**DIFFICULTY:** Easy  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

86. Debts owed by a business are referred to as

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

**ANSWER:** d

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

87. The accounting equation may be expressed as

- a.  $\text{Assets} = \text{Equities} - \text{Liabilities}$
- b.  $\text{Assets} + \text{Liabilities} = \text{Owner's Equity}$
- c.  $\text{Assets} = \text{Revenues} - \text{Liabilities}$
- d.  $\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$

**ANSWER:** d

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

88. Which of the following is **not** an asset?

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

**ANSWER:** d

**DIFFICULTY:** Easy  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

89. The assets and liabilities of a company are \$128,000 and \$84,000, respectively. Owner's equity should equal

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

**ANSWER:** b

**RATIONALE:** Assets = Liabilities + Owner's Equity  
 $\$128,000 = \$84,000 + \text{Owner's Equity}$   
Owner's Equity = \$44,000

**DIFFICULTY:** Easy  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**ANSWER:** b

**RATIONALE:** Assets = Liabilities + Owner's Equity =  $-\$46,000 + \$60,000 = \$14,000$   
Change in Assets = +\$14,000

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

91. Which of the following is **not** a business transaction?

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

**ANSWER:** a

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**ANSWER:** b

**RATIONALE:** Assets = Liabilities + Owner's Equity  
Asset (Cash) decreases by \$7,000  
Liability (Accounts Payable) decreases by \$7,000

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

93. Earning revenue

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

**ANSWER:** a

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

94. The monetary value charged to customers for the performance of services sold is called a(n)
- a. asset
  - b. net income
  - c. capital
  - d. revenue

**ANSWER:** d

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

95. Revenues are reported when
- a. a contract is signed
  - b. cash is received from the customer
  - c. work is begun on the job
  - d. work is completed on the job

**ANSWER:** d

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

**ANSWER:** c

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

97. Goods purchased on account for future use in the business, such as supplies, are called
- prepaid liabilities
  - revenues
  - prepaid expenses
  - liabilities

**ANSWER:** c

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

98. The asset created by a business when it makes a sale on account is termed
- accounts payable
  - prepaid expense
  - unearned revenue
  - accounts receivable

**ANSWER:** d

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.12 - Receivables Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

99. The debt created by a business when it makes a purchase on account is referred to as an
- account payable
  - account receivable
  - asset
  - expense payable

**ANSWER:** a

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

**ANSWER:** d

**RATIONALE:** Assets = Liabilities + Owner's Equity  
 $-\$88,000 = \text{Liabilities} + \$71,000$   
Liabilities =  $-\$159,000$

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

101. Owner's withdrawals

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

**ANSWER:** d

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

102. How does paying a liability in cash affect the accounting equation?

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

**ANSWER:** c

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

**ANSWER:** d

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

104. How does the purchase of equipment by signing a note affect the accounting equation?

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

**ANSWER:** c

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**STATE STANDARDS:** United States - OH - ICPA: FN-Measurement

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**ANSWER:** b

**RATIONALE:** Net Change in Assets = Increase in Cash – Decrease in Land = \$62,000 – \$30,000 = +\$32,000  
Change in Owner's Equity = +\$32,000

**DIFFICULTY:** Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 1 - Introduction to Accounting and Business

106. Which of the following accounts is a liability?

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

**ANSWER:** a

**DIFFICULTY:** Easy  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**ANSWER:** a

**RATIONALE:**

$$\begin{aligned} \text{Assets} &= \text{Liabilities} + \text{Owner's Equity} \\ \text{Owner's Equity (Year 1)} &= \$940,000 - \$300,000 = \$640,000 \\ \text{Owner's Equity (Year 2)} &= \$995,000 - \$270,000 = \$725,000 \\ \text{Increase in Owner's Equity} &= \text{Owner's Equity (Year 2)} - \text{Owner's Equity (Year 1)} \\ &= \$725,000 - \$640,000 = \$85,000 \\ \text{Net Income during Year 2} &= \text{Increase in Owner's Equity} - \text{Additional Investment} + \\ &\quad \text{Withdrawals} \\ &= \$85,000 - \$73,000 + \$33,000 = \$45,000 \end{aligned}$$

**DIFFICULTY:** Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

**ANSWER:** d

**DIFFICULTY:** Easy  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.15 - Current Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

109. Transactions affecting owner's equity include

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

**ANSWER:** b

**DIFFICULTY:** Easy  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**ANSWER:** b

**RATIONALE:** Assets = Liabilities + Owner's Equity  
Assets (Cash) increase by \$15,000  
Owner's equity increases by \$15,000

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

**ANSWER:** d

**RATIONALE:** Assets = Liabilities + Owner's Equity  
Assets (Cash) decrease by \$2,000  
Liabilities (Notes Payable) decrease by \$2,000

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**ANSWER:** b

**RATIONALE:** Assets = Liabilities + Owner's Equity  
Assets (Cash) decrease by \$750  
Owner's equity decreases by \$750

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

113. Which of the following is **not** a business transaction?

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

**ANSWER:** d

**DIFFICULTY:** Challenging  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

114. Which of the following is a business transaction?

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

*ANSWER:* a

*DIFFICULTY:* Easy  
Bloom's: Understanding

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-04 - 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.02 - GAAP  
ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

*ANSWER:* d

*DIFFICULTY:* Easy  
Bloom's: Understanding

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-05 - 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

*ANSWER:* c

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-05 - 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

**ANSWER:** d

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**ANSWER:** a

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

119. Liabilities are reported on the

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

**ANSWER:** d

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.ACBSP.APC.16 - Current Liabilities Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

120. Cash investments made by the owner to the business are reported on the statement of cash flows in the
- financing activities section
  - investing activities section
  - operating activities section
  - supplemental statement

**ANSWER:** a

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.ACBSP.APC.24 - Statement of Cash Flows  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

121. The year-end balance of the owner's capital account appears in
- both the statement of owner's equity and the income statement
  - only the statement of owner's equity
  - both the statement of owner's equity and the balance sheet
  - both the statement of owner's equity and the statement of cash flows

**ANSWER:** c

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

122. A financial statement user would determine if a company was profitable or not during a specific period of time by reviewing the
- income statement
  - balance sheet
  - statement of cash flows
  - statement of retained earnings

**ANSWER:** a

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

*ANSWER:* b

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-05 - 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.ACBSP.APC.24 - Statement of Cash Flows  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

124. The assets section of the balance sheet normally presents assets in

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

*ANSWER:* c

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-05 - 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

125. All of the following statements regarding the ratio of liabilities to owner's equity are true **except**

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

*ANSWER:* c

*DIFFICULTY:* Moderate  
Bloom's: Understanding

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-06 - 01-06

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.23 - Financial Statement Analysis  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

126. Given the following data:

	<u>Dec. 31, Year 2</u>	<u>Dec. 31, Year 1</u>
Total liabilities	\$128,250	\$120,000
Total owner's equity	95,000	80,000

Compute the ratio of liabilities to owner's equity for each year. Round to two decimal places.

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

**ANSWER:** b

**RATIONALE:** Ratio of Liabilities to Owner's Equity = Total Liabilities/Total Owner's Equity

Dec. 31, Year 2	Dec. 31, Year 1
\$128,250/\$95,000	\$120,000/\$80,000
1.35	1.50

**DIFFICULTY:** Challenging  
Bloom's Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-06 - 01-06

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.23 - Financial Statement Analysis  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 1 - Introduction to Accounting and Business

### Matching

*Match the following business types with each business listed below. Each may be used more than once.*

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

**DIFFICULTY:**

Easy

Bloom's: Remembering

**LEARNING OBJECTIVES:**

ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:**

ACCT.ACBSP.APC.03 - Business Forms

ACCT.AICPA.BB.01 - Industry

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

127. A tax preparation firm

**ANSWER:** a

128. A law firm

**ANSWER:** a

129. A health club and spa

**ANSWER:** a

130. An automobile dealer

**ANSWER:** c

131. A book publisher

**ANSWER:** b

132. A hospital

**ANSWER:** a

133. A supermarket

**ANSWER:** c

134. A modular homebuilder

**ANSWER:** b

135. A men's clothing store

**ANSWER:** c

136. A dressmaking company

**ANSWER:** b

## Chapter 1 - Introduction to Accounting and Business

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

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

*DIFFICULTY:* Easy  
Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-02 - 01-02

*ACCREDITING STANDARDS:* ACCT.ACBSAPC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

137. Comprises 70% of business entities in the United States

*ANSWER:* a

138. Generates 90% of business revenues

*ANSWER:* c

139. Owned by two or more individuals

*ANSWER:* b

140. Organized as a separate legal taxable entity

*ANSWER:* c

141. Easy and cheap to organize

*ANSWER:* a

142. Often used as an alternative to a partnership

*ANSWER:* d

143. Used by large business

*ANSWER:* c

144. Has the ability to obtain large amounts of resources

*ANSWER:* c

145. Offers tax and legal liability advantages for owners

*ANSWER:* d

## Chapter 1 - Introduction to Accounting and Business

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

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

*DIFFICULTY:* Moderate  
Bloom's: Understanding

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-04 - 01-04

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

146. Received cash for services provided

*ANSWER:* c

147. Received utility bill to be paid next month

*ANSWER:* b

148. Investment of land by owner

*ANSWER:* c

149. Paid part of an amount owed to a creditor

*ANSWER:* e

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

*ANSWER:* d

151. Received payment from a customer on account

*ANSWER:* d

152. Cash withdrawal by owner

*ANSWER:* f

153. Provided a service to a customer on account

*ANSWER:* c

154. Purchased supplies on credit

*ANSWER:* a

155. Paid wages

*ANSWER:* f

156. Cash investment by owner

*ANSWER:* c

## Chapter 1 - Introduction to Accounting and Business

157. Borrowed money from a bank

ANSWER: a

158. Purchased equipment for cash

ANSWER: d

159. Received cash for providing services to customers

ANSWER: c

160. Used up supplies that were already on hand

ANSWER: f

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

a. Income statement

b. Balance sheet

c. Statement of owner's equity

d. Statement of cash flows

*DIFFICULTY:*

Easy

Bloom's: Remembering

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-05 - 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.ACBSP.APC.09 - Financial Statements

ACCT.ACBSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

161. Reports as of a specific date

ANSWER: b

162. The first statement prepared

ANSWER: a

163. Has three sections: operating, investing and financing

ANSWER: d

164. Reports only revenues and expenses

ANSWER: a

165. The second statement prepared

ANSWER: c

166. A formal presentation of the accounting equation

ANSWER: b

167. The connecting link between the income statement and balance sheet

ANSWER: c

## Chapter 1 - Introduction to Accounting and Business

### Subjective Short Answer

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

**ANSWER:** Internal users of accounting information include managers and employees. The area of accounting that provides internal users with information is called managerial accounting or management accounting. An example of a report that might be used internally is a customer profitability report.

External users of accounting information include customers, creditors, banks, and government entities. These users are not directly involved in managing or operating the business. The area of accounting that provides external users with information is called financial accounting. General-purpose financial statements are one type of financial accounting report that is distributed to external users.

**DIFFICULTY:** Moderate

Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**DIFFICULTY:** Moderate

Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.20 - Accounting for Corporations  
ACCT.AICPA.BB.03 - Legal  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Ethics

## Chapter 1 - Introduction to Accounting and Business

170. List the five steps in the process by which accounting provides information to users.

**ANSWER:**

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

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-01 - 01-01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.01 - Purpose  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

171. For each of the following companies, identify whether they are a service, merchandising, or manufacturing business.

A.	Dillard's
B.	Time Warner Cable
C.	General Motors
D.	Blockbuster
E.	Applebee's
F.	Sony
G.	Best Buy
H.	Banana Republic
I.	H&R Block

**ANSWER:**

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

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.1-01 - 01 - 01

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

Chapter 1 - Introduction to Accounting and Business

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

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

ANSWER:

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

DIFFICULTY:

Moderate

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.18.01-01 - 01-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.01 - Purpose  
 ACCT.AICPA.FN.03 - Measurement  
 BUSPROG: Analytic

173. What is the major difference between the objective of financial accounting and the objective of managerial accounting?

ANSWER:

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

DIFFICULTY:

Easy

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.18.01-01 - 01-01

ACCREDITING STANDARDS: ACCT.ACBSP.APC.01 - Purpose  
 ACCT.AICPA.FN.03 - Measurement  
 BUSPROG: Analytic

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

ANSWER:

Accounting reports would become unstable and unreliable.

DIFFICULTY:

Moderate

Bloom's: Remembering

LEARNING OBJECTIVES: ACCT.WARD.18.01-02 - 01-02

ACCREDITING STANDARDS: ACCT.ACBSP.APC.02 - GAAP  
 ACCT.AICPA.FN.03 - Measurement  
 BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

**ANSWER:** \$95,000

**DIFFICULTY:** Easy  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

**ANSWER:** \$115,000

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.ACBSP.APC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

177. Explain the meaning of the business entity concept.

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

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

178. Darnell Company purchased \$88,000 of computer equipment from Joseph Company. Darnell Company paid for the equipment using cash that had been obtained from the initial investment by Donnie Darnell.

Which entity or entities (Darnell Company, Joseph Company, and Donnie Darnell) should record the transaction involving the computer equipment on their accounting records?

**ANSWER:** Darnell Company and Joseph Company

**DIFFICULTY:** Challenging  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 1 - Introduction to Accounting and Business

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

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

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

180. Discuss the characteristics of a limited liability company (LLC).

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

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.03 - Business Forms  
ACCT.AICPA.BB.01 - Industry  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

181. Explain the meaning of:

- (a) the objectivity concept
- (b) the unit of measure concept

**ANSWER:** (a) The objectivity concept requires that the amounts recorded in the accounting records be based on objective evidence. In exchanges between a buyer and a seller, both try to get the best price. Only the final agreed-upon amount is objective enough to be recorded in the accounting records.

(b) The unit of measure concept requires that economic data be recorded in dollars. Money is a common unit of measurement for entering financial data and preparing reports.

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-02 - 01-02

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.02 - GAAP  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

ANSWER: (a) \$325,000 (\$450,000 – \$125,000)  
 (b) \$355,000 [(\$450,000 + \$65,000) – (\$125,000 + \$35,000)]

DIFFICULTY: Moderate  
 Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.18.01-03 - 01-03

ACCREDITING STANDAR ACCT.ACBSP.APC.06 - Recording Transactions

DS: ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

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

ANSWER: Assets = Liabilities + Owner's Equity  
 $4x = x + \$45,000$   
 $3x = \$45,000$   
 $x = \underline{\$15,000}$  in liabilities

DIFFICULTY: Moderate  
 Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.18.01-03 - 01-03

ACCREDITING STANDARDS: ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

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

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

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

DIFFICULTY: Easy  
 Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.18.01-03 - 01-03

ACCREDITING STANDARDS: ACCT.ACBSP.APC.06 - Recording Transactions

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

**ANSWER:**

(a) \$40,900 ( $\$78,500 - \$37,600$ )

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

(c) \$15,500 ( $\$49,500 - \$34,000$ )

**DIFFICULTY:** Easy  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

186. Use the accounting equation to answer each of the independent questions below.

(a) At the beginning of the year, Norton Company's assets were \$75,000 and its owner's equity was \$38,000. During the year, assets increased by \$18,000 and liabilities increased by \$4,000. What was the owner's equity at the end of the year?

(b) At the beginning of the year, Turpin Industries had liabilities of \$44,000 and owner's equity of \$66,000. If assets increased by \$10,000 and liabilities decreased by \$5,000, what was the owner's equity at the end of the year?

**ANSWER:**

(a)  $\$75,000 - \$38,000 = \$37,000$  beginning of year liabilities  
 $(\$75,000 + \$18,000) - (\$37,000 + \$4,000) = \underline{\$52,000}$  end of year owner's equity

(b)  $\$44,000 + \$66,000 = \$110,000$  beginning of year assets  
 $(\$110,000 + \$10,000) - (\$44,000 - \$5,000) = \underline{\$81,000}$  end of year owner's equity

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03  
ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03  
ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

188. Ting Hsu is the owner of Hsu's Financial Services. At the end of its accounting period, December 31, of Year 1, Hsu's has assets of \$575,000 and owner's equity of \$335,000. Using the accounting equation and considering each case independently, determine the following amounts:

- (a) Hsu's liabilities as of December 31 of Year 1.
- (b) Hsu's liabilities as of December 31 of Year 2, assuming that assets increased by \$56,000 and owner's equity decreased by \$32,000.
- (c) Net income or net loss during Year 2, assuming that as of December 31, Year 2, assets were \$592,000, liabilities were \$450,000, and there were no additional investments or withdrawals.

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

**DIFFICULTY:** Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03  
ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

- (a) Accounts Payable
- (b) Wages Expense
- (c) Capital
- (d) Accounts Receivable
- (e) Withdrawal
- (f) Land

**ANSWER:**

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

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03  
ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

190. Martin Blair is the owner and operator of Martin Consultants. At December 31 of the current year, Martin Consultants has assets of \$430,000 and liabilities of \$205,000. Using the accounting equation and considering each case independently, determine the following:

- (a) Martin Blair, capital, as of December 31.
- (b) Martin Blair, capital, as of December 31 of the next year, assuming that assets increased by \$12,000 and liabilities increased by \$15,000.
- (c) Martin Blair, capital, as of December 31 of the next year, assuming that assets decreased by \$8,000 and liabilities increased by \$14,000.

**ANSWER:**

- (a)  $\$430,000 - \$205,000 = \underline{\$225,000}$
- (b)  $(\$430,000 + \$12,000) - (\$205,000 + \$15,000) = \underline{\$222,000}$
- (c)  $(\$430,000 - \$8,000) - (\$205,000 + \$14,000) = \underline{\$203,000}$

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03  
ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

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

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

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-03 - 01-03

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

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

**DIFFICULTY:** Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

Indicate the effect of each transaction on the accounting equation by:

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

*Note:* Each transaction has two entries.

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

**ANSWER:**

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

**DIFFICULTY:**

Challenging  
Bloom's: Understanding

**LEARNING OBJECTIVES:**

ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:**

ACCT.ACBSAPPC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.AC BSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**ANSWER:**

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

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.AC BSP.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 1 - Introduction to Accounting and Business

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

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

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

198. Simpson Auto Body Repair purchased \$20,000 of machinery. The company paid \$8,000 in cash at the time of the purchase and signed a promissory note for the remainder to be paid in four monthly installments.

(a) How will the purchase affect the accounting equation?

(b) How will the payment of the first monthly installment affect the accounting equation (ignore interest)?

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

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

- (a) The purchase of supplies on account
- (b) The purchase of supplies for cash
- (c) A withdrawal by the owner to pay personal expenses
- (d) Revenues received in cash
- (e) Sale made on account

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

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

200. (a) A vacant lot acquired for \$83,000 cash is sold for \$127,000 in cash. What is the effect of the sale on the total amount of the seller's (1) assets, (2) liabilities, and (3) owner's equity?

(b) Assume that the seller owes \$52,000 for the land. After receiving the \$127,000 cash in (a), the seller pays the \$52,000 owed. What is the effect of the payment on the total amount of the seller's (1) assets, (2) liabilities, and (3) owner's equity?

**ANSWER:** (a) (1) Total assets increased \$44,000  
(2) No change in liabilities  
(3) Owner's equity increased \$44,000

(b) (1) Total assets decreased \$52,000  
(2) Total liabilities decreased \$52,000  
(3) No change in owner's equity

**DIFFICULTY:** Easy  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.ACBSAPC.13 - Long-term Assets Reporting  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

202. There are four transactions that affect owner's equity.

(a) What are the two types of transactions that increase owner's equity?

(b) What are the two types of transactions that decrease owner's equity?

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

**DIFFICULTY:** Easy  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.ACBSAPC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

203. Identify each of the following as an (1) increase to owner's equity or a (2) decrease to owner's equity.

- (a) Fees earned
- (b) Wages expense
- (c) Withdrawals
- (d) Lawn care revenue
- (e) Investment
- (f) Supplies expense

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

DIFFICULTY: Easy  
Bloom's: Understanding

LEARNING OBJECTIVES: ACCT.WARD.18.01-04 - 01-04

ACCREDITING STANDARDS: ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

204. Given the following:

Beginning capital      \$58,000  
Ending capital          30,000  
Owner withdrawal      25,000

Calculate net income or net loss.

ANSWER:

Ending capital	\$30,000
Beginning capital	<u>58,000</u>
Decrease in capital	\$28,000
Less withdrawals	<u>25,000</u>
Net loss	<u>\$ 3,000</u>

DIFFICULTY: Challenging  
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.18.01-04 - 01-04

ACCREDITING STANDARDS: ACCT.ACBSAPC.06 - Recording Transactions  
ACCT.ACBSAPC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

205. Selected transactions completed by a proprietorship are described below. Indicate the effects of each transaction on assets, liabilities, and owner's equity by inserting "+" for increase and "-" for decrease in the appropriate columns at the right. If appropriate, you may insert more than one symbol in a column.

	<u>A</u>	<u>L</u>	<u>OE</u>
(a) Received cash from owner as an additional investment	_____	_____	_____
(b) Purchased supplies on account	_____	_____	_____
(c) Paid rent for the current month	_____	_____	_____
(d) Received cash for services sold to customers	_____	_____	_____
(e) Returned some defective supplies purchased in (b)	_____	_____	_____
(f) Paid insurance premiums in advance	_____	_____	_____
(g) Paid cash to creditor for purchases in (b)	_____	_____	_____
(h) Charged customers for services sold on account	_____	_____	_____
(i) Paid cash to a customer as a refund for an overcharge	_____	_____	_____
(j) Received cash on account from customers	_____	_____	_____
(k) Owner withdrew cash for personal use	_____	_____	_____
(l) Recorded the cost of supplies used during the year	_____	_____	_____
(m) Received invoice for electricity used	_____	_____	_____
(n) Paid wages	_____	_____	_____
(o) Purchased a truck for cash	_____	_____	_____

ANSWER:	<u>A</u>	<u>L</u>	<u>OE</u>
(a)	+		+
(b)	+	+	
(c)	-		-
(d)	+		+
(e)	-	-	
(f)	+,-		
(g)	-	-	
(h)	+		+
(i)	-		-
(j)	+,-		
(k)	-		-
(l)	-		-
(m)		+	-
(n)	-		-
(o)	+,-		

**DIFFICULTY:** Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSA.APC.06 - Recording Transactions  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

206. The accountant for Flagger Company prepared the following list of accounting equation element balances from the company's records for the year ended December 31:

Fees earned	\$165,000	Cash	\$30,000
Accounts receivable	14,000	Selling expenses	44,000
Equipment	42,000	Flagger, capital	36,000
Accounts payable	12,000	Interest income	3,000
Salaries and wages expense	40,000	Rent expense	51,000
Income taxes payable	5,000	Prepaid rent	2,000
Notes payable	20,000	Income taxes expense	18,000

Prepare an income statement for Flagger Company in good form.

**ANSWER:**

Flagger Company Income Statement For the Year Ended December 31			
Revenues:			
Fees earned		\$165,000	
Interest income		<u>3,000</u>	\$168,000
Expenses:			
Rent expense		\$ 51,000	
Selling expenses		44,000	
Salary and wages expense		40,000	
Income taxes expense		<u>18,000</u>	
Total expenses			<u>153,000</u>
Net income			<u>\$ 15,000</u>

**DIFFICULTY:**

Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-04 - 01-04

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

## Chapter 1 - Introduction to Accounting and Business

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

ANSWER:

Thompson Computer Services		
Income Statement		
For the Year Ended March 31		
Fees earned		\$73,450
Expenses:		
Wages expense	\$23,550	
Office expense	1,240	
Miscellaneous expense	<u>1,030</u>	
Total expenses		<u>25,820</u>
Net income		<u>\$47,630</u>

**DIFFICULTY:**

Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:**

ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:**

ACCT.ACBSAPC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

208. Prepare a statement of owner's equity for Thompson Computer Services for the current year ended March 31.

ANSWER:

Thompson Computer Services		
Statement of Owner's Equity		
For the Year Ended March 31		
Thompson, capital, April 1		\$180,000
Additional investment by owner during year	\$ 25,000	
Net income for the year	47,630	
Withdrawals	<u>(16,570)</u>	
Increase in owner's equity		<u>56,060</u>
Thompson, capital, March 31		<u>\$236,060</u>

**DIFFICULTY:**

Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:**

ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:**

ACCT.ACBSAPC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

*ANSWER:*

Thompson Computer Services Balance Sheet March 31			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$ 21,420	Accounts payable	\$ 2,000
Accounts receivable	10,340		
Supplies	1,670		
Land	47,000	<b>Owner's Equity</b>	
Building	<u>157,630</u>	Thompson capital	<u>236,060</u>
Total assets	<u>\$238,060</u>	Total liabilities and owner's equity	<u>\$238,060</u>

*DIFFICULTY:*

Challenging  
Bloom's: Applying

*LEARNING OBJECTIVES:*

ACCT.WARD.18.01-05 - 01-05

*ACCREDITING STANDARDS:*

ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

210. A summary of cash flows for Linda's Design Services for the year ended December 31 is shown below.

### Cash receipts:

Cash received from customers	\$83,990
Cash received from additional investment by owner	25,000

### Cash payments:

Cash paid for expenses	\$27,000
Cash paid for land	47,000
Cash paid for supplies	410
Drawing	5,000

Cash balance as of January 1 \$40,600

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

### ANSWER:

Linda's Design Services Statement of Cash Flows For the Year Ended December 31		
Cash flows from operating activities:		
Cash received from customers	\$83,990	
Cash payments for expenses and supplies	<u>(27,410)</u>	
Net cash flow from operating activities		\$ 56,580
Cash flows from investing activities:		
Cash paid for land		(47,000)
Cash flows from financing activities:		
Cash investment received from owner	\$25,000	
Cash withdrawal by owner	<u>(5,000)</u>	
Net cash flow from financing activities		<u>20,000</u>
Net increase in cash during year		\$29,580
Cash as of January 1		<u>40,600</u>
Cash as of December 31		<u><u>\$70,180</u></u>

### DIFFICULTY:

Challenging  
Bloom's: Applying

### LEARNING OBJECTIVES:

ACCT.WARD.18.01-05 - 01-05

### ACCREDITING STANDARDS:

ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.ACBSP.APC.24 - Statement of Cash Flows  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 1 - Introduction to Accounting and Business

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

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

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

212. What are the three sections of the statement of cash flows?

**ANSWER:** operating activities, investing activities, and financing activities

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSAPC.09 - Financial Statements  
ACCT.ACBSAPC.24 - Statement of Cash Flows  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

213. Match the following items to the financial statement where they can be found. (Hint: Some of the items can be found on more than one financial statement.)

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

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

ANSWER:

	Answer	Item
1.	D (If Cash, also C)	Withdrawals
2.	B	Revenues
3.	A	Supplies
4.	A	Land
5.	A	Accounts payable
6.	A	Accounts receivable
7.	C	Operating activities
8.	B	Wages expense
9.	D & B (if using the indirect method, also C)	Net income
10.	A & C	Cash

DIFFICULTY:

Moderate

Bloom's: Understanding

LEARNING OBJECTIVES:

ACCT.WARD.18.01-05 - 01-05

ACCREDITING STANDARDS:

ACCT.AC BSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

215. A summary of cash flows for Evelyn's Event Planning for the year ended December 31 is shown below.

Cash receipts:

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

Cash payments:

Cash paid for operating expenses	\$12,120
Cash paid for equipment	18,070
Cash paid for party supplies	9,480
Drawing	12,000

Cash balance as of January 1 \$15,580

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

Chapter 1 - Introduction to Accounting and Business

ANSWER:

Evelyn's Event Planning Statement of Cash Flows For the Year Ended December 31		
Cash flows from operating activities:		
Cash received from customers	\$57,360	
Cash payments for expenses and supplies	<u>(21,600)</u>	
Net cash flow from operating activities		\$35,760
Cash flows from investing activities:		
Cash paid for equipment		(18,070)
Cash flows from financing activities:		
Cash received from bank loan	\$15,000	
Cash withdrawals by owner	<u>(12,000)</u>	
Net cash flow from financing activities		<u>3,000</u>
Net increase in cash during year		\$20,690
Cash as of January 1		<u>15,580</u>
Cash as of December 31		<u><u>\$36,270</u></u>

DIFFICULTY:

Challenging  
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.18.01-05 - 01-05

ACCREDITING STANDARDS: ACCT.AC BSP.APC.24 - Statement of Cash Flows

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

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

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

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

ANSWER:

Rocky's Day Spa Income Statement For the Year Ended December 31		
Fees earned		\$98,435
Expenses:		
Wages expense	\$26,580	
Spa operating expense	23,760	
Office expense	<u>2,470</u>	
Total expenses		<u>52,810</u>
Net income		<u><u>\$45,625</u></u>

## Chapter 1 - Introduction to Accounting and Business

**DIFFICULTY:** Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

Prepare a balance sheet for the year ended December 31.

**ANSWER:**

Rocky's Day Spa Balance Sheet December 31			
Assets		Liabilities	
Cash	\$13,980	Accounts payable	\$ 4,375
Accounts receivable	8,490		
Spa supplies	9,230		
Computers	2,130	<b>Owner's Equity</b>	
Spa furniture and equipment	<u>56,000</u>	Owner's capital	<u>85,455</u>
Total assets	<u>\$89,830</u>	Total liabilities and owner's equity	<u>\$89,830</u>

**DIFFICULTY:** Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

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

**ANSWER:**

Rocky's Day Spa Statement of Owner's Equity For the Year Ended December 31			
			\$68,000
Owner's capital, January 1			\$68,000
Additional investment by owner during year	\$ 10,000		
Net income for the year	45,625		
Withdrawals	<u>(38,170)</u>		
Increase in owner's equity			<u>17,455</u>
Owner's capital, December 31			<u>\$85,455</u>

**DIFFICULTY:**

Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:**

ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:**

ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

**ANSWER:**

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

**DIFFICULTY:**

Moderate  
Bloom's: Understanding

**LEARNING OBJECTIVES:**

ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:**

ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

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

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

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSA.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

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

**DIFFICULTY:** Easy  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSA.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

222. Indicate whether each of the following activities would be reported on the statement of cash flows as an operating activity, an investing activity, or a financing activity, or if it does not appear on the cash flow statement.

- (a) Cash paid for building
- (b) Cash paid to suppliers
- (c) Cash paid for owner's withdrawal
- (d) Cash received from customers
- (e) Cash received from the owner's investment
- (f) Cash received from the sale of a building
- (g) Borrowed cash from a bank

**ANSWER:**

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

**DIFFICULTY:** Moderate  
Bloom's: Remembering

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.ACBSP.APC.24 - Statement of Cash Flows  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

**ANSWER:**

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

**DIFFICULTY:** Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic



## Chapter 1 - Introduction to Accounting and Business

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

	<u>January 1</u>	<u>December 31</u>
Total assets	\$280,000	\$475,000
Total liabilities	205,000	130,000

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

<i>ANSWER:</i>	(a) Owner's equity at end of year (\$475,000 – \$130,000)	\$345,000
	Owner's equity at beginning of year (\$280,000 – \$205,000)	<u>75,000</u>
	Net income	<u>\$270,000</u>
	(b) Increase in owner's equity as in (a)	\$270,000
	Add withdrawals	<u>53,000</u>
	Net income	<u>\$323,000</u>
	(c) Increase in owner's equity as in (a)	\$270,000
	Deduct additional investment	<u>35,000</u>
	Net income	<u>\$235,000</u>
	(d) Increase in owner's equity as in (a)	\$270,000
	Add withdrawals (\$1,500 × 12)	<u>18,000</u>
		\$288,000
	Deduct additional investment	<u>12,000</u>
	Net income	<u>\$276,000</u>

*DIFFICULTY:* Challenging  
Bloom's: Applying

*LEARNING OBJECTIVES:* ACCT.WARD.18.01-05 - 01-05

*ACCREDITING STANDARDS:* ACCT.ACBSP.APC.06 - Recording Transactions  
ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

225. Selected transaction data of a business for September are summarized below. Determine the following amounts for September: (a) total revenue, (b) total expenses, (c) net income.

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

**ANSWER:**

(a)	<u>\$61,000</u> (\$33,000 + \$28,000)
(b)	<u>\$43,250</u> (\$36,250 + \$5,000 + \$2,000)
(c)	<u>\$17,750</u> (\$61,000 – \$43,250)

**DIFFICULTY:** Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

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

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

Present, in good form, (a) an income statement for March, (b) a statement of owner's equity for March, and (c) a balance sheet as of March 31.

## Chapter 1 - Introduction to Accounting and Business

ANSWER:

(a)

Richard's Catering Company		
Income Statement		
For the Month Ended March 31		
Fees earned		\$64,950
Expenses:		
Salary expense	\$20,300	
Rent expense	9,000	
Utilities expense	2,800	
Insurance expense	1,275	
Supplies expense	525	
Miscellaneous expense	<u>1,210</u>	
Total expenses		<u>35,110</u>
Net income		<u>\$29,840</u>

(b)

Richard's Catering Company		
Statement of Owner's Equity		
For the Month Ended March 31		
Richard Cook, capital, March 1		\$150,000
Net income for the month	\$29,840	
Withdrawals	<u>(31,000)</u>	
Decrease in owner's equity		<u>(1,160)</u>
Richard Cook, capital, March 31		<u>\$148,840</u>

(c)

Richard's Catering Company			
Balance Sheet			
March 31			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$ 23,840	Accounts payable	\$ 10,250
Accounts receivable	45,950		
Prepaid insurance	3,000	<b>Owner's Equity</b>	
Supplies	900	Richard Cook, capital	<u>148,840</u>
Land	<u>85,400</u>	Total liabilities and	
Total assets	<u>\$159,090</u>	owner's equity	<u>\$159,090</u>

*DIFFICULTY:*

Challenging  
Bloom's: Applying

*LEARNING OBJECTIVES:*

ACCT.WARD.18.01-05 - 01-05

*ACCREDITING STANDARDS:*

ACCT.AC BSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

### Harris Designers Income Statement For the Month Ended April 30

Fees earned		\$27,000
Expenses:		
Wages expense	\$5,250	
Rent expense	(a)	
Supplies expense	4,600	
Utilities expense	400	
Miscellaneous expense	<u>1,250</u>	
Total expenses		<u>(b)</u>
Net income		<u>\$ (c)</u>

### Harris Designers Statement of Owner's Equity For the Month Ended April 30

Lori Harris, capital, April 1		\$ 0
Investment on April 1	\$35,000	
Net income for April	(d)	
Withdrawals	<u>(6,000)</u>	
Increase in owner's equity		<u>(e)</u>
Lori Harris, capital, April 30		<u>\$38,100</u>

### Harris Designers Balance Sheet April 30

<b>Assets</b>		<b>Liabilities</b>	
Cash	\$ (f)	Accounts payable	\$(h)
Supplies	8,100	<b>Owner's Equity</b>	
Land	<u>(g)</u>	Lori Harris, capital	<u>(i)</u>
Total assets	<u>\$55,900</u>	Total liabilities and owner's equity	<u>\$(j)</u>

### Harris Designers Statement of Cash Flows For the Month Ended April 30

Cash flows from operating activities:		
Cash received from customers	\$23,000	
Cash payments for expenses and payments to creditors	<u>(4,200)</u>	
Net cash flow from operating activities		\$18,800
Cash flows from investing activities:		
Cash payments for acquisition of land		(17,000)
Cash flows from financing activities:		
Cash received as owner's investment	\$ (k)	
Cash withdrawal by owner	<u>(l)</u>	
Net cash flow from financing activities		<u>(m)</u>
Net increase in cash and April 30 cash balance		<u>\$ (n)</u>

## Chapter 1 - Introduction to Accounting and Business

Place your answers in the space provided below. Hint: Use the interrelationships among the financial statements to solve this problem.

- (a) \_\_\_\_\_
- (b) \_\_\_\_\_
- (c) \_\_\_\_\_
- (d) \_\_\_\_\_
- (e) \_\_\_\_\_
- (f) \_\_\_\_\_
- (g) \_\_\_\_\_
- (h) \_\_\_\_\_
- (i) \_\_\_\_\_
- (j) \_\_\_\_\_
- (k) \_\_\_\_\_
- (l) \_\_\_\_\_
- (m) \_\_\_\_\_
- (n) \_\_\_\_\_

**ANSWER:**

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

**DIFFICULTY:**

Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:** ACCT.AC BSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

228. Using the following accounting equation elements and their balances, prepare, in good form, an income statement for Heavenly Futures Company for the month ended August 31.

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

**ANSWER:**

Heavenly Futures Company		
Income Statement		
For the Month Ended August 31		
Fees earned		\$15,700
Expenses:		
Wages expense	\$4,800	
Rent expense	1,400	
Telephone expense	1,150	
Utilities expense	750	
Office expense	<u>420</u>	
Total expenses		<u>8,520</u>
Net income		<u>\$ 7,180</u>

**DIFFICULTY:**

Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:**

ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:**

ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

229. Using the following accounting equation elements and their balances, prepare, in good form, a statement of owner's equity for Bright Futures Company for the month ended August 31.

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

ANSWER:

Bright Futures Company		
Statement of Owner's Equity		
For the Month Ended August 31		
Jason Bright, capital, August 1		\$14,320
Net income for August	\$7,180	
Withdrawals	<u>800</u>	
Increase in owner's equity		<u>6,380</u>
Jason Bright, capital, August 31		<u>\$20,700</u>

*DIFFICULTY:*

Moderate  
Bloom's: Applying

*LEARNING OBJECTIVES:*

ACCT.WARD.18.01-05 - 01-05

*ACCREDITING STANDARDS:*

ACCT.ACBSP.APC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

230. Eric Wood, CPA, was organized on January 1 as a proprietorship. List the errors that you find in the following financial statements and prepare the corrected statements for the three months ended March 31.

Eric Wood, CPA Income Statement For the Three Months Ended March 31	
Fees earned	\$42,000
Expenses:	
Salary expense	\$9,735
Rent expense	5,200
Advertising expense	3,950
Utilities expense	3,225
Miscellaneous expense	4,000
Answering service expense	2,550
Supplies expense	<u>4,000</u>
Total expenses	<u>28,000</u>
Net income	<u>\$14,000</u>

Eric Wood, CPA Statement of Owner's Equity March 31	
Eric Wood, capital, January 1	\$ 0
Investment on January 1	\$20,000
Net income for the three months	<u>14,000</u>
Withdrawals	<u>(5,000)</u>
Increase in owner's equity	<u>31,000</u>
Eric Wood, capital, March 31	<u>\$31,000</u>

Balance Sheet For the Three Months Ended March 31			
Assets		Owner's Equity	
Land	\$13,000	Eric Wood, capital	\$31,000
Cash	10,860	<b>Liabilities</b>	
Accounts payable	2,670	Accounts receivable	<u>2,225</u>
Supplies	<u>925</u>	Total liabilities and	
Total assets	<u>\$33,225</u>	owner's equity	<u>\$33,225</u>

**ANSWER:**

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

- (1) Miscellaneous expense is incorrectly listed after utilities expense on the income statement. Miscellaneous expense should be listed as the last expense, regardless of the amount.
- (2) The operating expenses are incorrectly added. Instead of \$28,000, the total should be \$32,660.
- (3) Because operating expenses are incorrectly added, the net income is incorrect. It should be listed as \$9,340.
- (4) The statement of owner's equity should be for a period of time instead of a specific date. That is, the statement of owner's equity should be reported "For the Three Months Ended March 31."
- (5) Because the net income was incorrect, the increase in owners' equity and the balance in Eric Wood, Capital are incorrect. They should both be shown as \$24,340.
- (6) The name of the company is missing from the balance sheet heading.



## Chapter 1 - Introduction to Accounting and Business

- (7) The balance sheet should be as of "March 31," not "For the Three Months Ended March 31."
- (8) Cash, not land, should be the first asset listed on the balance sheet.
- (9) Accounts payable is incorrectly listed as an asset on the balance sheet. Accounts payable should be listed as a liability.
- (10) Liabilities should be listed on the balance sheet ahead of owner's equity.
- (11) Accounts receivable is incorrectly listed as a liability on the balance sheet. Accounts receivable should be listed as an asset.
- (12) The assets do not total to \$33,225 as shown, making the balance sheet out of balance.

Correctly prepared financial statements for Eric Wood, CPA, are shown below.

Eric Wood, CPA Income Statement For the Three Months Ended March 31		
Fees earned		\$42,000
Expenses:		
Salary expense	\$9,735	
Rent expense	5,200	
Supplies expense	4,000	
Advertising expense	3,950	
Utilities expense	3,225	
Answering service expense	2,550	
Miscellaneous expense	<u>4,000</u>	
Total expenses		<u>32,660</u>
Net income		<u>\$ 9,340</u>

Eric Wood, CPA Statement of Owner's Equity For the Three Months Ended March 31		
Eric Wood, capital, January 1		\$ 0
Investment on January 1	\$20,000	
Net income for three months	9,340	
Withdrawals	<u>(5,000)</u>	
Increase in owner's equity		<u>24,340</u>
Eric Wood, capital, March 31		<u>\$24,340</u>

Eric Wood, CPA Balance Sheet March 31			
	<b>Assets</b>		<b>Liabilities</b>
Cash	\$10,860	Accounts payable	\$ 2,670
Accounts receivable	2,225	<b>Owner's Equity</b>	
Supplies	925	Eric Wood, capital	<u>24,340</u>
Land	<u>13,000</u>	Total liabilities and	
Total assets	<u>\$27,010</u>	owner's equity	<u>\$27,010</u>

**DIFFICULTY:**

Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:**

ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:**

ACCT.ACBSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

231. Using the following accounting equation elements and their balances, prepare, in good format a balance sheet in report form for Bright Futures Company for the month ended August 31.

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

ANSWER:

Bright Futures Company  
Balance Sheet  
August 31

**Assets**

Cash	\$ 3,000
Accounts receivable	1,500
Supplies	140
Computer equipment	<u>20,000</u>
Total assets	<u>\$24,640</u>

**Liabilities**

Accounts payable	\$ 1,540
Notes payable	<u>2,400</u>
Total liabilities	\$ 3,940

**Owner's Equity**

Jason Bright, capital	<u>20,700</u>
Total liabilities and owner's equity	<u>\$24,640</u>

**DIFFICULTY:**

Moderate  
Bloom's: Applying

**LEARNING OBJECTIVES:**

ACCT.WARD.18.01-05 - 01-05

**ACCREDITING STANDARDS:**

ACCT.AC BSP.APC.09 - Financial Statements  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

232. The accounting equation elements and their balances of Awesome Travel Services at December 31 are listed below. There were no additional investments or withdrawals by J. Trendsetter during the year.

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

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

**ANSWER:**

Awesome Travel Services  
Income Statement  
For the Year Ended December 31

Fees earned		\$78,000
Expenses:		
Wages expense	\$25,000	
Rent expense	10,000	
Utilities expense	8,000	
Supplies expense	1,700	
Income taxes expense	<u>1,300</u>	
Total expenses		<u>46,000</u>
Net income		<u>\$32,000</u>

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

J. Trendsetter, capital, January 1	\$10,000
Net income for the year	<u>32,000</u>
J. Trendsetter, capital, December 31	<u>\$42,000</u>

Awesome Travel Services  
Balance Sheet  
December 31

<b>Assets</b>		<b>Liabilities</b>	
Cash	\$18,000	Accounts payable	\$12,000
Accounts receivable	14,000		
Supplies	1,000	<b>Owner's Equity</b>	
Computer equipment	<u>21,000</u>	J. Trendsetter, capital	<u>42,000</u>
Total assets	<u>\$54,000</u>	Total liabilities and owner's equity	<u>\$54,000</u>

**DIFFICULTY:**

Challenging  
Bloom's: Applying

**LEARNING OBJECTIVES:**

ACCT.WARD.18.1-05 - 01 - 05

**ACCREDITING STANDARDS:**

ACCT.ACBSAPC.09 - Financial Statements

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

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

1. Received cash for providing accounting services, \$3,000.
2. Billed customers on account for providing services, \$7,000.
3. Paid advertising expense, \$800.
4. Received cash from customers on account, \$3,800.
5. Owner made a withdrawal, \$1,500.
6. Received telephone bill, \$220.
7. Paid telephone bill, \$220.

Based on the information given above, calculate the balance of cash at June 30. Use the following reconciliation.

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

ANSWER:

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

DIFFICULTY:

Challenging  
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.18.01-06 - 01-06

ACCREDITING STANDARDS: ACCT.ACBSP.APC.24 - Statement of Cash Flows  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

234. Given the following data:

	<u>Dec. 31, Year 2</u>	<u>Dec. 31, Year 1</u>
Total liabilities	\$128,250	\$120,000
Total owner's equity	95,000	80,000

(a) Compute the ratio of liabilities to owner's equity for each year.

(b) Has the creditors' risk increased or decreased from December 31, Year 1, to December 31, Year 2?

ANSWER:

(a)

	<u>Dec. 31, Year 2</u>	<u>Dec. 31, Year 1</u>
Total liabilities	\$128,250	\$120,000
Total owner's equity	95,000	80,000
Ratio of liabilities to owner's equity	<u>1.35</u>	<u>1.50</u>
	(\$128,250/\$95,000)	(\$120,000/\$80,000)

(b) Decreased

DIFFICULTY:

Moderate  
Bloom's: Applying

LEARNING OBJECTIVES: ACCT.WARD.18.01-06 - 01-06

ACCREDITING STANDARDS: ACCT.ACBSP.APC.23 - Financial Statement Analysis  
ACCT.AICPA.FN.03 - Measurement  
BUSPROG: Analytic

## Chapter 1 - Introduction to Accounting and Business

235. Company G has a ratio of liabilities to stockholders' equity of 0.12 and 0.28 for Year 1 and Year 2, respectively. In contrast, Company M has a ratio of liabilities to stockholders' equity of 1.13 and 1.29 for the same period.

**REQUIRED:**

Based on this information, which company's creditors are more at risk and why? Should the creditors of either company fear the risk of nonpayment?

**ANSWER:**

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

**DIFFICULTY:**

Moderate

Bloom's: Analyzing

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-06 - 01-06**ACCREDITING STANDARDS:** ACCT.ACBSAPC.23 - Financial Statement Analysis

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic

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

	<u>Dec. 31, Year 2</u>	<u>Dec. 31, Year 1</u>
Total liabilities	\$150,000	\$105,000
Total owner's equity	75,000	60,000

(a) Compute the ratio of liabilities to owner's equity. Round your answer to one decimal place.

(b) Has the creditors' risk increased or decreased from December 31, Year 1, to December 31, Year 2?

**ANSWER:**(a) 12/31/Year 2:  $\$150,000/\$75,000 = \underline{2.0}$ 12/31/Year 1:  $\$105,000/\$60,000 = \underline{1.8}$ 

(b) Increased

**DIFFICULTY:**

Moderate

Bloom's: Analyzing

**LEARNING OBJECTIVES:** ACCT.WARD.18.01-06 - 01-06**ACCREDITING STANDARDS:** ACCT.ACBSAPC.23 - Financial Statement Analysis

ACCT.AICPA.FN.03 - Measurement

BUSPROG: Analytic